AGL Energy Limited
ABN: 74 115 061 375

Level 22, 101 Miller St
North Sydney NSW 2060

Locked Bag 1837
St Leonards NSW 2065

T: 02 9921 2999
F: 02 9921 2552
www.agl.com.au

Energy in action.®

ASX statement

17 September 2010

AGL Energy Limited is about to commence dispatch of its Annual Report 2010 and the Notice of Meeting in respect of the Annual General Meeting to be held on 21 October 2010. A copy of each of these documents has been lodged with the ASX today.

Paul McWilliams

Company Secretary

Energy
in action.®

Annual
Report
2010

AGL

Contents

AGL Financial Calendar

26 August 2010	2010 full year result and final dividend announced
10 September 2010	Record date for 2010 final dividend
30 September 2010	Final dividend payable
21 October 2010	Annual General Meeting
17 February 2011[1]	2011 interim result and interim dividend announced
10 March 2011[1]	Record date for 2011 interim dividend
31 March 2011[1]	Interim dividend payable

1 Indicative dates only, subject to change/Board confirmation.

AGL Energy Limited
ABN 74 115 061 375

Annual General Meeting
AGL's Annual General Meeting will be held at the City Recital Hall, Angel Place, Sydney commencing at 10.30am on Thursday 21 October 2010.

Front cover
AGL employee Matthew Arnott at AGL's 140 MW Bogong Power Station in Victoria.

AGL has major investments in the supply of gas and electricity, and is currently servicing more than 3.2 million customer accounts across New South Wales, Victoria, Queensland and South Australia.

AGL Energy Limited (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.

The Australian Gas Light Company (old AGL) 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.

On 6 October 2006, old AGL and Alinta Limited shareholders approved the merger of old AGL’s infrastructure assets with Alinta and the subsequent separation of AGL. This was subsequently approved by the Federal Court of Australia on 9 October 2006. AGL began trading on the Australian Securities Exchange on 12 October 2006.

AGL is one of Australia’s top 50 listed companies.

AGL's Retail Energy business delivered strong growth in operating EBIT while the Merchant Energy business performed well in mild market conditions.

Retail Energy

- Gross margin up $71.0 million driven by improved regulatory and contract outcomes and from the acquisition of higher value customers.
- Operating efficiency continued to improve, with net operating costs as a percentage of gross margin falling from 52.4 percent to 49.5 percent.
- Customer accounts increased by 45,000 and dual fuel customer accounts increased to 1.36 million.

Merchant Energy

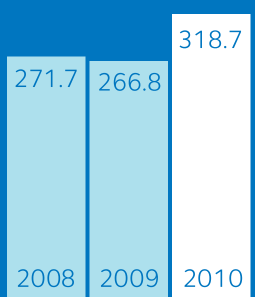
- Mild winter conditions reduced volumes and wholesale gross margin and milder summer conditions in South Australia and Victoria reduced the benefit from AGL's generation and hedge portfolio.
- Fees from AGL's wind farm developments continued to provide strong returns with a contribution of $57.0 million.

Upstream Gas

- Focus for the year was on exploration activities to increase gas reserves.
- Proved plus probable (2P) gas reserves at 30 June 2010 up to 1,578 PJ.
- Gas sales volumes from ongoing operations increased 34 percent to 13.7 PJ.
- Decrease in operating EBIT was due mainly to the sale of the Papua New Guinea business in the previous year.

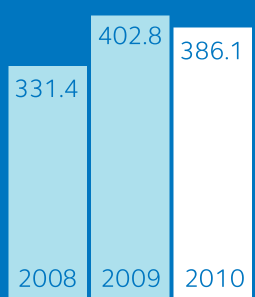
$318.7m

Operating EBIT
($million)



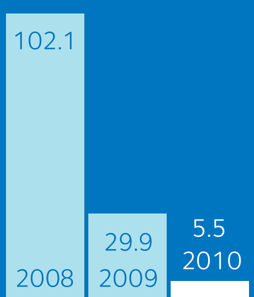
$386.1m

Operating EBIT
($million)



$5.5m

Operating EBIT
($million)



AGL's Underlying Profit increased by 13.2%.

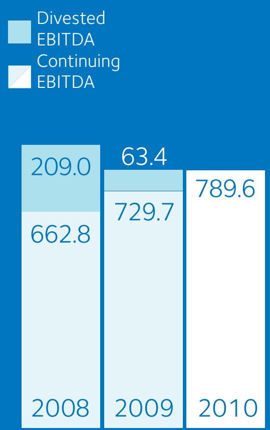
	30 June 2010 $m	30 June 2009 $m	30 June 2008 $m
Profit after tax from continuing operations	356.1	718.2	316.3
Profit/(loss) after tax from discontinued operations	–	877.9	(87.3)
Profit after tax attributable to shareholders	356.1	1,596.1	229.0
Adjust for the following after tax items:			
Significant items	(49.9)	(1,441.3)	(62.6)
Changes in fair value of financial instruments	122.7	251.0	184.6
Pro-forma adjustment	–	(27.0)	(10.0)
Underlying Profit	428.9	378.8	341.0
Increase in Underlying Profit	13.2%	11.1%	4.7%

$428.9m

Underlying Profit +13.2% from 2009

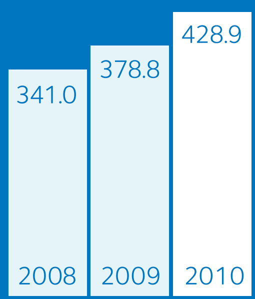
$789.6m

Operating EBITDA
($million)



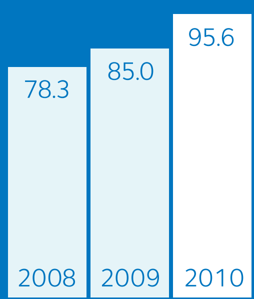
$428.9m

Underlying Profit
($million)



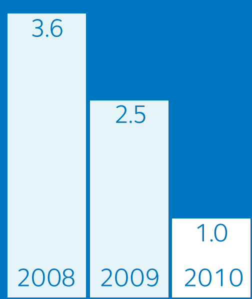
95.6 cents

EPS – underlying
(cents)

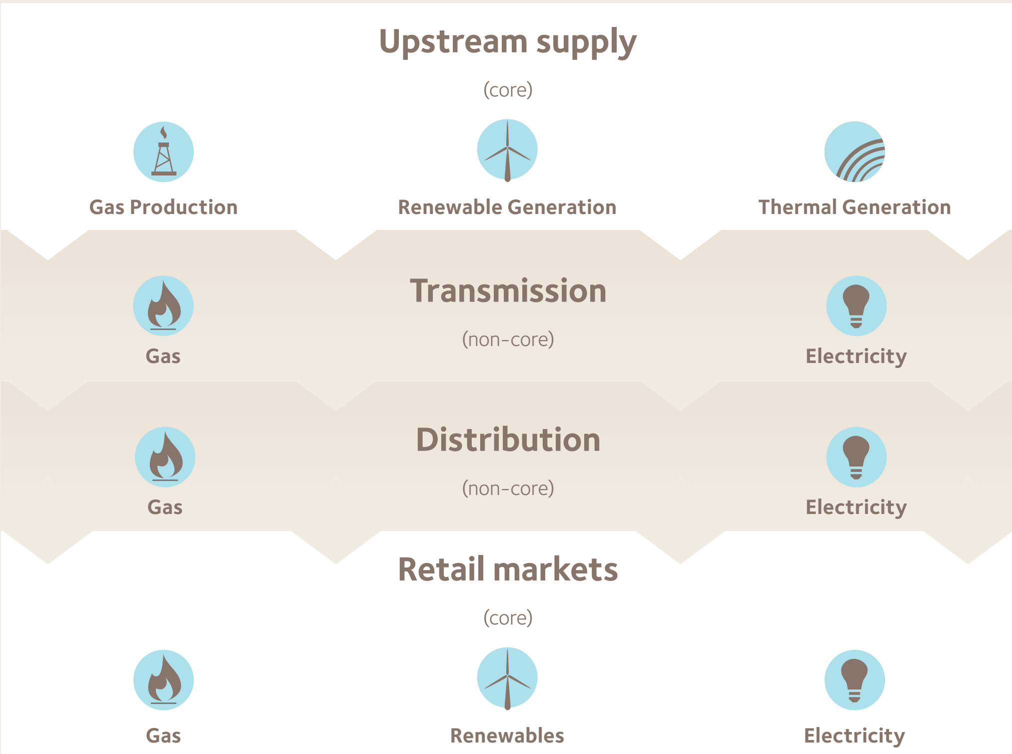


1.0 LTIFR

Our Lost Time Injury Frequency Rate (LTIFR) fell again this year, reflecting the ongoing importance we attach to employee safety



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



Upstream supply

- Maintain our position as Australia's largest private owner and operator of renewable energy assets by continuing to develop our existing pipeline of projects.
- Increase direct ownership of gas to 2,000 PJ (2P) over the medium term.
- Increase ownership or control of electricity generation capacity to 6,000 MW.

Customer energy demand

- Focus on managing and growing margins.
- Use our customer base to leverage our upstream supply strategy to achieve economies of scale.
- Use the benefits from our Project Phoenix to provide our customers with improved service and more options for managing their energy needs.

Achievements toward strategies and objectives

We said we would deliver Underlying Profit of between $390 million and $420 million

Our actual Underlying Profit for the year was $428.9 million, an increase of 13.2 percent on last year.

We said we would increase our direct ownership of gas reserves

Our ownership of 2P gas reserves has increased during the year from 1,107 PJ to 1,578 PJ – an increase of 43 percent.

We said we would increase our ownership or control of electricity generation assets and maintain our position as Australia's leading integrated renewable energy company

Our ownership or control of electricity generation assets increased from 3,517.7 MW to 3,756.5 MW, with the commissioning during the year of the new 140 MW Bogong Power Station, the 71 MW Hallett 2 Wind Farm and other generation assets. We also commenced construction of the 132 MW Hallett 4 Wind Farm and announced our commitment to construct a 67 MW wind farm at Oakland Hills in western Victoria.

New long-term contracts to supply renewable energy to the Victorian Desalination Plant, the Adelaide Desalination Plant, and Melbourne Water Corporation have made AGL Australia's largest seller of renewable energy.

We said we would profitably grow our customer base and improve our level of customer service

Our customer accounts increased by 45,000 with our operating costs as a proportion of EBIT falling from 52.4 percent to 49.5 percent. Complaints to State Ombudsmans' offices fell from 76 per 10,000 customers to 48 per 10,000 customers.

We said we would continue to improve the safety of our employees

Our Lost Time Injury Frequency Rate fell from 2.5 to 1.0.

Chairman's Report

We are confident that we have the people and the processes in place to provide the service our customers expect, and to deliver the returns our shareholders expect.

Mark Johnson Chairman

AGL's strategy is founded on providing reliable, low emission energy supplies and high levels of service, to all our customers. Pursuing this strategy involves improving every aspect of our service and expanding our portfolio of energy sources within a carbon constrained world.

We continue to maintain a strong financial position which allows us to participate in national energy markets. In addition we recognise the importance of having our people, throughout AGL, committed to continuously improving performance, in order to achieve or exceed operating benchmarks and objectives.

The objective of our strategy is to provide shareholders with a secure and growing earnings stream. As in past years, this strategy has proved successful in 2010.

Financial results and dividend

The result for the year, an Underlying Profit of $428.9 million, was an increase of 13.2 percent on our results for last year; and approximately $20 million higher than our expectations when we gave the market our original earnings guidance in October last year. As a result, we have been able to increase the dividend to be paid to shareholders. The final dividend of 30 cents will bring the total dividend for the year to 59 cents – an increase of more than nine percent on last year's total dividend.

The financial results also include, as a significant item, an entitlement to a refund of income tax of approximately $89 million. Amendments to the income tax law in June 2010 allow AGL to correct an anomaly in the application of the tax consolidation rules to the merger/demerger transaction with Alinta Limited in October 2006, and we expect to receive the cash refund during FY11. The tax refund will be sufficient, for example, to fund AGL's acquisition of Mosaic Oil NL if that transaction is approved by Mosaic's shareholders later this year. A consequence of the tax refund is that it will temporarily deplete AGL's pool of franking credits, and prevent AGL from franking either the final dividend for FY2010 or the interim dividend for FY2011. We know that our shareholders have a strong preference for receiving franked dividends. Our objective is to resume payment of fully franked dividends as soon as we are able to do so.

Our customers

Our goal is to provide excellent service to all our customers all of the time. We have invested heavily in systems to help meet this goal, and management has devoted great time and effort to engaging everyone in AGL in building an organisation centred on meeting customer expectations. Although we still have much work to do, the past year has seen continuing improvements in customer service levels with faster response times and improved call handling times at our contact centres.

$428.9 million

Underlying Profit of $428.9 million, an increase of 13.2% on our results for last year.

Outlook

AGL has a clear strategy that provides the flexibility to adapt to changes in energy technologies, market conditions, and government policies. It has a strong balance sheet with many good assets and low debt levels.

Billing statements have been redesigned to provide more useful information and to make them easier to read.

Our Customer Charter has been rewritten to make it shorter and simpler. It contains a number of promises about the level of service our customers should expect from us. Our performance against each of these promises is measured and the results are publicly available on the AGL website and, from next year, in our Annual Report.

Capital management

Michael Fraser, in his Managing Director's Report, has explained the significance of the Renewable Energy Target and its implications for AGL's future investment in new renewable energy projects. In the near term, AGL is likely to continue investing in the construction of new wind farms. We are also monitoring developments in other technologies, such as solar and geothermal, so we have the flexibility to make larger investments in these areas as they become more cost competitive. Notably, AGL has recently been short listed for participation in the Federal Government's Solar Flagships program.

We want to continue to invest in the development of new gas projects, including gas storage and gas fired electricity generation assets, as these are important in securing AGL's long-term earnings growth, and in making us less reliant on third party supply contracts to provide competitively priced gas to our customers.

However, investment decisions – never easy – are made more uncertain by deficient energy policies, to the extent that investment in new base load electricity generation has been deferred across the whole industry.

Energy policy

Energy policy – or, more precisely, its lack – has been a common theme in my reports to shareholders over the last few years. It is abundantly clear that current Federal and State energy policies do not provide the private sector with the certainty necessary to make the substantial investments required to maintain Australia's long-term security of energy supply.

The failure to pass legislation which puts a price on carbon has created widespread uncertainty across the energy industry and, indeed, across all of industry. Until the position on carbon pricing is finally resolved, investors will refrain from making significant investment decisions regarding new base load electricity generation assets.

The reluctance of State governments, other than Victoria, to deregulate energy prices has reduced market competition for customers and this creates further uncertainty for investors. The removal of retail price regulation in energy markets is essential to fostering competitive markets and ensuring long-term security of energy supply.

Your Board

This is my last report to shareholders as Chairman of AGL, as I will be retiring from the Board at this year's Annual General Meeting after 22 years as a Director. When I joined the Board of what was then The Australian Gas Light Company, AGL was a distributor of gas operating predominantly in New South Wales. It has been my privilege to have served on the Board as AGL has grown and diversified to become Australia's leading integrated renewable energy company.

The Board has agreed that Jerry Maycock be appointed as the new Chairman. Jerry joined the Board in October 2006. He spent more than 20 years at Holcim Limited, one of the world's largest construction materials companies. He was the Managing Director of Hastie Group Limited and, more recently, he was Managing Director of CSR Limited until his retirement as an executive in March this year.

Jerry has very extensive experience in a variety of operating businesses. He also has experience in investment in large scale long life capital assets. This is all highly relevant to AGL, and all your Board consider Jerry to be a fine choice as Chairman.

We have also recently announced that Ms Belinda Hutchinson AM will join the Board as a non-executive Director before the end of the year. Belinda will bring extensive finance industry and public company experience to the Board. She is currently Chairman of QBE Insurance Group Limited and has previously served as a Director of Energy Australia and Snowy Hydro Trading. We are delighted that she has agreed to join the Board and we are confident that she will make a substantial contribution.

AGL's future

Discontinuities in technology development and policy development will hamper the rapid evolution of the energy industry but there are inexorable pressures for change. In the future, AGL will be working with all its customers to help them use increasingly expensive energy more efficiently.

The structure of the industry will change as the privatisation of energy assets in New South Wales proceeds, and as governments inevitably move through the reforms needed to achieve efficient and nationwide energy markets. The global priorities for energy security and carbon constraint will bind Australia's energy costs and prices more closely to international pressures.

A highly skilled and deeply engaged workforce is essential to achieve the best outcomes in all these circumstances. On behalf of the Board, I congratulate Michael Fraser, AGL's Managing Director, and all AGL employees for their achievements over the last year. In this evolving energy world, we are confident that we have the people and the processes in place to provide the service our customers expect, and to deliver growing returns to our shareholders.

Managing Director's Report

AGL is well positioned to continue delivering on its strategy over the year ahead. We are committed to a sustainable future and to improving returns for our shareholders.

Michael Fraser Managing Director

AGL delivered another year of solid profit growth, with Underlying Profit growing by 13.2 percent to $428.9 million. A highlight was the strong improvement in cash flow, which increased by $121 million compared with 2009.

Our focus on capital management and operating cash flow has enabled AGL to further strengthen its balance sheet. This leaves AGL well positioned to participate in the New South Wales electricity asset sale process, and to continue investing in our pipeline of electricity generation and upstream gas development projects.

New South Wales electricity asset sale process

Significant progress has been made by the New South Wales Government toward the privatisation of State-owned electricity assets. The transaction data rooms opened on 1 July 2010, with bids currently required to be lodged by 1 November 2010.

The sale process provides an opportunity to expand AGL's retail customer base and deliver the benefits of scale from the new billing system we finished implementing last year. We will also look at bidding for the rights to despatch electricity generation assets, so that we have access to generation capacity to help meet the higher demand for energy that would result from an increase in customer numbers. AGL will be disciplined in its bidding approach so that any acquisition is earnings accretive from the outset. To the extent that we need to seek new capital from shareholders to fund the acquisition, it is our intention to give all our shareholders the opportunity to participate on the same terms.

Strategic initiatives

Amendments to the Renewable Energy Target (RET) were finally legislated in June 2010. These amendments provide the legislative certainty required to allow the significant investments necessary to meet the mandatory target. Over the next decade to 2020, the energy industry will need to invest between $20 to $30 billion in construction of new renewable generation assets. Based on current customer numbers, approximately $7 billion will need to be invested to meet AGL's mandated requirements under the scheme.

AGL was early to identify changing community expectations and public policy on renewable energy. This has allowed us to secure a number of world class wind farm development sites and to develop a market leading portfolio of renewable energy assets.

Following the amendments to the RET legislation, and since the end of the financial year, AGL has announced plans to construct the Macarthur Wind Farm project in joint venture with Meridian Energy. The 420 MW Macarthur Wind Farm in Victoria is expected to cost approximately $1 billion and, on completion in 2013, will be the largest wind farm in the southern hemisphere.

Our strong position in renewable energy was an important factor in AGL's success in securing, during the year, three long-term fixed price contracts for the supply of renewable energy to Melbourne Water Corporation, to the Victorian desalination plant, and to the South Australian desalination plant. The contracts are for periods of between 20 and 27 years, with a maximum total usage of approximately 1,540 GWh per annum. The electricity off-take from the contracts will underpin AGL's existing wind farm portfolio and firmly entrench AGL as the largest listed provider of renewable energy in Australia.

2.5 TIFR

The Total Injury Frequency Rate captures all workplace injuries which require medical treatment and not just those that result in work time lost as a result of an injury.

Our people

AGL's culture is built around five values – One Team, Delivery, Authentic, Safe & Sustainable and Vitality – which create the framework for delivering our brand promise of 'Actions, not words'.

In the May 2009 Federal budget, the Commonwealth Government announced the Solar Flagships program as part of its $4.5 billion Clean Energy Initiative and committed $1.5 billion to support the construction and demonstration of up to four large-scale solar power plants, using solar thermal and solar PV technologies. In May 2010, AGL's proposal was one of eight projects shortlisted by the independent Solar Flagships Council. The Government intends to announce the two successful applicants in the first half of calendar 2011. AGL's proposal, developed in collaboration with First Solar and Bovis Lend Lease, consists of up to five solar photovoltaic (PV) projects with a total capacity of up to 200 MW utilising world-leading thin film PV technology.

2009/2010 in review

During the year, AGL completed construction of two key power generation projects. These projects were important steps in expanding our renewable generation capacity, which now represents a total of 1,052 MW of either owned or contracted generation.

On 20 November 2009 the Hon John Brumby, Victorian Premier, officially opened the Bogong Power Station, which is the largest hydroelectricity project to be built on mainland Australia in the last 25 years. At full capacity Bogong will generate up to 140 MW. This fast-start power station increases AGL's peaking capacity to 2,482 MW which forms an important component of managing AGL's exposure to wholesale electricity prices.

On 30 May 2010 the Hon Mike Rann, Premier of South Australia, officially opened the Hallett 2 Wind Farm, which forms part of AGL's market leading portfolio of renewable energy generation facilities. It will produce enough renewable electricity to power the equivalent of approximately 40,000 average Australian homes.

AGL's Retail Energy division delivered a solid improvement in profitability, with Earnings Before Interest and Tax increasing by $51.9 million to $318.7 million (+19.5 percent) compared with the previous year. Following resolution of some early problems associated with the implementation last year of a new SAP billing platform, the business was able to focus on growing the customer base. During the year, total customer numbers increased 45,000 to approximately 3.2 million. Importantly, dual fuel customer numbers increased by 122,000 to 1.36 million (+9.9 percent). The division is now operating more efficiently, with the level of operating costs as a proportion of gross margin falling from 52.4 percent to 49.5 percent. There has also been a reduction in levels of employee turnover at our customer call centres, leading to improvements in the standard of customer service, reductions in call handling times, and less time spent on resolving customer complaints.

AGL's Merchant Energy division achieved a creditable Earnings Before Interest and Tax of $386.1 million. Although down $16.7 million on 2009, this was a good achievement considering lower volatility in wholesale electricity markets throughout the year and the lingering effects of the economic slowdown on sales of gas to commercial and industrial customers.

Upstream Gas expanded AGL's 2P gas reserves by 471 PJ to 1,578 PJ, with significant reserve upgrades at our Gloucester Basin and Camden operations, and in the Queensland exploration permit ATP 364P (50 percent interest back in rights). Over the next several years, AGL intends to focus on further proving up reserves. The potential value creation is substantial, although the contribution to earnings will be limited until the reserves are developed.

Valuing our people

We take pride in the strong AGL culture built around our five values – One Team, Delivery, Authentic, Safe & Sustainable and Vitality – which create the framework for delivering our brand promise of 'Actions, not words'. Every year we seek our employees' views on how they feel about working at AGL. We use this feedback to make AGL a better place to work, which in turn allows us to give our customers a better experience. Last year I reported that AGL's overall employee engagement score had increased by 10 percent on the 2008 score. I am delighted to now report that AGL's overall employee engagement score has increased by a further 10 percent. This brings the improvement in employee engagement, over the three years since 2007, to a total of 67 percent.

After achieving a 30 percent decrease in Lost Time Injury Frequency Rate in 2009, we saw a further 60 percent reduction from 2.5 to 1.0 in 2010. To drive further improvements in our safety performance, we are now also reporting Total Injury Frequency Rate (TIFR). This measure captures all workplace injuries which require medical treatment and not just those that result in work time lost as a result of an injury. During the year, our TIFR improved from 6.0 to 2.5.

Conclusion

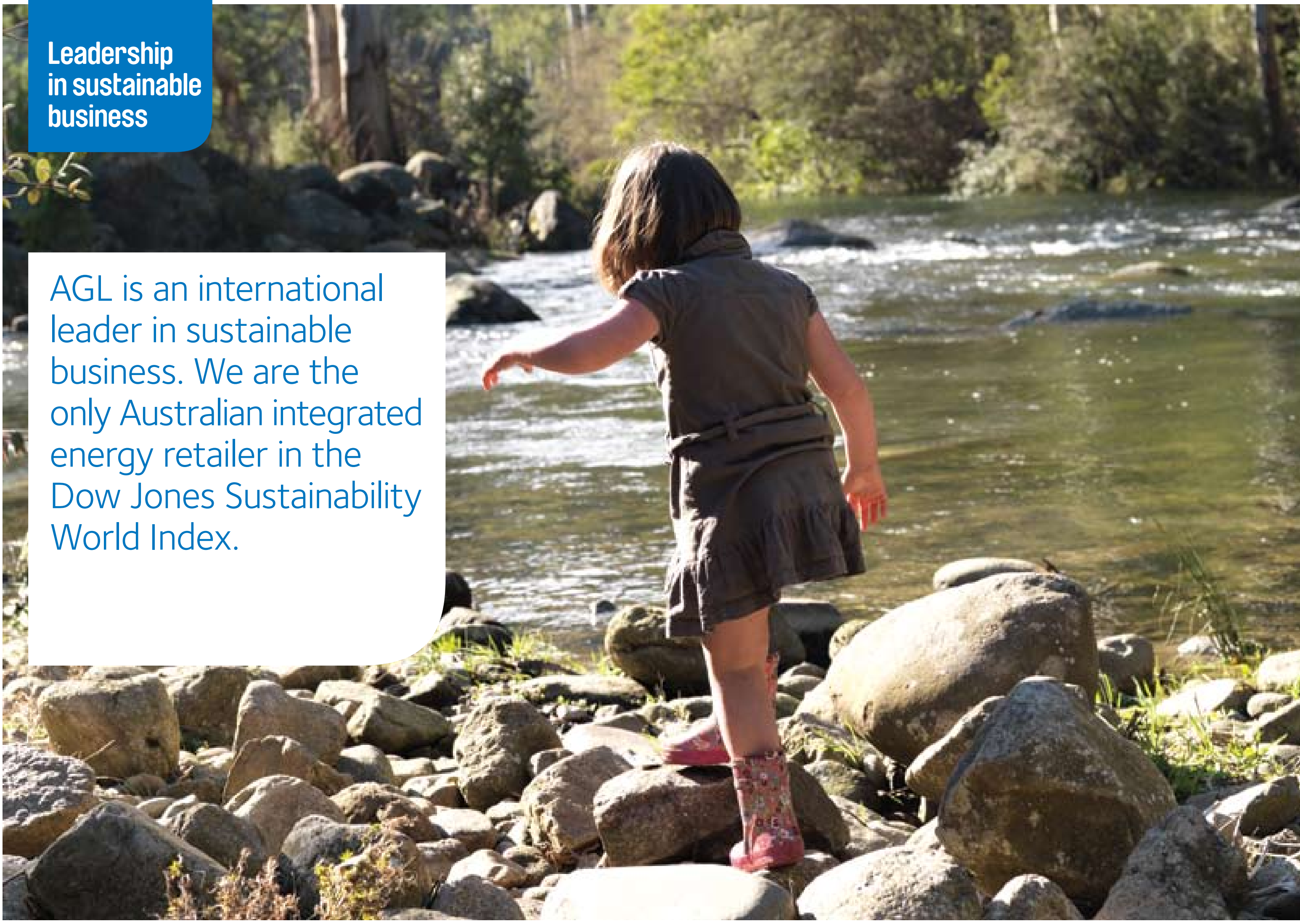
AGL is well positioned to continue delivering on its strategy over the year ahead. We have a strong balance sheet and a number of renewable and low-emission development projects which we will continue to progress.

We will continue a disciplined approach to capital expenditure in proving up increased gas reserves, and we expect to bid strongly to acquire electricity assets in New South Wales.

We are starting to realise some of the benefits from our new SAP billing system. Over the next year, we will continue our efforts to drive operational efficiencies and grow our customer base while continuing to improve our levels of customer service.

Our markets will continue to be challenging as energy sales to commercial and industrial customers remain subdued following the volatility in global markets in recent years. However, I am confident that our vertically integrated businesses and the diversity in our portfolio of quality assets will allow AGL to continue to grow profitably in the year ahead.

We are committed to a sustainable future and to improving returns for our shareholders.



AGL is an international leader in sustainable business. We are the only Australian integrated energy retailer in the Dow Jones Sustainability World Index.

AGL has a heritage of providing energy to Australian households and industry since 1837. With more than 170 years of experience, we are committed to leadership in operating sustainable businesses. Australian energy markets are continuing to undergo a transformation as we move towards a lower carbon economy and increase our utilisation of renewable energy resources. This has implications for all aspects of AGL's business. The expanded Renewable Energy Target will require the energy industry to invest in approximately 9,000 MW of new renewable capacity by 2020. As a project developer, AGL will be engaging with local communities in which we invest to develop new renewable energy projects such as wind farms. As an employer, we will need our employees to be appropriately trained and skilled to thrive in such a dynamic and changing environment. And as a retailer, we will be working with our customers to make their energy consumption as efficient as possible. Sustainable business is about planning appropriately for the future with customers, communities, employees and investors.

External recognition of sustainable leadership

AGL has been at the forefront of sustainable business initiatives. We established our 'Staying Connected' hardship program ahead of regulatory requirements and we have been one of the leading advocates for addressing anthropogenic greenhouse gas emissions from the energy sector, as well as Australia's leading private sector developer of renewable energy. Our sustainable business leadership is recognised globally through our inclusion on the Dow Jones Sustainability World Index (DJSI World). AGL is the only Australian integrated energy retailer that is a constituent of both the DJSI World Index and the DJSI Asia Pacific Index. We are also a constituent company in the FTSE4Good Index.

Our leadership on climate change issues has also been recognised globally. In 2009/10, AGL was included in theASX100/NZ50 2008 Climate Disclosure Leadership Index which complements our existing rank of third in the world out of 110 of the world's largest publicly listed electric utilities for carbon disclosure through the Carbon Disclosure Project. AGL has been a leading business advocate of the need to introduce a three tiered approach to climate change policy: an effective emissions trading scheme; a renewable energy target; and an energy efficiency scheme.

Reporting of our performance

Together, the 2010 Sustainability Report and the 2010 Annual Report provide the full account of AGL's performance for the period. AGL's Sustainability Report is independently assured to the AA1000 Assurance Standard so that our stakeholders can be confident that it is an accurate and balanced account of our performance. AGL's approach to sustainability disclosure was recognised in 2009 with the Australian Investor Relations Association awarding AGL best disclosure for environment, social and governance.

Our 2010 Sustainability Report will be published on the AGL website in November 2010.

Our customers

Our new Customer Charter

Our Customer Charter sets out details of what customers can expect from AGL. During 2010, we rewrote our Customer Charter to make it more customer friendly and to better address our customer needs. We have also made it much shorter, and much simpler and easier to read and understand.

Although AGL's Customer Charter is now only two pages in length, it makes a number of promises about the service levels we will provide to our customers. We will measure how we are performing against each of these promises and make that information publicly available through the AGL website and, from next year, through our Annual Report. By measuring how we are going, we will be able to focus on those areas where we can best improve our customer service levels.

Here's what you can expect from us as a customer:

We will respond to you	We will answer your calls promptly during normal business hours. We will respond to your written enquiries within two business days. We will always try to resolve your enquiry the first time.
We can help you move between houses	Give us three business days' notice and we will arrange: – a final meter read and a final bill for the property being vacated – supply of energy to the new property.
We will connect your energy supply	We will aim to complete a connection of energy supply to your newly built house within 15 business days.
We will issue regular bills	If you are a residential or small business customer we will send a bill to you at least every three months (two months for gas bills in Victoria). Whenever possible, our bills will show the amount of energy used based on an actual meter read. When we cannot obtain an actual meter read, we will use an estimate based on information provided by your distributor (the owner of the poles, wires, pipes and meters).
We will provide assistance if you have difficulty making payment on time	We can offer advice on energy efficiency and flexible payment options to help you get back on track. Our Staying Connected program can offer support to residential customers who are experiencing financial difficulties.

AGL aims to be the energy industry leader in terms of service delivery and customer management. We are committed to building a customer centric organisation.

Our new Customer Charter will measure how we are performing against the promises we make to customers. That information will be publicly available through our website and, from next year, through our Annual Report.

Major power generation and upstream gas assets

Hydro Electric Power Stations

Dartmouth Power Station

Location	Victoria
Capacity	180 MW

McKay Creek Power Station

Location	Victoria
Capacity	160 MW

Bogong Power Station

Location	Victoria
Capacity	140 MW

Eildon Power Station

Location	Victoria
Capacity	135 MW

West Kiewa Power Station

Location	Victoria
Capacity	62 MW

Clover Power Station

Location	Victoria
Capacity	29 MW

Other Hydro Electric Power Stations

Location	Victoria
Total Capacity	40.5 MW
Location	New South Wales
Total Capacity	47.2 MW

Wind Farms

Macarthur Wind Farm

Location	Victoria
Capacity	420 MW (in development)

AGL Hallett 4 Wind Farm

Location	South Australia
Capacity	132 MW (under construction)

AGL Hallett 1 Wind Farm

Location	South Australia
Capacity	94.5 MW

Wattle Point Wind Farm

Location	South Australia
Capacity	90.8 MW

AGL Hallett 2 Wind Farm

Location	South Australia
Capacity	71.4 MW

Oaklands Hill Wind Farm

Location	Victoria
Capacity	67 MW (under construction)

AGL Hallett 5 Wind Farm

Location	South Australia
Capacity	52.5 MW (under construction)

Other Renewable

Type	Cogeneration
Total Capacity	35.3 MW
Type	Landfill
Total Capacity	18.9 MW
Type	Solar
Total Capacity	0.6 MW

Power Stations

Loy Yang Power Station (32.5% equity)

Location	Victoria
Fuel type	Coal
Capacity	2,200 MW

Torrens Island Power Station

Location	South Australia
Capacity	1,280 MW

Oakey Power Station

Location	Queensland
Capacity	282 MW

Somerton Power Station

Location	Victoria
Capacity	150 MW

Yabulu Power Station

Location	Queensland
Capacity	121 MW

Angaston Power Station

Location	South Australia
Fuel type	Diesel
Capacity	49 MW

Gas Projects

Gloucester Gas Project

Location	New South Wales
Reserves (2P)	669 PJ

Moranbah Gas Project (50% interest)

Location	Queensland
Reserves (2P)	501 PJ

ATP 364P Exploration Project (50% interest)

Location	Queensland
Reserves (2P)	246 PJ

Camden Gas Project

Location	New South Wales
Reserves (2P)	154 PJ

Hunter Gas Project

Location	New South Wales
Reserves (2P)	Nil (in exploration)

View the AGL Earth tool for more generation and upstream gas assets at agk.com.au/earth

AGL has Australia's largest retail energy and dual fuel customer base, retailing natural gas, electricity and energy-related products and services to over 3.2 million customer accounts.

122,000

The number of dual fuel customer accounts increased by 122,000 in 2009/10. Total customer accounts increased by 45,000 over the year.

1,050,000

AGL replaced more than 1,050,000 light globes with energy efficient compact fluorescent globes while providing customers with energy efficiency advice and products.

Retail Energy	2010	2009
Operating EBIT	**$318.7m**	$266.8m
Operating EBITDA	**$360.2m**	$303.0m
Operating cost/gross margin	49.5%	52.4%
Electricity volume (GWh)	34,362	33,966
Gas volume (PJ)	210.9	223.3
Mass market gross margin	$533.3m	$493.8m
Average mass market customers ('000s)	3,205.6	3,197.6
Average mass market gross margin per customer	$166.35	$154.40

AGL has Australia's largest retail energy and dual fuel customer base, retailing natural gas, electricity and energy-related products and services to over 3.2 million customer accounts across New South Wales, Victoria, South Australia and Queensland.

Retail Energy sources its energy from AGL's Merchant Energy business.

Retail Energy's Operating EBIT of $318.7 million was up 19.5 percent on last year. This was mainly due to increases in gross margins in both the mass market (+$39.5 million) and commercial and industrial (+$31.6 million) segments of the business.

The margin increase in mass markets was due to improved regulatory and contracted pricing outcomes in New South Wales and Queensland, and to improved retention and acquisition of higher value customers.

The margin increases in commercial and industrial also reflect the benefits of focusing our acquisition, retention and recontracting activities on higher value customers.

Margin increases were partly offset by higher labour costs to maintain low levels of unbilled customers, and to provide additional sales support; and by higher expenditure on campaigning and advertising to grow the business.

Improved customer experience

Retail Energy is committed to providing our customers with excellent service, including providing them with accurate bills on a timely basis.

Following implementation of a new SAP billing system in 2009, AGL's focus in 2010 was to drive improvements in the customer experience, to improve operational efficiency, and to grow our customer base.

Following consultation with customers and industry stakeholders, AGL redesigned its gas and electricity bills to make them easier for customers to understand and to enable useful information such as energy use comparisons to be included. AGL also rewrote its Customer Charter, which now sets the benchmark on what we will deliver to our customers. We have committed to holding ourselves accountable by measuring and publishing our performance against key customer promises which our customers have told us are core to their relationship with us.

The customer focused initiatives launched this year have resulted in improved levels of customer service, with Ombudsman complaints reducing significantly as a result – down by 76 per 10,000 customers to 48 per 10,000 customers. Our new billing platform has also enabled 99 percent of AGL's customers to receive their bills on time.

Operational efficiency improved during the year, with operating costs as a proportion of gross margin falling from 52.4 percent to 49.5 percent. Total customer accounts increased by 45,000 over the year, with the number of dual fuel customer accounts increasing by 122,000.

Energy for Life

AGL has continued to support the communities in which it lives and works through its Energy for Life corporate responsibility program.

Community and customer support

Retail Energy continued providing customers with energy efficiency advice and products. In 2009/10, AGL provided more than 6,000 free home energy audits, helping customers to manage their energy use more efficiently, and helped over 74,000 Australian homes by replacing a total of over 1,050,000 light globes with energy efficient compact fluorescent globes.

Through AGL's Energy for Life corporate responsibility program and its four initiatives – Warmth In Winter, Employee Giving, Volunteering and Energy Matters – AGL has continued to support the communities in which it operates through investment that connects its business and employees with the community in ways that engage its people, build its brand and reputation, and strengthen the business.

For example, as part of Habitat for Humanity's 'Brush with Kindness' project, AGL's Executive Team as well as the Retail Finance and Marketing teams each spent a day helping to restore a house in Victoria's Kinglake area, which was severely burnt in the 2009 bushfires.

A major review of AGL's Employee Giving charity partners also took place during 2009 to reflect the overall interests of employees and to align with the core focus around homelessness and providing energy affordability for vulnerable Australians.

Connecting with the community

AGL's sponsorships over the year continue to demonstrate 'Energy in Action'.

The AGL Action Rescue Helicopter, which services communities throughout south-east Queensland, undertakes vital rescue, medical and search missions. In the past year it undertook more than 900 missions, an average of about 2.5 per day. AGL customers in Queensland can donate to the service by having contributions added to their AGL bills.

In June, AGL announced its sponsorship of the Adelaide Zoo's giant pandas exhibit. The four year deal involves AGL providing a solar electricity system to the giant panda's enclosure to help provide the optimal environment for the endangered species.

AGL will install and maintain the solar PV system, and provide education about the benefits of solar energy to the estimated 1.3 million visitors to the Adelaide Zoo each year.

The power generated by the solar PV system will help with climate control by cooling rocks and powering misters in the enclosure, as well as generating electricity for lighting, refrigeration for food, panda camera surveillance, and powering computers for research purposes.

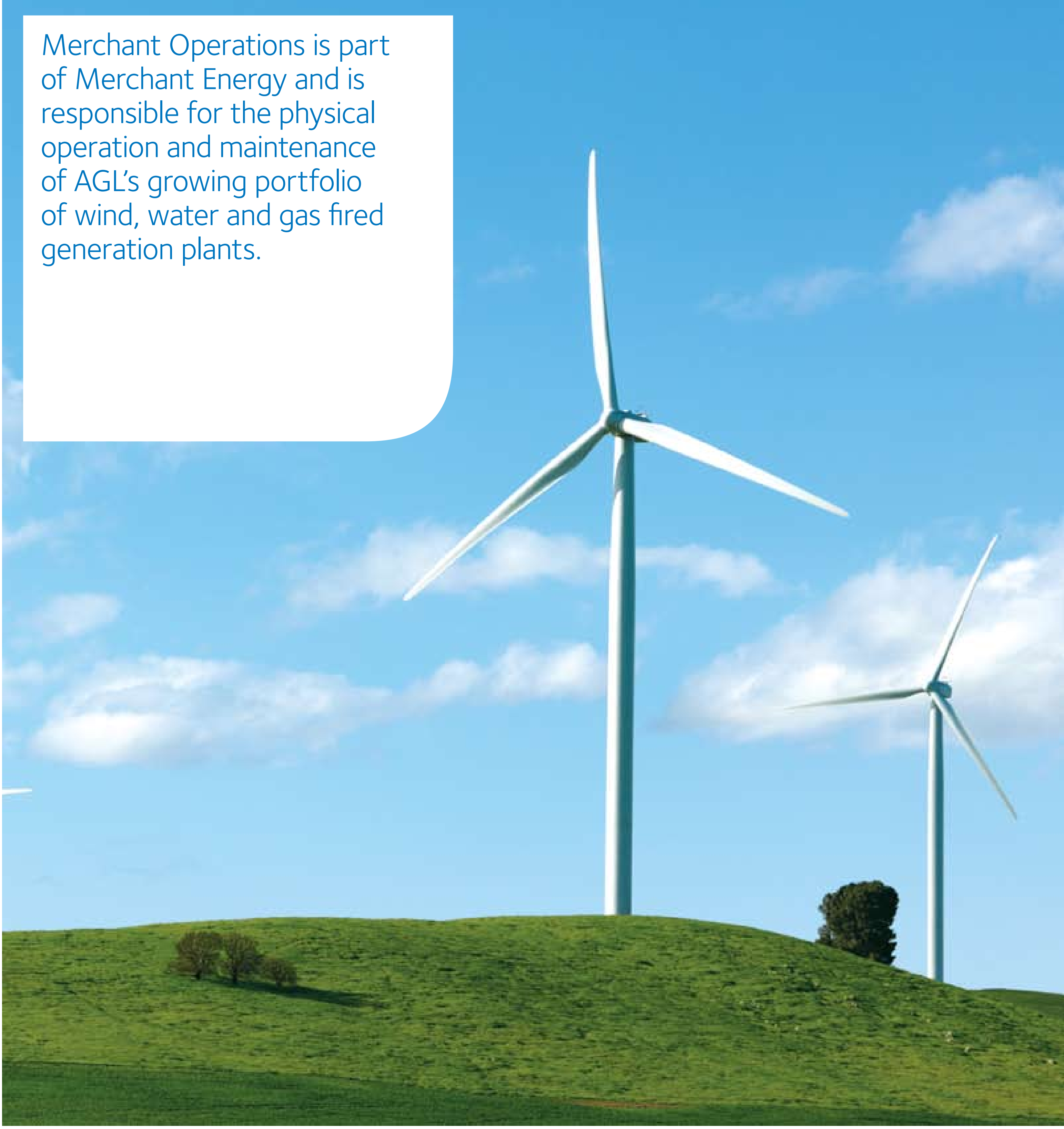
1 TWh

AGL achieved its stated aim of supplying 1 TWh of renewable energy a year, making AGL Australia's largest retailer of new renewable energy by volume.

AGL Hallett 2 Wind Farm

The construction of the 71.4 MW wind farm was completed in 2009.

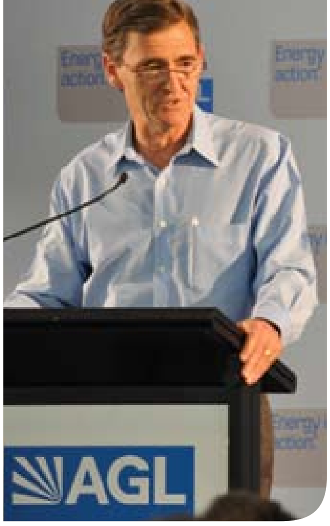
Merchant Operations is part of Merchant Energy and is responsible for the physical operation and maintenance of AGL's growing portfolio of wind, water and gas fired generation plants.



Merchant Energy	2010 $m	2009 $m
Operating EBITDA	**449.8**	460.6
Operating EBIT		
Energy Portfolio Management	426.1	434.2
Merchant Operations	(103.8)	(97.0)
Energy Services	17.3	22.4
Power Development	56.9	51.1
Sundry Expenses	(10.4)	(7.9)
Total Operating EBIT	**386.1**	402.8

3,000 MW

AGL's generation assets portfolio under AGL's control increased to over 3,000 MW with the commissioning of the Bogong Power Station opened by the Premier of Victoria, John Brumby (pictured), and Hallett 2 Wind Farm.



Merchant Energy is responsible for managing the risks associated with the procurement and delivery of gas and electricity for AGL's wholesale and retail portfolios. It also manages the business relationship with AGL's largest 700 energy customers, providing them with services such as energy efficiency advice and broader carbon management services.

Energy Portfolio Management

Energy Portfolio Management is responsible for managing the risks associated with procuring gas, electricity and environmental market certificates, particularly Renewable Energy Certificates (RECs). The integrated portfolio allows AGL to build an in-depth understanding of the inter-relationships that exist between these markets.

The wholesale electricity portfolio is well positioned to benefit from the ongoing conditions of prevailing low underlying pool prices with occasional periods of volatility. In particular, our gas fired generation provides an option to purchase directly from the pool during low price periods and run generation as prices increase. It also allows some flexibility in helping manage a short-term over-supply of gas created by a contraction in demand and excess supply.

In contrast to recent years, there were fewer extreme summer temperatures in South Australia and Victoria, which reduced the benefit from AGL's peaking/intermediate generation during periods of high electricity demand. Winter conditions were also mild, reducing energy volumes and gross margins. The portfolio was also adversely affected at times by unexpected inter-regional transmission constraints in New South Wales which reduced the opportunity to benefit from flows from Queensland during times of high prices in New South Wales.

However, the portfolio is currently benefiting from the increased renewable energy target and our ability to offer structured long-term renewable products to key customers.

Over the past year, AGL has announced three major renewable energy supply contracts: for Victoria's $3.5 billion desalination plant, for South Australia's desalination plant, and for the Melbourne Water Corporation. These projects provide AGL with a fixed revenue stream for renewable energy and increase the value of our development portfolio. Having achieved our stated aim of supplying 1 TWh of renewable energy a year, it also makes AGL Australia's largest retailer of new renewable energy by volume.

Power Development

AGL's Power Development group is responsible for delivering all upstream electricity generation development projects and for creating new development opportunities. Completed projects are then taken over by AGL's Merchant Operations group.

In November 2009, AGL completed the Bogong Power Station (140 MW), the biggest hydroelectricity development on mainland Australia in 25 years. It is able to provide renewable electricity to more than 120,000 homes during peak summer demand, with the renewable electricity generated each year abating in excess of 88,000 tonnes of greenhouse gas emissions.

The construction of Hallett 2 Wind Farm (71.4 MW) was completed and was officially opened by the Premier of South Australia in May 2010. Also in the Hallett group of wind farms, AGL commenced construction of Hallett 4 (132 MW) in July 2009 and announced in February 2010 that it had committed to construction of Hallett 5 (52.5 MW). Commencement of construction for the Oaklands Hill Wind Farm (67 MW) in Victoria was marked by a ceremony in March 2010.

Since the end of the year, AGL has also entered into arrangements for the construction of Macarthur Wind Farm in south-west Victoria which, when completed, will be the largest wind farm in the southern hemisphere.

Together, these projects solidify AGL's position as the leading integrated renewable energy company in Australia and the largest private owner, operator and developer of renewable generation in Australia.

AGL continues to progress permit options for additional gas fired power generation at Dalton in New South Wales, Tarrone in Victoria and Torrens Island in South Australia.

Merchant Operations

Merchant Operations is responsible for the physical operation and maintenance of AGL's growing portfolio of wind, water and gas fired generation plants.

Ensuring that these plants are available when generation is required, maintaining the assets, and delivering operating efficiencies across the growing asset portfolio are key activities.

The generation assets portfolio under AGL's control increased to over 3,000 MW during the financial year with the commissioning of the Bogong Power Station and Hallett 2 Wind Farm. The Bogong Power Station provides reliable fast start generating capacity, allowing AGL to take advantage of high energy prices during periods of peak demand.

Merchant Operations is undertaking a continuous improvement and innovation program to enhance maintenance activities and reduce outage times and associated costs, to improve workplace safety and to continue to increase workforce flexibility A comprehensive 'whole of life' asset management plan is in place to ensure the ongoing safe, reliable and cost-effective performance of the generation assets.

A four year generator refurbishment program for the West Kiewa Power Station (61.6 MW) is into its third year.

As part of AGL's ongoing commitment to upgrading and enhancing generation assets, work continued on the four year, $40 million controls systems upgrade of the 1,280 MW gas fired Torrens Island Power Station in South Australia.

120,000 homes

AGL's Bogong Power Station provides renewable electricity to more than 120,000 homes during peak summer demand.

Somerton Power Station (150 MW gas fired peaking plant) continued to experience high levels of commercial start reliability, with 99 percent being achieved this year. This high level of performance exceeds international benchmarks for similar plant. Additionally, a peak firing capability has been installed at Somerton which provides for an additional 10 percent increase in output during peak periods if required.

While much of eastern Australia continued to experience drought conditions, the Kiewa scheme which, among AGL's hydroelectric generation assets, has the most generation capacity and full discretion regarding water releases, was not significantly affected, with storage levels increasing over the previous year to be at 60 percent capacity by year end.

The increased water storage levels at Dartmouth have allowed the 180 MW Dartmouth Power Station to be prepared to resume service. It is scheduled to be available for operation over the 2010/11 summer period.

The wind energy area of Merchant Operations continues to grow with the Hallett 2 Wind Farm successfully handed over from Power Development to Merchant Operations during the year. Both Hallett 1 Wind Farm and Wattle Point Wind Farm continued to meet their production and availability targets.

Health, safety and the environment continues to be a major focus, with Torrens Island Power Station achieving 10 years without a Lost Time Injury (LTI). Overall, Merchant Operations recorded one LTI for the year. The Lost Time Injury Frequency Rate (LTIFR) has reduced from 2.0 to 1.2 in the past year.

Energy Services

Energy Services is responsible for assisting customers to make their businesses more sustainable and energy efficient. The past year has seen the coordination of offerings to Major Customers' clients that go beyond the sale of energy to also embrace energy efficiency, management of new regulatory reporting, co-generation and other embedded generation opportunities.

The delay in the Carbon Pollution Reduction Scheme (CPRS), and the ongoing work of the Prime Minister's Task Group on Energy Efficiency, have caused uncertainty for our customers. As a result, some customers have delayed their preparations for a future carbon constraint and their engagement in energy efficiency programs.

The Energy Services portfolio covers a diverse range of generation assets across Australia. Improvements to the operating efficiency of the assets resulted in greater availability and running times. This was particularly so for the assets located in Queensland – Suncoast Gold Macadamia Generation Plant and the ISIS Bagasse Generation Facility – with 284 percent and 36 percent improvements in volumes generated respectively.

During the year, the Brisbane City Council's compressed natural gas (CNG) bus facility at Willawong, and the CNG refuelling facility at Leichhardt in New South Wales, commenced operations. The Coffs Harbour landfill gas flaring project achieved practical completion in December 2009 and an expansion of the Rockingham landfill was completed in April 2010.

Energy Services continued to expand its asset base with the commissioning, in conjunction with Melbourne Water Corporation, of a further 2 MW (Stage 3) of capacity at the Werribee biogas facility. The total capacity of this facility is now 10 MW, making it one of the largest biogas facilities in Australia.

AGL assisted a number of customers in meeting their reporting obligations under the Commonwealth's National Greenhouse & Energy Reporting Scheme (NGER). This has led to the formation of a relationship with Global Carbon Systems to provide a new energy, emissions and waste reporting platform, known as AGL Insight, which will be made available to more of our customers in 2011.

We also helped a number of customers improve energy efficiency across large property portfolios, reducing both energy costs and greenhouse gas emissions.

Energy Services also manages the HC Extractions LPG facility at Kurnell in New South Wales. HC Extractions produces LPG and naptha by processing refining off-gasses from the adjacent Caltex oil refinery, with all production sold back to Caltex. The decline of $5.1 million in Energy Services' Operating EBIT was due mainly to the effects of lower LPG prices and planned operational outages at HC Extractions.

Investments

$81.7 million

Energy Investments contributed $81.7 million to Operating EBIT for the year ended 30 June 2010.

Investments	2010 $m	2009 $m
ActewAGL	30.4	27.9
Elgas (50% ownership disposed)	–	10.6
Loy Yang	45.1	30.8
Other	6.2	5.5
Operating EBIT	**81.7**	74.8

ActewAGL is a 50/50 partnership between AGL and Actew Corporation, an ACT Government owned enterprise. Established in 2000, it was the first utility joint venture in Australia between a private company and a publicly owned enterprise. AGL holds a 50 percent interest in ActewAGL's retail business.

ActewAGL contributed an equity share of profits of $30.4 million for the year, compared with $27.9 million for the prior corresponding period.

The favourable outcome resulted from increased volumes and margins in both the gas and electricity markets. Improved electricity margins resulted from tariff increases and generally higher electricity volumes. Increased gas margins were driven by increased consumption, particularly in commercial markets.

Notwithstanding the overall continued competitive pressures, the partnership has delivered a sound financial performance while maintaining the number of gas customers and electricity customers.

Loy Yang's operating result improved largely due to a better sold contract position and higher generation offset by a reduction in the pool price. Loy Yang also benefited from a two percent reduction in interest expense, which was partly offset by a five percent increase in operating costs caused mainly by increased labour and services costs.

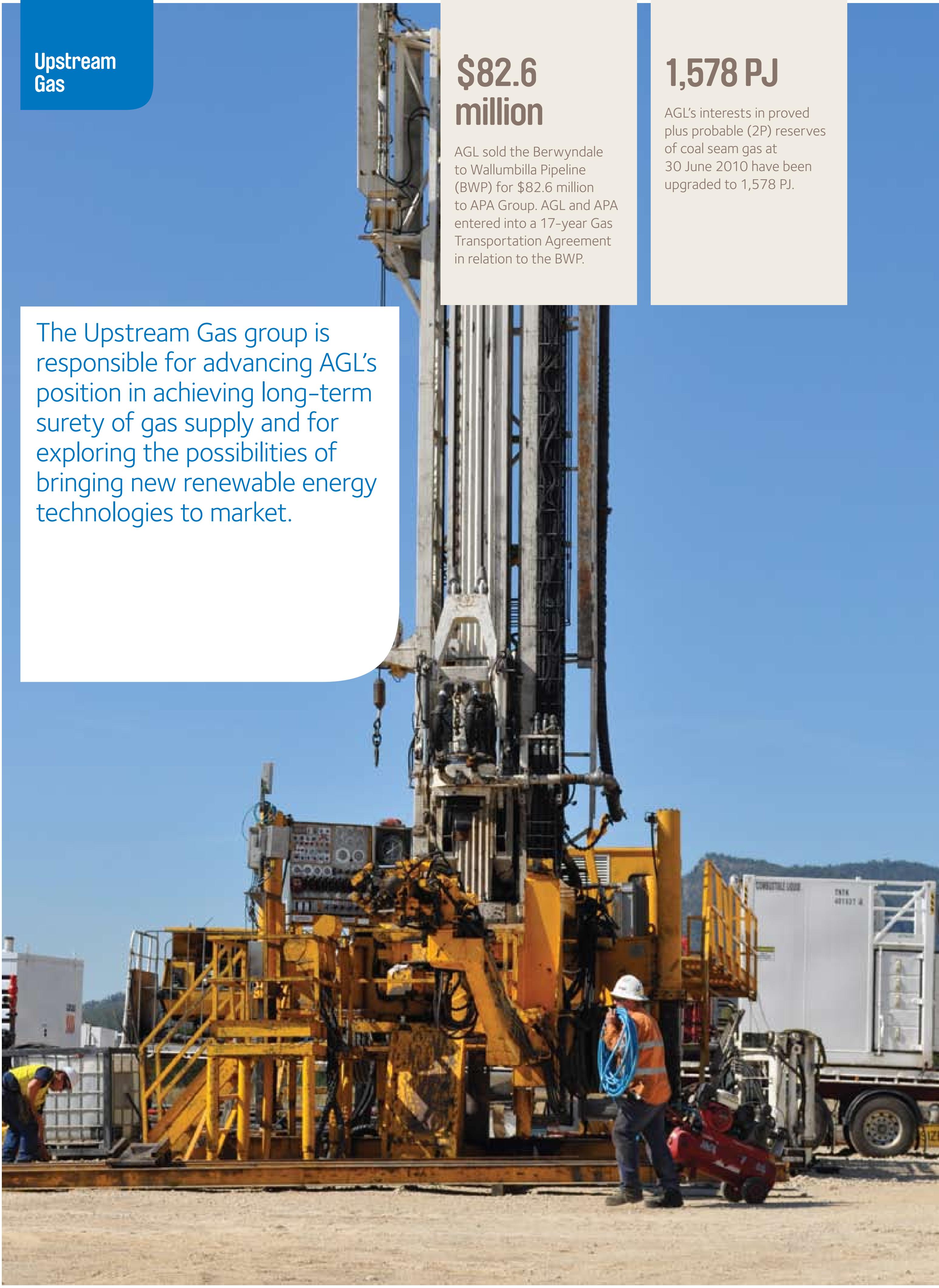
$45.1 million

Loy Yang contributed an equity share of profits of $45.1 million for the year, compared with $30.8 million for the prior corresponding period.

$30.4 million

ActewAGL (50 percent AGL ownership) contributed an equity share of profits of $30.4 million for the year, compared with $27.9 million for the prior corresponding period.

Upstream Gas



$82.6 million

AGL sold the Berwyndale to Wallumbilla Pipeline (BWP) for $82.6 million to APA Group. AGL and APA entered into a 17-year Gas Transportation Agreement in relation to the BWP.

1,578 PJ

AGL's interests in proved plus probable (2P) reserves of coal seam gas at 30 June 2010 have been upgraded to 1,578 PJ.

The Upstream Gas group is responsible for advancing AGL's position in achieving long-term surety of gas supply and for exploring the possibilities of bringing new renewable energy technologies to market.

AGL share of CSG reserves	As at 30 June 2010		As at 30 June 2009		Change	
PJ	2P	3P	2P	3P	2P	3P
Moranbah (50%)	**501**	**1,022**	497	1,079	1%	–5%
Gloucester (100%)	**669**	**832**	423	630	58%	32%
Camden (100%)	**154**	**201**	129	173	19%	16%
Spring Gully (various, small)	**8**	**10**	7	9	14%	11%
Sub-total	**1,332**	**2,065**	**1,056**	**1,891**	**26%**	**9%**
ATP 364P back-in rights (50%)*	**246**	**1,307**	51	413	382%	216%
Total	**1,578**	**3,372**	**1,107**	**2,304**	**43%**	**46%**

* Under a 50-year project agreement that commenced in 2000, AGL has no effective exploration rights (or ongoing cost obligations) within exploration tenement ATP 364P 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.

FY2010

FY2010 was a year of consolidation following significant transactions in the previous year to acquire gas exploration rights and resources in strategically important locations.

The Upstream Gas group is responsible for advancing AGL's position in achieving long-term surety of gas supply. This involves building on AGL's emerging positions in new coal seam gas (CSG) developments.

Upstream Gas is also responsible for exploring the possibilities of bringing new underground renewable energy technologies to market, particularly geothermal energy.

Gas portfolio

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

The Queensland/South Australia portfolio includes the Moranbah Gas Project joint venture, the gas supply elements of the North Queensland Energy (NQE) joint venture and the Galilee Basin, Cooper Basin and Spring Gully joint ventures.

The New South Wales portfolio includes the Camden Gas Project, Sydney Basin exploration (including Hunter Valley) and Gloucester Basin assets. These areas are highly prospective for CSG, are all 100 percent owned and operated by AGL, and are close to AGL's core New South Wales gas market.

Exploring, appraising, assessing

FY2010 was a year of consolidation following significant transactions in the previous year to acquire gas exploration rights and resources in strategically important locations. AGL spent the past year integrating these acquisitions and exploring, appraising and evaluating the size of the CSG reserves.

During the year, AGL increased its upstream gas reserves position and made inroads into working with communities in the project areas to enhance local understanding of its exploration activities.

Upstream Gas will continue to focus on proving up reserves over the next few years. During this phase, the earnings contribution will be limited but the potential value creation is substantial.

Camden

Seven horizontal wells were drilled during the year. Three of the wells were dewatered and connected to the production network. The remaining four wells are continuing to be dewatered.

Hunter Valley

In the Hunter, AGL conducted an independently reviewed groundwater monitoring study on its exploration pilot wells site at Broke. The study was developed in partnership with the local community, and proved that local groundwater supplies are protected at the site. This was aimed at ensuring water resources were fully understood and protected, from the exploration stage onwards.

Eight exploration wells and two pilot exploration holes were flow tested during the year. Community consultation continued through the Bulga Community Consultation Committee, which has met on 11 occasions since AGL took over the project in 2009.

Gloucester

An exploration program was undertaken during the year. Eight wells were drilled, with activities concluded in July 2010. Between December 2009 and June 2010, data was obtained for a 2D basin-wide seismic program and a 3D seismic program over the Stage 1 development area.

These activities led to a major reserves upgrade in the basin. 2P gas reserves increased by 58 percent, to 669 PJ.

Galilee

As operator of a joint venture with Galilee Energy, AGL is undertaking a CSG exploration program on its tenement north of Ilfracombe. A production test pilot designed to establish commercial gas flows is also underway. As part of the program, the quality of produced water and pressure of adjacent aquifers is being measured to establish a baseline for future management.

From August to November 2009, AGL undertook a seismic survey to obtain an interpretation of the geology in an area between Ilfracombe, Aramac and Muttaburra. Corehole wells have also been drilled, with samples of the coal that lies more than 800 metres below the ground taken to assess gas bearing qualities.

Growing gas reserves

Upstream Gas expanded 2P gas reserves by 471 PJ to 1,578 PJ. Substantial upgrades were assessed for the Gloucester Basin, Camden area and Queensland exploration permit ATP 364P (50 percent back in rights).

Key transactions and other assets

During the year, AGL sold the Berwyndale to Wallumbilla Pipeline (BWP) for $82.6 million to APA Group (APA). AGL and APA entered into a 17-year Gas Transportation Agreement (GTA) in relation to the BWP.

The sale resulted in a pre-tax profit of $4.1 million with the proceeds applied to reduce AGL's bank debt.

The GTA provides AGL with competitively priced transportation services for gas obtained under AGL's gas supply agreement with Queensland Gas Company (now part of BG Group). The GTA includes an option for increased capacity which, if triggered by AGL, would see APA make an additional payment to AGL of up to $21 million. AGL also has options to extend the term of the GTA by up to 10 years.

AGL also maintains a substantial asset position in north Queensland's Bowen Basin around Moranbah. Gas reserves in ATP 364P are earmarked for export as liquefied natural gas (LNG) by Shell/PetroChina. AGL has rights to 50 percent of any commercial gas sales from the permit and is working to better understand Shell/PetroChina's plans to develop and pipe gas to Gladstone.

Exploration and evaluation results from the Cooper Basin joint venture with Innamincka Petroleum were not supportive of commercial development of the CSG potential. This resulted in asset write-offs of $13.9 million, which has been treated as a significant item.

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 the country's largest energy retailer, 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 14 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
Head of Corporate Support Services and Company Secretary

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

Jeff Dimery
BBus, Exec. Progr. IMD, AICD
Group General Manager Merchant Energy

Jeff has more than 20 years' experience in the energy and water resources industry, having been with AGL for 15 years. He has held senior management roles in the areas of corporate development, sales, power generation and wholesale trading.

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 (Accounting & Finance), PhD (Economics), CPA, FAICD, AFMA Acc. Dealer
Chief Economist and Group Head of Corporate Affairs

Paul has worked in the energy industry for 20 years, having held senior executive positions with Stanwell Corporation, NewGen Power and Babcock & Brown. He is also 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 more than three million customer accounts. This includes managing AGL's commitment to customer engagement and various community support programs and sponsorships. 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 many years of experience as a senior accounts executive in the energy industry, including roles interfacing directly with residential and large industrial customers. He has over 20 years' management and operations experience in high-voltage transmission, distribution and hydro generation. Owen has implemented a range of customer information systems within the energy sector.

Jane Thomas
BBus (Hons), LLB (Hons), Grad. Dip. Leg Prac, Masters Org Coaching
Group Head of People and Culture

Jane has more than 15 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.

Left to right:
Michael Fraser, Stephen Mikkelsen, Paul McWilliams, Jeff Dimery, Michael Moraza, Paul Simshauser, Ken Hodgson, Owen Coppage, Jane Thomas.

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 August 2007.

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 encompassed in a formal Charter which the Board is responsible for reviewing 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 (together HSE);
- 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.

To assist it in carrying out its responsibilities, the Board has established three Committees. They are:

- People and Performance Committee (see Principle 2);
- Safety, Sustainability and Corporate Responsibility Committee (see Principle 3); and
- Audit and Risk Management Committee (see Principle 4).

Details of the main accomplishments of each of the Board Committees during 2009/10 are included in the commentary on Principle 2.

The timetables for Board and Committee meetings are agreed annually to allow the Board and individual Directors to dedicate sufficient and appropriate time to reviewing and overseeing AGL's business.

New Directors

New Directors receive a formal letter of appointment along with an induction pack. The contents of 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, operational and risk management position.

AGL believes that it is important that new Directors are able to contribute to the Board's decision making process at the earliest opportunity. To that end, new Directors undertake an induction program which comprises:

- A comprehensive 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 HSE, upstream gas operations, and wholesale energy trading.

Delegation to the CEO and the Executive Team

The Board has delegated responsibility for implementing AGL's strategic direction and for managing AGL's day-to-day operations to the CEO and the Executive Team.

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.

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 the 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*

Performance evaluation

All Executives have formal position descriptions. Key performance measures are established for each Executive at the commencement of the financial year. Some performance measures, such as overall AGL financial performance and some occupational health and safety targets, are common for all Executives. Other performance measures are specifically set in line with the individual role and responsibilities of the Executive.

The CEO has personal objectives, as well as objectives related to business units and AGL as a whole. The Chairman, together with the People and Performance Committee, assess the performance of the CEO against those objectives on an annual basis, or more frequently if required.

The Board, with the assistance of the People and Performance Committee, also monitors the performance of the Chief Financial Officer (CFO), Company Secretary and other members of the Executive Team.

Executive Team performance evaluations have been conducted for the financial year ending 30 June 2010. Details of the evaluation process and the linkages between the results of performance evaluations and remuneration are disclosed in the Remuneration Report on pages 39 to 48 of this Annual Report.

Newly appointed Executives

Although no new Executives were appointed during the financial year, an induction program is in place to enable newly appointed Executives to gain an understanding of:

- The Company's financial position, strategies, operations and risk management policies; and
- The respective rights, duties, responsibilities and roles of the Board and the Executive Team.

Principle 2: Structure the Board to add value

The Board's size and composition is subject to limits imposed by AGL's Constitution, which provides for a minimum of three Directors and a maximum of 10. The Board currently comprises seven non-executive Directors and one executive Director. The Managing Director is the executive Director and CEO of AGL.

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 34 to 36 of this Annual Report. During the financial year, Mr Graham Reaney retired as a Director.

The Board met 17 times during the financial year. Directors' attendances are set out on page 37 of this Annual Report.

Recommendation 2.1 – *The majority of the Board should be independent Directors*

Independent decision making
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.

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 was one circumstance in which two individual Directors excused themselves from consideration by the Board of specific matters because of the potential for their independence to be compromised.

Mark Johnson and Bruce Phillips absented themselves from consideration by the Board of participation by AGL in a capital raising by Innamincka Petroleum Limited (INP). Mr Johnson is a shareholder in INP and an associate of an INP director. Mr Phillips is a director of a company INP was dealing with on a potential transaction that gave rise to the need for INP to raise additional capital.

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

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

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

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.

The Chairman must ensure that general meetings are conducted efficiently, and that Shareholders have adequate opportunity to air their views and obtain answers to their queries.

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

The Board has established a People and Performance Committee (equivalent to a nomination committee) comprising three non-executive and independent Directors, Max Ould (Chairman), Mark Johnson and Sandra McPhee. 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 has responsibility for:

- maintaining a Board which comprises individuals best able to discharge the responsibilities of Directors, having regard to the execution of AGL's strategy and to the highest standards of corporate governance;
- reviewing the performance and remuneration of the Board and remuneration of senior management; and
- reviewing and ratifying AGL's remuneration and employment policies, procedures and programs to:
  - meet long-term people needs;
  - achieve alignment between the needs and requirements of AGL's customers, Shareholders and other stakeholders and the values and objectives of AGL's employees;
  - promote excellent performance;
  - promote AGL as an employer of choice;
  - meet AGL's commitment to a diverse and inclusive workplace;
  - comply with relevant legislation and corporate governance principles on remuneration practices and employment policies; and
  - provide fair remuneration and other benefits to all AGL employees.

The Committee is responsible for making recommendations to the Board as follows:

Board matters

- The skills, knowledge and experience appropriate to AGL's operational, financial and strategic objectives;
- Director tenure and Board composition;
- The process for evaluating Board, Committee and individual Director performance;
- Selection criteria for the appointment of new Directors;
- The appointment and removal of Directors for the consideration of a general meeting of Shareholders;
- Succession plans for non-executive Directors; and
- Directors' remuneration.

The CEO

- Setting and reviewing performance objectives for the CEO and evaluating the contribution and effectiveness of the CEO against those objectives;
- Rewarding the CEO responsibly and fairly for his/her contribution to enhancing AGL's performance; and
- The recruitment, retention and termination policies and procedures for the CEO.

The Executive Team

- Reviewing the CEO's recommendations on terms of employment and remuneration for AGL's Executive Team, and on succession plans for key senior positions within AGL;
- Maintaining a balance of skills, knowledge and experience across the Executive Team; and
- Policies and procedures for the recruitment, retention and termination of members of the Executive Team.

Incentive plans and superannuation arrangements

- Reviewing guidelines for AGL's incentive plans; and
- Reviewing the superannuation arrangements in place for AGL's employees.

Employment policy issues

- Providing counsel and guidance to the business in relation to talent management and development, succession planning and performance management;
- Monitoring remuneration policies and practices to assist AGL to attract and retain people who create value for Shareholders and who uphold and develop the culture of AGL; and
- Providing counsel and guidance to the business in relation to the creation of a diverse and inclusive workplace.

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 four times during the year. Details of Directors' attendances are set out on page 37 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 the Board

The Board regularly reviews its own performance. The most recent review commenced in August 2010 and will involve 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 aggregate results of the questionnaire will be discussed at a subsequent Board meeting. The Chairman will also meet separately with each Director to discuss individual responses to the questionnaire.

Principle 3: Promote ethical and responsible decision making

AGL considers ethical decision making to be integral to the conduct of its business. The Safety, Sustainability and Corporate Responsibility Committee assists the Board in enabling AGL to operate its businesses ethically, safely, sustainably and responsibly.

The Safety, Sustainability and Corporate Responsibility Committee currently comprises four non-executive and independent Directors, Sandra McPhee (Chair), Mark Johnson, 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 endeavours to hold as many meetings as practical at AGL business unit locations. It met four times during the year, with the meetings held at Torrens Island Power Station in South Australia; AGL's call centre in Canberra; coal seam gas production operations at Camden in New South Wales; and at AGL's satellite office in Brisbane.

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

All new AGL employees are required to confirm they are aware of and have reviewed AGL's Code of Conduct.

The Code of Conduct provides a mechanism to enable employees to report actual or suspected breaches, including provision for anonymous reporting to allay any fear of retribution. 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.

AGL has a commitment to diversity and has a policy on this issue. AGL has also initiated a Diversity Support Line.

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

Compliance Policy

Consistent with its Code of Conduct, 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 has a Compliance Policy, which sets out responsibilities for compliance with AGL's various legislative obligations, as well as with AGL's 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 trading in company securities by Directors, Executive Team and employees*

AGL's Securities Dealing Policy sets out the circumstances in which AGL's Directors, Executives and other employees (collectively, 'employees') may buy or sell securities in AGL or any other listed company. An amended policy was adopted during the year.

AGL employees are prohibited from dealing in, or influencing others to deal in, securities of AGL or any other company if:

– they possess information about AGL or another company that is not generally available to the market; and
– the information, if it were generally available to the market, would be likely to influence persons who commonly acquire securities in deciding whether or not to acquire or dispose of securities in AGL or another company.

Additionally, employees are prohibited from trading in AGL securities during the periods:

– from 1 January to the close of trading on the day following the release of AGL's interim financial results; and
– from 1 July to the close of trading on the day following the release of AGL's full year financial results.

AGL's Securities Dealing Policy is available on AGL's website.

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 Audit and Risk Management Committee has changed during the financial year. John Stanhope has succeeded Graham Reaney as Chair of the Committee, following Mr Reaney's retirement as an AGL Director in October 2009. The Committee currently comprises four members – John Stanhope (Chair), Jerry Maycock, Bruce Phillips and Les Hosking. John Stanhope has financial expertise as a qualified accountant. Bruce Phillips and Les Hosking each have long careers in the energy industry. Further details of the qualifications and experience of all Committee members are disclosed on pages 34 to 36 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 external auditor attend Committee meetings at the discretion of the Committee. The Company Secretary is the secretary to the Committee.

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 distributes copies of the minutes of a meeting of the Committee 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 37 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;
- 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 contains details of the procedures for the selection and appointment of the external auditor 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.

Quarterly reports on the provision of auditing and related services are provided to the Audit and Risk Management 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.

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	The Committee set aside time at one of its scheduled meetings to discuss its performance over the financial year in achieving the objectives set out in its Charter and to consider opportunities to improve its effectiveness.
Committee achievements	The review found that the Committee had been effective in performing its responsibilities under the Committee Charter. Its main achievements during the financial year were: – reviewing and approving amendments to AGL's wholesale energy risk management policy; – reviewing AGL's risk management framework; – overseeing the transition of a new external audit signing partner to replace Mr Greg Couttas, who completed his five year audit rotation in FY2009; and – the appointment of John Stanhope as Chair to replace Graham Reaney, who retired in October 2009.

Safety, Sustainability and Corporate Responsibility Committee

Review process	The Committee set aside time at one of its scheduled meetings to discuss its performance over the financial year in achieving the objectives set out in its Charter and to consider areas of focus to maintain or improve its effectiveness.
Committee achievements	The Committee considers it has been effective over the financial year, most notably in relation to workplace health and safety. Over the financial year, it has overseen significant reductions in AGL's lost time injury frequency rate from 2.5 to 1.0. The Committee has also overseen: – changes to AGL's HSE organisational structure which have improved AGL's capabilities in this area; – enhancements to HSE reporting; – improvements in AGL's HSE framework in relation to contractors working on AGL's major construction projects; and – revisions to AGL's Customer Charter. While workplace health and safety will continue to be an important focus, the Committee anticipates that it will spend more time over the next year on sustainability matters, particularly with the new obligations under the National Greenhouse Emissions Reporting Act and on overseeing AGL's engagement with the communities in which it operates.

People and Performance Committee

Review process	The Committee set aside time at one of its scheduled meetings to discuss its performance over the financial year in achieving the objectives set out in its Charter and to consider areas of focus to maintain or improve its effectiveness.
Committee achievements	The Committee considers it has been effective over the financial year. Each of its four meetings during the year focused 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: – implementation of a number of employee development programs to improve skills and raise employee engagement levels; and – redesign of AGL's Long-Term Incentive Plan to provide better alignment of executive remuneration with sustained increases to Shareholder value.

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

The purpose of the Committee is to help AGL achieve its objective to establish, implement and supervise continuous disclosure within AGL. 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 as the nominated Continuous Disclosure Officer 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 the AGL Executives also 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 Investor Relations. Communication with the media is the responsibility of the CEO, Company Secretary, and 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.

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 strive to keep shareholders informed about the Company's 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 AGM and the AGMs 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 130 shareholders took the opportunity to submit questions in advance of the 2009 AGM.

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.

At the 2009 AGM, the Chairs of the Audit and Risk Management Committee, the Safety, Sustainability and Corporate Responsibility Committee and the People and Performance Committee separately addressed the meeting to report on the activities of each Committee during the financial year. AGL intends to continue this practice at future AGMs.

AGL has adopted the practice of conducting a poll on each motion being considered at the meeting, although 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 AGM. 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 2009 AGM. 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*

and

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 Policy

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 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 Standards Australia's AS/NZS 4360:2004 (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.

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 audit plan submitted annually by Group Audit. The Committee ensures that the audit plan has been developed based on an assessment of AGL's main risk exposures.

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 the Company.

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 in identifying and implementing effective risk management processes, for reporting details of AGL's 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.

Risk Management Committee

To assist it in carrying out its responsibilities the Board has established an Audit and Risk Management Committee. Details of the operation of the Audit and Risk Management Committee are included in the commentary on Principle 4.

The Committee operates under a formal Charter published on AGL's website. The Charter is reviewed annually to determine whether any changes are necessary or desirable.

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*

The Board has established a People and Performance Committee (equivalent to a remuneration committee) comprising three non-executive and independent Directors – Max Ould (Chairman), Mark Johnson, and Sandra McPhee. The Committee has a formal Charter that is reviewed regularly. A copy of that Charter is available on AGL's website.

Full details of the responsibilities of the People and Performance Committee are set out in the commentary in relation to

Recommendation 2.4. These responsibilities include making recommendations to the Board in relation to remuneration policies applicable to Directors and to senior management.

The CEO attends meetings of the People and Performance 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 8.2 – *The Company should distinguish between non-executive Directors' remuneration and that of executive Directors and senior management*

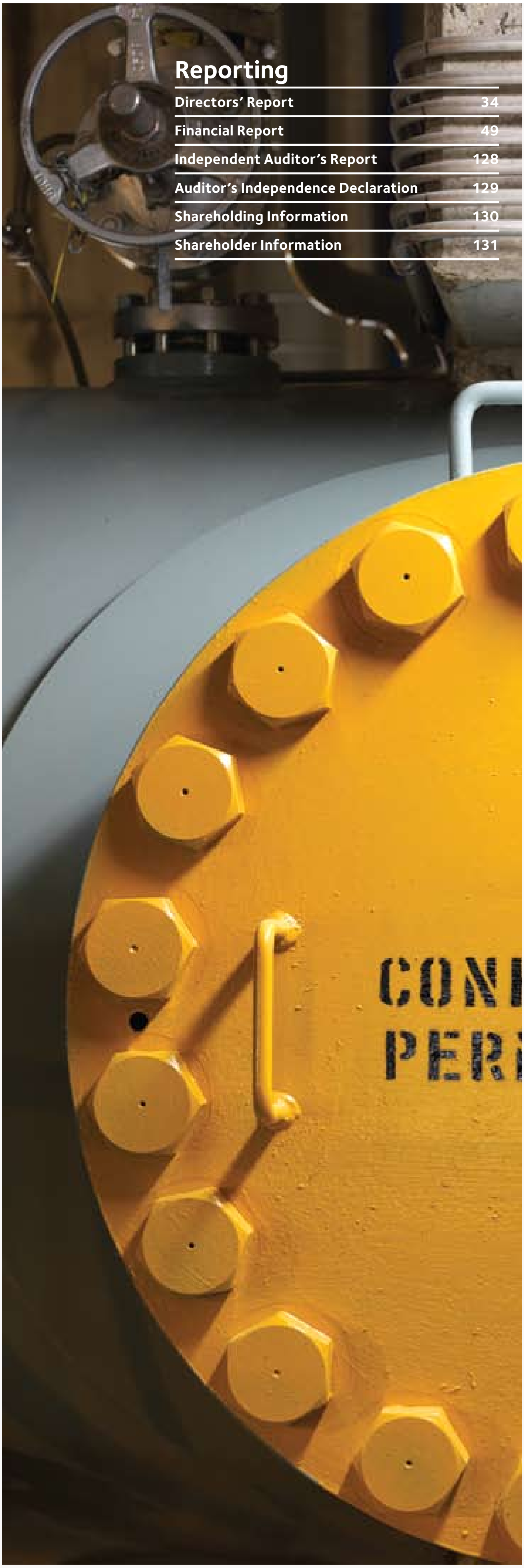
AGL's remuneration structure distinguishes between non-executive Directors and that of the Managing Director and senior management. A Remuneration Report required under Section 300A(1) of the Corporations Act is provided in the Directors' Report on pages 39 to 48 of this Annual Report.

AGL's website

Apart from the corporate governance disclosures contained within this Annual Report, the ASX Principles also recommend that a company makes available relevant documents (eg. charters and policies) on its 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 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; and
- Wholesale Energy Risk Management Policy (summarised).



Reporting

Directors' Report 2010

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 2010 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
- Mark Johnson
- Les Hosking
- Jeremy Maycock
- Sandra McPhee
- Max Ould
- Bruce Phillips
- Graham Reaney (retired 29 October 2009)
- John Stanhope

Executive Director
- Michael Fraser

Directors' qualifications, experience, other directorships and special responsibilities

Mark Johnson LLB MBA
Chairman, Age 69

Term: Non-executive Director and Chairman since February 2006.

Independent: Yes.

Committees: Member of the People and Performance Committee, and the Safety, Sustainability and Corporate Responsibility Committee.

Directorships: Director of Westfield Group Limited (commenced in May 2010), Chairman of The Australian Financial Centre Forum and one of the Prime Minister's representatives on the APEC Business Advisory Council.

Experience: Previously Chairman of Macquarie Infrastructure Group (commenced as a Director in 1996 and retired in June 2010); Deputy Chairman of Macquarie Bank Limited (commenced as a Director in 1987 and retired in July 2007); Director of Pioneer International, Sydney Futures Exchange, the Victor Chang Cardiac Research Institute and Chairman of The Australian Gas Light Company (commenced as a Director in 1988 and retired in October 2006).

Michael Fraser BCom CPA
Managing Director, Age 53

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 March 2007 and retired in November 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 Director of the Uniting*Care* Ageing Board (commenced in June 2004 and retired in November 2008). He has more than 25 years' energy industry experience, including having established AGL as the country's largest energy retailer 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 65

Term: Non-executive Director since November 2008.

Independent: Yes.

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

Directorships: Director of Adelaide Brighton Limited (commenced in 2003), Innovation Australia (commenced in 2003), and Australian Energy Market Operator (AEMO) (commenced in July 2009).

Experience: Previously Director of Australian Energy Market Operator (Transition) Limited (AEMO) (commenced in November 2008 and retired in June 2009), Managing Director and Chief Executive Officer of NEMMCo (commenced in 2003 and retired in 2008) and non-executive Director of NEMMCo (commenced in 1996 and retired in 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). As Chief Executive Officer of Axiss Australia (commenced in 2000 and retired in 2003), he developed and implemented a strategy for the Australian Government to position Australia as a centre for global financial services.

Jeremy Maycock BEng (Mech) (Hons), FAICD, FIPENZ, Age 58

Term: Non-executive Director since October 2006.

Independent: Yes.

Committees: Member of the Audit and Risk Management Committee.

Directorships: Member of the Advisory Council of the Australian School of Business (UNSW) (commenced in March 2009).

Experience: Previously Managing Director and CEO of CSR Limited (commenced in April 2007 and retired in March 2010) and Managing Director and CEO of Hastie Group Limited (commenced in 2003 and retired in 2007), inaugural Chairman of Cement Australia Pty Limited, CEO 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 36 years, with his early career being with Shell Oil in the UK and in New Zealand.

Left to right: Michael Fraser, Mark Johnson, Jeremy Maycock, Sandra McPhee, Max Ould, Bruce Phillips, John Stanhope, Les Hosking.

Sandra McPhee Dip Ed, FAICD, Age 64

Term: Non-executive Director since October 2006.

Independent: Yes.

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

Directorships: Director of Fairfax Media Limited (commenced in February 2010) and Tourism Australia (commenced in 2009), Deputy Chair of St Vincent's & Mater Health Sydney Limited (commenced in 2003) and Kathmandu Holdings Limited (commenced in 2009), Vice President of The Art Gallery of New South Wales (commenced in 2003). Member of the Advisory Council of JP Morgan (commenced in 2005) and Advisory Board of Marsh and McLennan Companies (commenced in 2009).

Experience: Previous 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) and CARE Australia. She held a number of Group General Manager positions in Qantas Airways Limited before retiring in 2004.

Max Ould BEc, Age 63

Term: Non-executive Director since February 2006.

Independent: Yes.

Committees: Chairman of the People and Performance Committee.

Directorships: Chairman of Goodman Fielder Limited (commenced as a Director in 2005 and appointed Chairman in September 2006). Director of Foster's Group Limited (commenced in 2004).

Experience: Previously Managing Director of National Foods Limited, 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 55

Term: Non-executive Director since August 2007.

Independent: Yes.

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

Directorships: Chairman of Platinum Capital Limited (commenced as a Director March 2009), Director of AWE Limited (commenced in November 2009) and an alternate Director of the Very Small Particle Company Limited (commenced in April 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 AWE Limited. He also held prior positions of Director of Sunshine Gas Limited (commenced in October 2007 and resigned in October 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 adviser to News Corporation Limited.

John Stanhope BCom (Economics and Accounting), FCPA, FCA, FAICD, FAIM, Age 59

Term: Non-executive Director since March 2009.

Independent: Yes.

Committees: Chair of the Audit and Risk Management Committee.

Directorships: Executive Director of Telstra Corporation Limited (commenced in May 2009). Chairman of the Business Coalition for Tax Reform, 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 and Administration of Telstra (commenced in October 2003). In this role he is responsible for finance, treasury, risk management and assurance, productivity, corporate services and billing. Previously served as Director, Finance. In this role, which he assumed in 1995, he contributed to T1 and T2, cost reduction programs, growth strategies, debt raising, capital management and organisational restructures.

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

Mark Johnson	59,125
Michael Fraser	370,474
Les Hosking	2,000
Jeremy Maycock	45,620
Sandra McPhee	10,200
Max Ould	27,755
Bruce Phillips	29,000
John Stanhope	Nil

Company Secretary

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 and listed public companies

Directors' Meetings

The number of Directors' Meetings (including meetings of Committees of Directors) and number of meetings attended by each of the Directors of AGL 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	
Director's name	A	B	A	B	A	B	A	B	A	B
Mark Johnson	9	10	6	7			3	4	4	4
Michael Fraser	10	10	6	6						
Les Hosking	10	10	6	7	5	5			4	4
Jeremy Maycock	9	10	6	7	4	5				
Sandra McPhee	10	10	7	7			4	4	4	4
Max Ould	8	10	5	7			4	4		
Bruce Phillips	10	10	7	7	5	5			4	4
Graham Reaney (to 29 October 2009)	3	3	5	5	1	1	1	1		
John Stanhope	9	10	6	7	5	5				

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; and 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 $356.1 million (2008/2009 $1,596.1 million). The Underlying Profit was $428.9 million (2008/2009 $378.8 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 14 to 21 of this Annual Report.

Reconciliation of Underlying Profit[1]

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

1 Underlying Profit has been prepared with reference to the guidance issued by the Australian Institute of Company Directors (AICD) and the Financial Services Institute of Australasia (Finsia). AGL's Policy for reporting Underlying Profit is consistent with this guidance and the Directors have had the consistency of the application of the policy independently assessed.

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 2009:

Final dividend of 28.0 cents per share (100% franked) referred to in the previous Directors' Report and paid on 30 September 2009

$125.5 million

Interim dividend of 29.0 cents per share (100% franked) out of profits for the six months ended 31 December 2009 paid on 7 April 2010

$130.4 million

Final dividend of 30.0 cents per share (unfranked) payable on 30 September 2010)

$135.0 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 2010 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 page 38 sets out environmental issues and non-compliances against these requirements that occurred during the reporting period. There were no fines or infringement notices applied to AGL's operations during the reporting period.

Table 1 – Summary of AGL's environmental incidents and non-compliances

Site	Key environment and planning legislation	Comments
Somerton Power Station, Vic	Environment Protection Act 1970; and State Environment Protection, Policy (Control of Noise from Commerce, Industry and Trade) No. N-1	In November 2009, a noise complaint was received in relation to the operation of Somerton Power Station and civil proceedings were commenced in the Victorian Civil and Appeals Tribunal in early 2010. AGL expects the claim to be withdrawn shortly and is arranging noise attenuation works at the power station to reduce noise levels.
Torrens Island Power Station, SA	Environmental Protection Act 1993; and Environment Protection (Site Contamination) Regulations 2008	In May 2010, voluntary site investigations detected trichlorethylene in groundwater at a specific location beneath the Torrens Island Power Station site. The SA EPA has been notified under Section 83A of the Environment Protection Act, and AGL's investigation are ongoing to determine the extent and nature of the impact, and the development of a management plan. A separate administrative non-compliance occurred during the year when abrasive blasting works occurred on site without the EPA being formally notified before the works as required by EPA licence. The EPA was subsequently notified.
Suncoast Gold Macadamias, Qld	Environmental Protection Act 1994	Minor non-compliance of CO^2 emissions was determined during stack sampling in August 2009. Corrective maintenance was undertaken and emissions returned to compliant levels.
Moranbah Power Station, Qld	Environmental Protection Act 1994	Minor non-compliance of NOx emissions was determined during stack sampling in November 2009. Generation plant was re-tuned and NOx levels returned to compliant levels.
Hydrocarbon Extractions, NSW	Protection of the Environment Operations Act 1997	In June 2010, AGL determined that the total amount of Biological Oxygen Demand (BOD) in wastewater that is spray irrigated to land at the site, was non-compliant with NSW EPA annual load-based-licence limits. AGL will examine whether modification to existing drainage and treatment of the water is required to ensure compliance with these limits.
Camden Gas Project, NSW	Protection of the Environment Operations Act 1997; Petroleum (Onshore) Act 1991; and Environmental Planning and Assessment Act 1979	Two EPA licence non-compliances were reported for exceeding waste storage quantities and exceeding emission concentration limits for Sulphur Oxides at the Rosalind Park Gas Plant. AGL has submitted an application to the Department of Environment, Climate Change and Water, and the Department of Planning to have AGL's EPA licence amended to better reflect current operations.
Gloucester Gas Project, NSW	Petroleum (Onshore) Act 1991; and Environmental Planning and Assessment Act 1979	A reportable incident occurred on 29 June 2009 after an accidental overflow of drilling water from a tank. Approximately 5,000 litres of drilling liquid overflowed and some left the AGL site and flowed onto adjacent paddocks. Due to the off-site impact, AGL was required to notify the Department of Primary Industries of the incident. No enforcement action was taken.
Geothermal exploration activities SA, VIC, NSW, Qld	Geothermal Energy Resources Act 2005	In early 2010, improvement notices were issued to AGL by the Department of Primary Industries (DPI) for geothermal wells drilled in Victoria that had not been completed in accordance with the approved Operations Plan. A revised Operations Plan was submitted and approved by the DPI. Works on the seven wells were completed to the satisfaction of the DPI.
AGL-Arrow-Shell Moranbah Gas Project JV, Qld	Petroleum Act 1923; Environmental Protection Act 1994; and Queensland Petroleum and Gas (Production and Safety) Act 2004	In November 2009 and January 2010, notifiable incidents involving the release of 120kL and 10kL respectively of coal seam water to land occurred. No formal enforcement action was taken by the Queensland Department of Environment and Resource Management. Arrow is monitoring the area and will report on any associated environmental impacts associated with these incidents.

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 90.

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. Quarterly reports on the provision of auditing and related services are provided to the Board through the Audit and Risk Management Committee. Directors are satisfied that the provision of $268,000 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 Secretary, Paul McWilliams, 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 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 129 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

Introduction

The Directors present the Remuneration Report for AGL Energy Limited and its consolidated entities for the year ended 30 June 2010.

The Audit Report of the Financial Report contains confirmation that the remuneration disclosures that are contained within this Remuneration Report comply with Section 300A of the Corporations Act.

Remuneration policy

The People and Performance Committee of the Board reviews and ratifies AGL's remuneration policies, procedures and programs to:

- Align the interests of key stakeholder groups (ie customers, Shareholders and communities) with the objectives and values of AGL's employees;
- Promote excellent performance and keep employees committed and motivated;
- 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; and
- Provide fair remuneration and other benefits to all employees.

Fees payable to non-executive Directors

Non-executive Directors are entitled to receive a base fee. In recognition of the higher workloads and extra responsibilities of participating in a Board Committee non-executive Directors also receive, where applicable, a Committee fee for participation as a member of a Board Committee. Chairing a Committee attracts a higher fee rate. The Chairman of the Board receives no extra remuneration for participation in or chairing Committees.

The maximum aggregate remuneration payable to non-executive Directors is $1.75 million per annum, 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.

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

The fee structure for non-executive Directors, effective 1 January 2010, is as follows:

	Base fee $	Audit and Risk Management Committee fees $	Other Committee fees $
Chairman of Board	340,200		
Chairman of Committee	140,000	49,000	20,412
Director	140,000	27,216	13,608

The table on page 45 provides a breakdown of fees paid during the financial year to each non-executive Director.

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

- Directed superannuation contributions. Subject to minimum contributions as required under the Superannuation Guarantee Charge (SGC) legislation, and maximum tax deductible contributions under the Income Tax Assessment Act, non-executive Directors may direct that some or all of their entitlement to 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; and
- Cash. The balance of fee entitlements not taken as directed superannuation contributions or AGL shares 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 over any securities or interests of AGL or the consolidated entity.

Non-executive Directors performance review

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.

CEO and Senior Executive Team

The CEO and senior Executives are remunerated by a combination of fixed remuneration and short and long-term incentives. The mix of fixed remuneration and short and long term incentives varies for individual roles and is determined by comparison with market remuneration practice, taking into account the complexity of the business and the industry.

External advisors provide relevant market data, comparators and other analysis to ensure remuneration levels for each senior Executive role is established in a rigorous manner. The comparators selected are organisations of comparable business complexity, as well as general market comparisons based on functional job requirements.

Remuneration elements

The total remuneration of senior Executives has three elements:

- Total Fixed Remuneration (TFR) is the amount of non-variable remuneration specified in an Executive's contract of employment. TFR includes the amount of any superannuation contributions paid to a complying superannuation fund on the 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 Executive's performance, expertise, skills and experience;
- Short-Term Incentive (STI) payments are awarded under AGL's Short-Term Incentive Plan (STIP) based on achievement of individual performance targets set at the commencement of the financial year. These targets motivate senior Executives to achieve AGL's tactical objectives, divisional performance targets and other objectives linked to the Executive's role. They align individual performance with business outcomes in areas of customer, people management, financial and strategy.

  This approach provides for transparent linkages between rewards and the Executive's performance. STI can vary annually based on individual performance against specified targets.

  The STI can be paid in cash or, at the Executive's election, taken as a contribution to the complying superannuation fund of which the Executive is a member.

  The STI payable to selected senior Executives includes a portion that is deferred for 12 months. Generally, the Executive must remain employed by AGL throughout the deferral period to receive the deferred portion; and
- Long-Term Incentive (LTI) comprises Share Performance Rights (SPRs) which are granted in accordance with the terms of the Long-Term Incentive Plan (LTIP), details of which are provided on page 47. The LTIP is designed to align the interests of Shareholders and senior Executives. The focus of the LTIP performance metrics is the creation of long-term Shareholder value.

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

The variable/at risk element of an Executive's remuneration increases with the level of responsibility and/or criticality of the role. In respect of the 2009/10 financial year, the maximum remuneration mix within the senior roles in AGL was as follows:

	Maximum percentage of total target remuneration		
	TFR	STI	LTI
Chief Executive Officer	33.3%	33.3%[1]	33.3%[1]
Group General Managers and Chief Financial Officer	50% to 55%	25% to 30%	15% to 20%
Other Senior Executives	60% to 70%	25% to 35%	5% to 15%

Note:
1 Percentages are based on stretch outcomes.

Performance Linkage

(a) Short-Term Incentive

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

STI are payable:

- To Executives employed at the end of the financial year;
- To Executives whose employment terminated during the financial year (on a pro-rata basis) due to retrenchment, retirement on grounds of age or invalidity, or death; and
- At the discretion of the Board in other circumstances.

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

- Customer;
- People management;
- Financial; and
- Strategic.

Performance objectives in each category are established at the beginning of the financial year. The weighting given to each performance objective category will vary for each Executive depending on the Executive's role at AGL. Typically the weightings may be: customer and strategic 40 percent, people management 20 percent and financial 40 percent.

Objectives common to all Executives in 2009/10 were:

Improved safety performance. Objectives included achieving reductions in both the lost time injury frequency rate (LTIFR) and the total injury frequency rate (TIFR), and completing specific action plans to continue improving AGL's safety culture. The LTIFR and TIFR for 2009/10 fell by 60 percent and 58 percent respectively compared with the previous year, and all safety action plans were completed.

Improved employee engagement. Research into employee engagement shows that there is a correlation between levels of employee engagement and the level of financial and operating performance. Accordingly each year AGL invites all employees to participate in an engagement survey conducted by Hewitt Associates, an independent firm specialising in measurement of employee engagement. All Executives had targets to improve employee engagement scores compared with those achieved in the 2009 survey. The results of the 2010 survey showed a significant improvement in employee engagement for the whole of AGL.

Achievement of budgeted financial results. All Executives had as an objective the achievement by AGL of the budgeted Underlying Profit for 2009/10.

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 and individual performance during the year, and gives superior rewards to Executives who have the best relative performance.

The maximum STI payment varies between 35 percent and 100 percent of TFR for senior Executives including the CEO, Mr Fraser.

(b) Long-Term Incentive

The AGL 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 SPRs that vest to the Executive, providing (and to the extent that) performance hurdles applicable to the SPRs are met. On vesting, SPRs are exercised and converted to fully paid AGL shares. A SPR:

- Is an entitlement to one fully paid ordinary share in AGL;
- Does not carry dividend or voting rights; and
- Participates in bonus issues, rights issues, and reconstructions and reorganisations of the capital of AGL in the same manner as AGL shares.

The LTI performance hurdles were selected as they deliver rewards to employees consistent with the returns to Shareholders.

For all grants the SPRs will vest to the extent to which the performance condition is either satisfied or waived by the AGL Board.

LTIP allocations to Executives are determined based on market practice to give AGL comparability in remuneration against our comparator group.

The Board has sought external advice regarding market practice in Australia and overseas to assist with selecting appropriate measures for the LTIP and is cognisant of the various reviews of Executive remuneration currently occurring.

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, before the expiry of the vesting period applicable to a grant of SPRs, a Plan participant ceases employment as a result of total and permanent disablement, redundancy, retirement or death, the AGL Board in its discretion may determine that the SPRs held by that participant will vest, subject to the satisfaction of performance conditions applicable to those SPRs, measured as at a date determined by the Board.

AGL currently has three grants of SPRs to Executives under the LTIP, details of which follow.

i. **January 2008** with vesting based on measurement of the performance hurdle as at 30 June 2010.

The performance hurdle for this grant of SPRs is relative Total Shareholder Return (TSR) measured against a comparator group of the ASX100 companies as at 27 October 2007.

The number of SPRs that vest is determined according to AGL's performance against this comparator group as follows:

AGL's relative TSR ranking to comparator group	Percentage of SPRs that vest
TSR below 50%	0%
TSR equal to 50%	50%
TSR between 51% and 74%	Progressive vesting on a straight-line basis from >50% and <100%
TSR equal to or greater than 75%	100%

ii. **October 2008** with vesting 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.

The performance hurdle for this grant of SPRs 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 according to AGL's performance against this comparator group as follows:

AGL's relative TSR ranking 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% and <100%
TSR equal to or greater than 85%	100%

In relation to the January 2008 and October 2008 offers the following is applicable:

- Relative TSR performance is assessed by an independent third party provider to ensure accuracy and independence of calculation.
- Any SPRs that do not vest when performance conditions are applied to them automatically lapse.

iii. **September 2009** with awards based on measurement of the performance hurdles annually.

This offer has two performance hurdles based on annual growth in:

- TSR; and
- EBIT/Funds Employed.

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

EBIT/Funds Employed measures the return AGL is getting from its funds invested. Rewarding growth in EBIT/Funds Employed assists in ensuring that capital is used wisely.

A participant's initial award of SPRs is based on their TFR multiplied by their incentive entitlement (which is expressed as a percentage of TFR) and then dividing that amount by the Volume Weighted Average Price at which AGL's shares traded on the Australian Securities Exchange during the 30 calendar days up to and including 30 June 2009.

A participant's initial award of SPRs is then split 50/50 between each performance hurdle and then tested against that performance hurdle.

The final number of SPRs that are awarded is determined according to AGL's performance against the performance hurdles as follows:

Annual growth in TSR

Annual growth in TSR outcome	Number of SPRs that are awarded
Equal to or greater than 14%	2 times SPRs awarded
Greater than 4% and less than 14%	Progressive on a straight-line basis from 0 times to 2 times SPRs awarded
Between 4% and –4%	0 times SPRs awarded
Less than -4% and greater than –14%	Progressive deduction on a straight-line basis from 0 times to minus 2 times SPRs awarded
Equal to or less than –14%	Minus 2 times SPRs awarded

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 that TSR 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

Annual growth in EBIT/ Funds Employed outcome	Number of SPRs are awarded
Equal to or greater than 13%	2 times SPRs awarded
Greater than 2% and less than 13%	Progressive on a straight-line basis from 0 times to 2 times SPRs awarded
Between 2% and –4%[1]	0 times SPRs awarded
Less than –4% and greater than –15%	Progressive on a straight-line basis from 0 times to minus 2 times SPRs awarded
Equal to or less than -15%	Minus 2 times SPRs awarded

In the event the EBIT/Funds Employed outcome is greater than 13%, the opening 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 that EBIT/Funds Employed is less than minus 15% the opening EBIT/Funds Employed for measuring the following year's EBIT/Funds Employed is set at a level that would have achieved minus 15%.

Note SPRs awarded under this offer can be both positive and negative. In other words shares can only be awarded if there is a pre-determined improvement on the prior year. Importantly however, if performance falls below a pre-determined level in any year, then previously awarded SPRs will be clawed back to the extent calculated under the performance hurdles.

Any SPR awarded (or forfeited) is deposited into (or deducted from) a notional share bank account for participants and at the end of every year 40% of any credit bank account balance is distributed to participants as AGL shares. Any negative balance is carried forward.

AGL financial performance

The financial performance information provided below is to meet the reporting requirements of the Corporations Act.

Year ended 30 June[3]	2010	2009	2008	2007
EPS (cents)[1]	95.6	85.0	78.3	75.5
Dividends (cents)[2]	59.0	54.0	53.0	35.5
Increase (decrease) in share price (%)	9.3%	(5.9%)	(5.7%)	n/a

Notes:
1 EPS is calculated on the Underlying Profit.
2 Dividends relate to financial years, not when they were paid.
3 Only four years data is available following the demerger of AGL on 25 October 2006.

Service Agreements

Senior Executives have Service Agreements 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 the 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. Details on Mr Fraser are covered in the section commencing on page 43.

Executive	Position	Contract duration	Termination notice period by AGL	Termination notice period by employee	Termination payments
Jeff Dimery	Group General Manager Merchant Energy	No fixed term	3 months	3 months	Up to 73 weeks 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
Mike Moraza	Group General Manager Upstream Gas	No fixed term	3 months	3 months	9 months TFR

Retention provisions

Under the terms of his Service Agreement, the Chief Financial Officer became entitled to a sign-on bonus if he was employed by AGL on 28 August 2009. This requirement was satisfied and a bonus was paid in the year ending 30 June 2010.

Terms of Mr Fraser's appointment

Mr Fraser was appointed Managing Director and CEO of AGL on 22 October 2007.

A summary of Mr Fraser's Service Agreement follows.

Term

Mr Fraser's Service Agreement is open ended, with his appointment as Managing Director and CEO continuing until it is terminated.

AGL may terminate Mr Fraser's appointment:

(a) By giving him 12 months' notice in writing at any time; or

(b) 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:

(a) By giving AGL 12 months' notice in writing at any time; or

(b) 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 AGL or Mr Fraser by giving a period of notice, then AGL may at any time before the end of the period of notice pay to Mr Fraser, in lieu of the unexpired notice period, an amount equal to that proportion of his TFR at the time which corresponds to the period of notice which is 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:

(a) If Mr Fraser is terminated as a result of unsatisfactory performance, a pro-rata STI at on-target performance; or

(b) If Mr Fraser is terminated as a result of redundancy or total or permanent disablement, a pro-rata STI for stretch performance.

Further, 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 stretch performance.

If AGL terminates Mr Fraser's appointment by giving 12 months' notice in writing, all unvested SPRs granted to Mr Fraser will vest on his date of termination in accordance with the performance criteria determined by the LTIP as described.

If Mr Fraser terminates his employment with AGL due to a Fundamental Change, all unvested SPRs granted to Mr Fraser will vest on his date of termination in accordance with the performance criteria determined by the LTIP.

If Mr Fraser terminates his employment with AGL in other circumstances, none of his SPRs will vest in him.

Remuneration

Mr Fraser's remuneration comprises the components set out below.

Total Fixed Remuneration

Mr Fraser's TFR, effective 1 September 2010, is $2,000,000 per annum. During each year of the term of his appointment, the Board obtains independent advice for a review of Mr Fraser's TFR for the next year and determines whether to increase that amount, having regard to such matters as the Board thinks fit such as, but not limited to, external market relativities. Under no circumstances can Mr Fraser's TFR be reduced without Mr Fraser's written consent.

Retention arrangement

Under Mr Fraser's prior service agreement originally entered into in 1998, he was entitled to certain retention payments. The final payment under this original retention arrangement was due to be made in August 2009. In lieu of these prior retention arrangements, Mr Fraser has been allocated AGL shares in three tranches as follows:

(a) Upon appointment as Managing Director and CEO, AGL shares were allocated with a face value of $1,023,639;

(b) On 1 September 2008, Mr Fraser was allocated AGL shares with a face value of $400,000; and

(c) On 31 August 2009, Mr Fraser was allocated AGL shares with a face value of $400,000.

The shares referred to in (a) (b) and (c) above were allocated under the AGL Share Purchase Plan.

Short-Term Incentive

Mr Fraser participates in the AGL STIP and is eligible to receive a short-term incentive for the year ending 30 June 2011 as follows:

(a) $1,000,000 for on-target performance; or

(b) $2,000,000 for stretch target performance.

Any STI will be determined in accordance with the STIP rules and is subject to satisfaction of applicable performance hurdles as set out in his PDR. Typically these include customer, people management, financial and strategic objectives.

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

Long-Term Incentive

Mr Fraser participates in the LTIP, the terms of which are summarised under the heading 'Long-Term Incentive' on page 41.

AGL has obtained Shareholder approval for the maximum number of SPRs available for issuance to Mr Fraser in respect of each of the financial years ending 30 June 2009, 30 June 2010 and 30 June 2011. Depending on whether Mr Fraser achieves his annual objectives, he may receive a LTIP allocation with a face value equivalent of up to 100% of his TFR.

The SPRs granted to Mr Fraser under the LTIP will vest 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, the business of AGL, or 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 within the year preceding the termination of his appointment to discontinue their relationship with AGL or reduce the amount of business they do with AGL.

Share Plan participation

AGL offers its employees participation in the following Share Plans:

- AGL LTIP, whereby Executives are granted SPRs that vest in the Executive providing (and to the extent that) performance conditions applicable to the SPRs are met. Participants in the LTIP are not eligible to participate in the Share Reward Plan;
- AGL Share Reward Plan, whereby AGL grants eligible employees up to a maximum of $1,000 worth of AGL shares each year subject to AGL meeting specific performance hurdles. Participants in the Share Reward Plan are not eligible to participate in the AGL LTIP; and
- AGL Share Purchase Plan, whereby the Plan trustee acquires AGL shares on-market at market price during permitted trading periods for Directors and employees who have salary sacrificed a portion of their pre-tax salary.

The total number of employees participating in the Share Reward Plan and Share Purchase Plan is 1,386 out of 2,078 employees and the total number of AGL shares held is 569,388.

Key Management Personnel

Key Management Personnel (KMP) are those persons having authority and responsibility for planning, directing and controlling the activities of AGL.

The term KMP refers to:

- Non-executive Directors;
- The Managing Director who is the Chief Executive Officer; and
- Senior Executives.

The following persons were KMP of AGL during the financial year. Unless otherwise indicated, they were KMP for the entire period.

Name	Position	Tenure (if not full year)
Directors		
Mark Johnson	Chairman	
Les Hosking	Non-executive Director	
Jeremy Maycock	Non-executive Director	
Sandra McPhee	Non-executive Director	
Max Ould	Non-executive Director	
Bruce Phillips	Non-executive Director	
Graham Reaney	Non-executive Director	Retired 29 October 2009
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	
Ken Hodgson	Group General Manager Retail Energy	
Paul McWilliams	Group Head of Corporate Support Services and Company Secretary	
Stephen Mikkelsen	Chief Financial Officer	
Mike Moraza	Group General Manager Upstream Gas	

Statutory Remuneration of Key Management Personnel for year ended 30 June 2010

	Short-Term Benefits			Post-Employment Benefits		Share Based Payments			
Non-executive Directors	Cash Salary & Fees $	Short-Term Incentives $	Non-Monetary Benefits (a) $	Super-annuation $	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	0.0%
Les Hosking	164,403	–	–	14,461	–	–	–	178,864	0.0%
Jeremy Maycock	136,610	–	–	28,645[b]	–	–	–	165,255	0.0%
Sandra McPhee	157,599	–	–	14,461	–	–	–	172,060	0.0%
Max Ould	143,991	–	–	14,461	–	–	–	158,452	0.0%
Bruce Phillips	164,403	–	–	14,461	–	–	–	178,864	0.0%
Graham Reaney[c]	57,389	–	–	6,008[b]	–	–	–	63,397	0.0%
John Stanhope	164,280	–	–	14,135	–	–	–	178,415	0.0%
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.

Statutory Remuneration of Key Management Personnel for year ended 30 June 2009

	Short-Term Benefits			Post-Employment Benefits		Share Based Payments			
Non-executive Directors	Cash Salary & Fees $	Short-Term Incentives $	Non-Monetary Benefits (a) $	Super-annuation $	Retirement Benefits $	Rights $	Other Share Plans (b) $	Total (a) $	Value of Equity as a percentage of Total
Mark Johnson	15,692	–	–	11,699	–	–	300,208	327,599	91.6%
Carolyn Hewson[c]	53,251	–	–	61,282[e]	–	–	–	114,533	0.0%
Les Hosking[d]	95,584	–	–	9,163	–	–	–	104,747	0.0%
Jeremy Maycock	–	–	–	12,984	–	–	144,264	157,248	91.7%
Sandra McPhee	145,770	–	–	13,745	–	–	–	159,515	0.0%
Max Ould	76,671	–	–	13,745	–	–	60,278	150,694	40.0%
Bruce Phillips	155,556	–	–	13,745	–	–	–	169,301	0.0%
Graham Reaney	98,454	–	–	25,000[e]	–	–	60,000	183,454	32.7%
John Stanhope[f]	45,492	–	–	4,094	–	–	–	49,586	0.0%
Total	686,470	–	–	165,457	–	–	564,750	1,416,677	

(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 February 2009.
(d) Commenced as an AGL Director in November 2008.
(e) Includes salary sacrifice contributions.
(f) Commenced as an AGL Director in March 2009.

Statutory Remuneration of Key Management Personnel for year ended 30 June 2010

	Short-Term Benefits				Post-Employment Benefits		Other Long-Term Benefits	Termination Benefits	Share Based Payments			
Executives	Cash Salary & Fees $	Short-Term Incentives (a) $	Non-Monetary Benefits (b) $	Other Short-Term Benefits $	Superannuation $	Retirement Benefits $	$	$	Rights (c) $	Other Share Plans $	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%
Mike 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	0.0%
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.

Managing Director remuneration actually earned

In addition to the statutory disclosures required for remuneration of senior executives, AGL provides a table detailing the amounts actually earned by the Managing Director. The figures do not include the value of LTI granted during the year, the receipt of which is subject to the achievement of future performance hurdles. The statutory remuneration table above includes such amounts.

Executive	Year ended 30 June	Fixed annual remuneration (a) $	Cash STI for performance to 30 June $	LTI value derived from previous allocation of SPRs (b) $	Retention payments deferred in shares (c) $	Remuneration actually earned (d) $
Michael Fraser	2010	1,844,372	1,850,000	91,664	400,000	4,186,036
Michael Fraser	2009	1,474,275	1,100,000	66,008	400,000	3,040,283

(a) Fixed annual remuneration is the total amount provided including cash salary, non-monetary benefits and superannuation as set out in the statutory remuneration table.
(b) Value is derived from the LTI if it has vested, and has value based on AGL's closing share price on the date of vesting.
(c) 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.
(d) Remuneration actually earned is the total of the previous columns, being fixed annual remuneration, STI payable in cash, value derived from previous LTI allocations and retention payments deferred in shares. It does not include the value of any LTI earned, the receipt of which is subject to the achievement of future performance hurdles. The details of the vesting timelines and criteria are detailed on pages 41 and 42 of the Directors' Report.

Statutory Remuneration of Key Management Personnel for year ended 30 June 2009

	Short-Term Benefits				Post-Employment Benefits		Other Long-Term Benefits	Termination Benefits	Share Based Payments			
Executives	Cash Salary & Fees $	Short-Term Incentives (a) $	Non-Monetary Benefits (b) $	Other Short-Term Benefits $	Superannuation $	Retirement Benefits $	$	$	Rights (c) $	Other Share Plans $	Total $	Value of Equity as a percentage of Total
Jeff Dimery	461,336	425,000	41,378	–	75,081	–	–	–	97,226	7,200[d]	1,107,221	9.4%
Michael Fraser	1,245,924	1,100,000	4,176	–	224,175	–	–	–	595,194	400,000[e]	3,569,469	27.9%
Ken Hodgson[f]	385,732	155,000	–	–	8,018	–	–	–	–	–	548,750	0.0%
Phil James[g]	515,771	–	5,893	–	48,710	–	–	–	21,101	–	591,475	3.6%
Paul McWilliams	391,910	150,000	13,432	–	46,745[h]	–	–	–	34,677	–	636,764	5.4%
Stephen Mikkelsen	720,008	320,000	–	–	13,745	–	–	–	139,621	–	1,193,374	11.7%
Mike Moraza	430,036	470,000	27,114	–	93,469	–	–	–	41,493	–	1,062,112	3.9%
Alan Murray[i]	298,301	30,830	4,548	–	22,554	–	–	347,061	12,599	–	715,893	1.8%
Jane Thomas	421,906	228,000	–	–	33,093[h]	–	–	–	33,955	–	716,954	4.7%
Total	4,870,924	2,878,830	96,541	–	565,590	–	–	347,061	975,866	407,200	10,142,012	

(a) Earned in respect of 2008/2009 financial year and paid in September 2009.
(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 a Monte-Carlo simulation method.
(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) Commenced employment in December 2008.
(g) Ceased employment in September 2008.
(h) Includes salary sacrifice contributions.
(i) Ceased employment in March 2009.

All executives are entitled to four weeks annual leave and long service leave based on statutory entitlements.

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.

Details of Share Performance Rights granted to Key Management Personnel as part of remuneration for the year ended 30 June 2009

	Balance at 1 July 2008	SPRs granted during the year	Grant date	Fair value per SPR at grant date (a)	Lapsed/ forfeited	Vested	Balance at 30 June 2009 (b)
Jeff Dimery	3,459	–	1-Apr-07	5.81	(1,132)	(2,327)	–
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
Michael Fraser	6,605	–	1-Apr-07	5.81	(2,163)	(4,442)	–
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
Phil James	5,363	–	1-Apr-07	5.81	(1,756)	(3,607)	–
Phil James	5,362	–	1-Apr-07	6.71	(1,756)	(3,606)	–
Paul McWilliams	1,712	–	1-Apr-07	5.81	(560)	(1,152)	–
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
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
Michael Moraza	1,430	–	1-Apr-07	5.81	(468)	(962)	–
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

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

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 26th day of August 2010.

Mark Johnson
Chairman

Income Statement

For the year ended 30 June 2010	Note	2010 $m	2009 $m
Continuing operations			
Revenue	4	**6,610.7**	5,965.3
Other income	5	**6.4**	903.9
Expenses	6	**(6,136.9)**	(5,710.0)
Share of profits of associates and jointly controlled entities accounted for using the equity method	18	**70.7**	54.4
Profit before net financing costs, depreciation and amortisation		**550.9**	1,213.6
Depreciation and amortisation	8	**(137.5)**	(123.0)
Profit before net financing costs		**413.4**	1,090.6
Finance income		**38.1**	53.2
Finance costs		**(73.9)**	(132.5)
Net financing costs	7	**(35.8)**	(79.3)
Profit before tax from continuing operations		**377.6**	1,011.3
Income tax expense	9	**(21.5)**	(293.1)
Profit after tax from continuing operations		**356.1**	718.2
Discontinued operations			
Profit after tax from discontinued operations	10	**–**	877.9
Profit for the year attributable to owners of AGL Energy Limited		**356.1**	1,596.1
Earnings per share			
From continuing and discontinued operations:			
Basic (cents per share)	37	**79.3**	358.0
Diluted (cents per share)	37	**79.2**	357.6
From continuing operations:			
Basic (cents per share)	37	**79.3**	161.1
Diluted (cents per share)	37	**79.2**	160.9

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

Statement of Comprehensive Income

For the year ended 30 June 2010	Note	2010 $m	2009 $m
Profit for the year attributable to owners of AGL Energy Limited		**356.1**	1,596.1
Other comprehensive income			
Cash flow hedges			
Loss in fair value of cash flow hedges	35	**(252.9)**	(1,235.3)
Reclassification adjustments transferred to profit or loss	35	**30.6**	514.1
Reclassification adjustments transferred to the initial carrying amounts of hedged items	35	**1.0**	(2.9)
Available-for-sale financial assets			
Loss on revaluation of available-for-sale financial assets	35	**(0.9)**	(1.1)
Reclassification adjustments transferred to profit and loss on impairment of available-for-sale financial assets	35	**2.0**	–
Exchange differences on translating foreign operations			
Exchange differences arising on translation of foreign operations	35	**–**	173.6
Loss on hedge of net investment in foreign operations	35	**–**	(62.8)
Reclassification adjustments transferred to profit or loss on disposal of foreign operation	35	**–**	(83.3)
Actuarial loss on defined benefit plans		**(7.8)**	(64.5)
Share of other comprehensive income of an associate		**(25.9)**	(7.6)
Reclassification adjustments transferred to profit or loss on disposal of jointly controlled entity		**–**	(0.3)
Income tax relating to components of other comprehensive income	9	**68.8**	216.2
Other comprehensive income for the year, net of income tax		**(185.1)**	(553.9)
Total comprehensive income for the year attributable to owners of AGL Energy Limited		**171.0**	1,042.2

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

Statement of Financial Position

As at 30 June 2010	Note	2010 $m	2009 $m
Current assets			
Cash and cash equivalents	12	**480.4**	623.1
Trade and other receivables	13	**1,234.5**	1,209.7
Inventories	14	**94.2**	51.2
Other financial assets	15	**225.3**	438.3
Other assets	16	**174.1**	151.4
Total current assets		**2,208.5**	2,473.7
Non-current assets			
Trade and other receivables	17	**0.6**	0.7
Investments accounted for using the equity method	18	**200.8**	182.6
Exploration and evaluation assets	19	**607.5**	569.9
Oil and gas assets	20	**333.4**	295.2
Property, plant and equipment	21	**2,056.2**	2,109.1
Intangible assets	22	**3,149.0**	3,161.1
Other financial assets	23	**106.5**	186.0
Other assets	24	**28.4**	56.4
Total non-current assets		**6,482.4**	6,561.0
Total assets		**8,690.9**	9,034.7
Current liabilities			
Trade and other payables	25	**859.6**	800.8
Provisions	26	**47.8**	42.9
Current tax liabilities	9	**42.5**	229.9
Other financial liabilities	27	**582.0**	444.0
Other liabilities	28	**0.6**	1.4
Total current liabilities		**1,532.5**	1,519.0
Non-current liabilities			
Trade and other payables	29	**–**	19.0
Borrowings	30	**900.8**	1,120.2
Provisions	31	**183.4**	189.6
Deferred tax liabilities	9	**165.6**	218.4
Other financial liabilities	32	**42.1**	59.0
Other liabilities	33	**66.6**	63.8
Total non-current liabilities		**1,358.5**	1,670.0
Total liabilities		**2,891.0**	3,189.0
Net assets		**5,799.9**	5,845.7
Equity			
Issued capital	34	**4,066.7**	4,030.3
Reserves	35	**(159.4)**	13.0
Retained earnings	36	**1,892.6**	1,802.4
Total equity attributable to owners of AGL Energy Limited		**5,799.9**	5,845.7

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

Statement of Changes in Equity

For the year ended 30 June 2010

	Issued capital $m	Investments revaluation reserve $m	Foreign currency translation reserve $m	Employee equity benefits reserve $m	Hedging reserve $m	Other reserve $m	Retained earnings $m	Total equity $m
	Attributable to owners of AGL Energy Limited							
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	**–**	**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:								
Shares issued	**36.4**	**–**	**–**	**–**	**–**	**–**	**–**	**36.4**
Dividends paid	**–**	**–**	**–**	**–**	**–**	**–**	**(255.9)**	**(255.9)**
Share-based payment transactions	**–**	**–**	**–**	**2.7**	**–**	**–**	**–**	**2.7**
Balance at 30 June 2010	**4,066.7**	**–**	**–**	**4.7**	**(163.6)**	**(0.5)**	**1,892.6**	**5,799.9**
Balance at 1 July 2008	3,971.6	–	(24.5)	1.0	524.9	(0.1)	507.0	4,979.9
Profit for the year	–	–	–	–	–	–	1,596.1	1,596.1
Other comprehensive income for the year	–	(1.1)	24.5	–	(512.7)	–	(64.6)	(553.9)
Total comprehensive income for the year	–	(1.1)	24.5	–	(512.7)	–	1,531.5	1,042.2
Transactions with owners in their capacity as owners:								
Shares issued	58.7	–	–	–	–	–	–	58.7
Dividends paid	–	–	–	–	–	–	(236.1)	(236.1)
Share-based payment transactions	–	–	–	1.0	–	–	–	1.0
Balance at 30 June 2009	4,030.3	(1.1)	–	2.0	12.2	(0.1)	1,802.4	5,845.7

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

Statement of Cash Flows

For the year ended 30 June 2010	Note	2010 $m	2009 $m
Cash flows from operating activities			
Receipts from customers		**7,610.7**	6,777.5
Payments to suppliers and employees		**(7,014.5)**	(6,408.9)
Dividends received		**26.6**	37.6
Finance income received		**37.5**	41.0
Finance costs paid		**(81.3)**	(150.1)
Income taxes paid		**(189.0)**	(61.7)
Net cash provided by operating activities	51(a)	**390.0**	235.4
Cash flows from investing activities			
Payments for property, plant and equipment		**(241.6)**	(471.4)
Payments for exploration and evaluation assets		**(43.1)**	(29.9)
Payments for oil and gas assets		**(46.6)**	(89.6)
Payments for investments		**(0.2)**	(2.3)
Payments for other		**–**	(4.3)
Payments for businesses and subsidiaries, net of cash acquired:	51(b)		
acquisitions in current year		**(7.8)**	(623.2)
acquisitions in prior year		**(1.2)**	–
Proceeds from sale of property, plant and equipment		**1.5**	18.8
Proceeds from sale of investments		**–**	1,396.5
Proceeds from sale of business and subsidiaries, net of cash disposed:	51(c)		
discontinued operations		**–**	1,201.8
subsidiaries disposed in current year		**239.0**	42.1
subsidiary disposed in prior year		**–**	3.6
Loans advanced to related parties		**(1.5)**	(1.2)
Proceeds from repayment of related party loans		**9.8**	–
Net cash (used in)/provided by investing activities		**(91.7)**	1,440.9
Cash flows from financing activities			
On-market share purchases		**(2.4)**	(1.9)
Proceeds from borrowings		**0.9**	446.0
Repayment of borrowings		**(220.0)**	(1,420.8)
Dividends paid	11	**(219.5)**	(177.4)
Net cash used in financing activities		**(441.0)**	(1,154.1)
Net (decrease)/increase in cash and cash equivalents		**(142.7)**	522.2
Cash and cash equivalents at the beginning of the financial year		**623.1**	73.2
Effect of exchange rate changes on the balance of cash held in foreign currencies		**–**	27.7
Cash and cash equivalents at the end of the financial year	51(d)	**480.4**	623.1

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).

The revised Corporations Act 2001, as amended by the Corporations Amendment Regulations 2010 (No. 6) no longer requires an entity to prepare parent entity financial statements, provided the entity prepares consolidated financial statements, however, key parent entity disclosures are required by way of a separate note. As a result of this change, AGL Energy Limited has not prepared separate parent entity financial statements and the required parent entity disclosure is included in Note 55.

(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 26 August 2010.

(b) Basis of preparation

The financial report has 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 standards

The consolidated entity has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board that are relevant to its operations and effective for the current reporting period. The adoption of these new and revised Standards and Interpretations have resulted in changes to the consolidated entity's accounting policies and presentation of, or disclosure in, its financial statements in the following areas:

Presentation of financial statements

The consolidated entity has adopted the revised AASB 101 (2007) *Presentation of Financial Statements* from 1 July 2009. The revised Standard separates owner and non-owner changes in equity. As a result, all non-owner changes in equity are presented in a statement of comprehensive income and all owner changes in equity are presented in a statement of changes in equity.

The revised Standard also changes the title of other financial statements; the balance sheet is now termed the statement of financial position and the cash flow statement is now termed the statement of cash flows.

Comparative information has been re-presented to comply with the revised Standard. Since the change in accounting policy only effects presentation aspects, there is no impact on the financial position or performance of the consolidated entity.

Segment reporting

The consolidated entity has adopted AASB 8 *Operating Segments* from 1 July 2009. AASB 8 replaces AASB 114 *Segment Reporting*. AASB 8 requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes.

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.

The consolidated entity determined that the operating segments were the same as the business segments reported in the annual financial report for the year ended 30 June 2009.

Comparative segment information has been restated to comply with the requirements of AASB 8. Since the change in accounting policy only effects presentation and disclosure aspects, there is no impact on the financial position or performance of the consolidated entity. Refer to Note 3 for further details.

Business combinations

The consolidated entity has adopted the revised AASB 3 (2008) *Business Combinations* from 1 July 2009. AASB 3 (2008) applies prospectively to business combinations occurring on or after this date and alters the manner in which business combinations and changes in ownership interest in subsidiaries are accounted for. Accordingly, while its adoption has no impact on previous acquisitions made by the consolidated entity, the application of the Standard has affected the accounting for acquisitions in the current period.

All consideration to purchase a business is now recorded at fair value at the acquisition date, with contingent consideration classified as a liability and subsequently remeasured through the income statement. Under the previous version of the Standard, contingent consideration was only recognised when the payment was probable and could be measured reliably and was accounted for as an adjustment to the cost of acquisition.

Acquisition-related costs are accounted for separately from the business combination, generally leading to those costs being expensed when incurred. Previously such costs were accounted for as part of the cost of the acquisition of the business.

Non-controlling interests (previously referred to as 'minority' interests) in an acquiree are now recognised either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. This decision is made on an acquisition-by-acquisition basis. Under the previous version of the Standard, the non-controlling interest was always recognised at its share of the acquiree's net assets.

The adoption of revised AASB 3 (2008) has affected the accounting for the acquisitions of Barn Hill Wind Farm Pty Ltd and Boilerland disclosed in Note 43. Acquisition-related costs of $0.5 million in respect of these acquisitions were recognised in the income statement.

Changes in ownership interests in subsidiaries

The consolidated entity has adopted the revised AASB 127 (2008) *Consolidated and Separate Financial Statements* from 1 July 2009. The revised Standard applies prospectively and has resulted in changes in the consolidated entity's accounting policies regarding increases and decreases in ownership interests in its subsidiaries. AASB 127 (2008) requires that a change in the ownership of a subsidiary (without a change of control) is to be accounted for as a transaction with owners in their capacity as owners and recognised in equity. Therefore such transactions will no longer give rise to goodwill, nor will they give rise to a gain or loss in the income statement.

When control of a subsidiary is lost as a result of a transaction, event or other circumstance, the revised Standard requires that the consolidated entity derecognises all assets, liabilities and non-controlling interests at their carrying amount. Any retained interest in a former subsidiary is recognised at its fair value at the date control is lost. A gain or loss is recognised in profit or loss as the difference between the proceeds, if any, and these adjustments.

The adoption of revised AASB 127 (2008) did not have any impact on the financial position or performance of the consolidated entity as at and for the year ended 30 June 2010.

Financial instruments disclosure

The consolidated entity has adopted the amendments to AASB 7 *Financial Instruments: Disclosures* from 1 July 2009. The amendments to AASB 7 expand the disclosures required in respect of fair value measurements and liquidity risk and in particular, introduces a three-level hierarchy that reflects the significance of the inputs in such fair value measurements. These disclosures are included in Note 53.

The consolidated entity has elected not to provide comparative information for these expanded disclosures in the current year in accordance with the transitional reliefs offered in these amendments.

(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.

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) Discontinued operations

A discontinued operation is a component of the consolidated entity's business that represents a separate major line of business or geographical area of operations that has been disposed of or is classified as held for sale, or is a subsidiary acquired exclusively with a view to resale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier (refer to Note 1(p)).

The results of discontinued operations are presented separately on the face of the income statement and the assets and liabilities are presented separately on the face of the statement of financial position. When an operation is classified as a discontinued operation, the comparative income statement is re-presented as if the operation had been discontinued from the start of the comparative period.

Note 1 – Summary of significant accounting policies (continued)

(h) 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.

(i) 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.

(j) 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.

(k) 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(ac)).

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.

(l) 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.

(m) 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.

(n) 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.

(o) 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 finance position. Fair value is determined in the manner described in Note 53.

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 53. 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 assist's original effective interest rate. Impairment of trade receivables is recognised in accordance with the accounting policy set out in Note 1(m). 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.

(p) 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.

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.

(q) 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.

Note 1 – Summary of significant accounting policies (continued)

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(v), 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 – assets in development.

(r) 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 in production.

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.

(s) 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

(t) 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.

(u) 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.

(v) 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.

(w) 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.

(x) 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.

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.

(y) 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.

Note 1 – Summary of significant accounting policies (continued)

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.

(z) 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 49.

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.

(aa) 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.

(ab) 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.

(ac) 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 53.

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 fair value hedges or 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.

(ad) 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.

(ae) 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 sales delivered to customers but not yet billed (unbilled revenue).

Note 1 – Summary of significant accounting policies (continued)

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.

(af) 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.

(ag) 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 finance 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.

(ah) 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.

(ai) 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.

(aj) Standards and Interpretations in issue not yet adopted

A number of Australian Accounting Standards and Interpretations are in issue but are not effective for the current year end.

- AASB 9 *Financial Instruments* and AASB 2009-11 *Amendments to Australian Accounting Standards* arising from AASB 9 are effective for annual reporting periods beginning on or after 1 January 2013. AASB 9 introduces classification and measurement requirements for financial assets within the scope of AASB 139. Broadly, the amendments require financial assets to be measured at fair value through profit and loss unless the criteria for amortised cost measurement are met or the entity qualifies and elects to recognise gains and losses on equity securities that are not held for trading directly in other comprehensive income.

  AASB 9 will become mandatory for the consolidated entity's 30 June 2014 financial statements. The potential impact on the consolidated entity's financial assets has not yet been determined.
- AASB 124 *Related Party Disclosures* (revised December 2009) and AASB 2009-12 *Amendments to Australian Accounting Standards* are effective for annual reporting periods beginning on or after 1 January 2011. The revised AASB 124 simplifies and clarifies the definition of a related party and provides a partial exemption from the disclosure requirements for government-related entities.

  The amendments, which will become mandatory for the consolidated entity's 30 June 2012 financial statements, are not expected to have any impact on the financial statements.
- AASB 2009-5 *Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project* is effective for annual reporting periods beginning on or after 1 January 2010. The amendments affect various AASBs resulting in minor changes for presentation, disclosure, recognition and measurement purposes.

  The amendments will become mandatory for the consolidated entity's 30 June 2011 financial statements. The potential impact on the consolidated entity's financial statements has not yet been determined.
- AASB 2009-8 *Amendments to Australian Accounting Standards – Group Cash-settled Share-based Payment Transactions* is effective for annual reporting periods beginning on or after 1 January 2010. The amendments to AASB 2 require, in respect of group cash-settled share-based payment transactions, that the group entity receiving the goods or services recognises an equity-settled share-based payment expense even though another group entity or shareholder has the obligation to settle the award.

  The amendments, which apply retrospectively, will become mandatory for the consolidated entity's 30 June 2011 financial statements, are not expected to have any impact on the financial statements.
- AASB 2009-10 *Amendments to Australian Accounting Standards – Classification of Rights Issues* is effective for annual reporting periods beginning on or after 1 February 2010. Amends AASB 132 to require a financial instrument that gives the holder the right to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency to be classified as an equity instrument if, and only if, the entity offers the financial instruments pro-rata to all of its existing owners of the same class of its own non-derivative equity instruments.

  The amendments, which will become mandatory for the consolidated entity's 30 June 2011 financial statements, are not expected to have any impact on the financial statements.
- AASB 2009-14 *Amendments to Australian Interpretation – Prepayments of a Minimum Funding Requirement* is effective for annual reporting periods beginning on or after 1 January 2011. Provides further guidance on the treatment of certain prepayments of future contributions when there is a minimum funding requirement and how these prepayments impact the calculation of the defined benefit asset.

  The amendments, which apply retrospectively, will become mandatory for the consolidated entity's 30 June 2012 financial statements, are not expected to have a material impact on the financial statements.
- *Interpretation 19 Extinguishing Financial Liabilities with Equity Instruments* and AASB 2009-13 *Amendments to Australian Accounting Standards* arising from Interpretation 19 are effective for annual reporting periods beginning on or after 1 July 2010. Requires the extinguishment of a liability to a creditor by the issue of equity instruments to be measured at fair value with the difference between the fair value of the instrument issued and the carrying value of the liability extinguished being recognised in profit and loss.

The Interpretation, which applies retrospectively, will become mandatory for the consolidated entity's 30 June 2011 financial statements. The potential impact on the consolidated entity's financial statements has not yet been determined.

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 22.

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.

Note 2 – Significant accounting judgements, estimates and assumptions (continued)

Exploration and evaluation expenditure

The consolidated entity's policy for exploration and evaluation expenditure is stated in Note 1(q). 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 53 for further details.

Classification of assets and liabilities as held for sale

The consolidated entity classifies assets and liabilities as held for sale when their carrying amount will be recovered through a sale transaction. The assets and liabilities must be available for immediate sale and management must be committed to selling the assets through the entering into a contractual sale agreement or the activation and commitment to a program to locate a buyer and dispose of the assets and liabilities.

Provision for environmental restoration

The consolidated entity estimates the future removal and restoration costs of 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 31.

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 48.

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 49. 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 has adopted AASB 8 *Operating Segments* from 1 July 2009. Under AASB 8, 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 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.

During the 2009 financial year, the consolidated entity disposed of its oil and gas interests in Papua New Guinea and the North Queensland Gas Pipeline. For AASB 8 purposes, these discontinued operations are included within the Upstream Gas reportable segment for the prior year.

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 described in Note 1.

Information regarding the consolidated entity's reportable segments is presented below. Amounts reported for the prior year have been restated to conform to the requirements of AASB 8.

	Retail Energy $m	Merchant Energy $m	Upstream Gas $m	Energy Investments $m	Other	Total $m
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**
Operating EBIT	**318.7**	**386.1**	**5.5**	**81.7**	**(139.9)**	**652.1**
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						
Finance income	**1.9**	**0.9**	**0.1**	**10.1**	**25.1**	**38.1**
Finance costs	**–**	**–**	**–**	**–**	**(73.9)**	**(73.9)**
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**
Depreciation and amortisation	**(41.5)**	**(63.7)**	**(21.1)**	**–**	**(11.2)**	**(137.5)**
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)**
2009						
Total segment revenue	5,020.3	3,740.6	151.1	16.1	–	8,928.1
Inter-segment revenue	(32.3)	(2,808.5)	(36.2)	–	–	(2,877.0)
External revenue	4,988.0	932.1	114.9	16.1	–	6,051.1
Operating EBIT	266.8	402.8	56.9	74.8	(131.2)	670.1
Segment assets	3,464.0	3,139.2	1,009.3	292.9	74.2	7,979.6
Segment liabilities	345.2	628.6	52.2	0.6	90.9	1,117.5
Other segment information						
Finance income	1.6	1.2	0.4	11.2	39.1	53.5
Finance costs	–	–	(2.5)	–	(132.5)	(135.0)
Share of profits of associates and jointly controlled entities	–	–	2.7	51.7	–	54.4
Investments in associates and jointly controlled entities	0.9	–	3.6	178.1	–	182.6
Additions to non-current assets	54.5	341.8	814.2	–	21.4	1,231.9
Depreciation and amortisation	(36.2)	(57.8)	(17.3)	–	(11.7)	(123.0)
Impairment losses	(18.4)	(15.7)	(1.3)	–	(1.8)	(37.2)
Other non-cash expenses	(66.7)	(8.4)	(1.4)	–	(11.0)	(87.5)
(Loss)/gain in fair value of financial instruments	–	(306.8)	(33.6)	4.1	–	(336.3)
Significant income/(expense) items	(69.4)	(15.6)	1,705.3	149.9	(23.3)	1,746.9

Note 3 – Segment information (continued)

	2010 $m	2009 $m
Segment revenue reconciliation to the income statement		
Reconciliation of segment revenue to total revenue from continuing operations is as follows:		
Total segment revenue for reportable segments	**9,745.7**	8,928.1
Elimination of inter-segment revenue	**(3,135.0)**	(2,877.0)
	6,610.7	6,051.1
Elimination of revenue from discontinued operations	**–**	(85.8)
Total revenue from continuing operations	**6,610.7**	5,965.3
Revenue from major products and services		
The following is an analysis of the consolidated entity's revenue from continuing operations from its major products and services.		
Electricity	**4,167.4**	3,642.0
Gas	**1,775.5**	1,731.6
Generation	**361.5**	321.5
Oil	**0.6**	84.9
Wind farm development fees	**57.0**	54.6
Green commodities scheme certificates	**148.7**	121.1
Management and marketing development fees	**15.4**	15.0
Other goods and services revenue	**83.8**	69.0
Other revenue	**0.8**	11.4
	6,610.7	6,051.1
Elimination of revenue from discontinued operations	**–**	(85.8)
Total revenue from continuing operations	**6,610.7**	5,965.3
Segment Operating EBIT reconciliation to the income statement		
Reconciliation of segment Operating EBIT to profit before tax from continuing operations is as follows:		
Operating EBIT for reportable segments	**792.0**	801.3
Other	**(139.9)**	(131.2)
	652.1	670.1
Amounts excluded from underlying results:		
loss in fair value of financial instruments from continuing operations	**(177.4)**	(302.7)
significant (expense)/income items from continuing operations	**(49.6)**	785.9
Elimination of Operating EBIT from discontinued operations	**–**	(50.2)
Finance income included in Operating EBIT	**(11.7)**	(12.5)
Finance income	**38.1**	53.2
Finance costs	**(73.9)**	(132.5)
Profit before tax from continuing operations	**377.6**	1,011.3
Segment assets reconciliation to the statement of financial position		
Reconciliation of segment assets to total assets is as follows:		
Segment assets for reportable segments	**7,991.8**	7,905.4
Other	**76.1**	74.2
	8,067.9	7,979.6
Cash and cash equivalents	**480.4**	623.1
Derivative financial instruments	**142.6**	432.0
Total assets	**8,690.9**	9,034.7

	2010 $m	2009 $m
Segment liabilities reconciliation to the statement of financial position		
Reconciliation of segment liabilities to total liabilities is as follows:		
Segment liabilities for reportable segments	**1,049.1**	1,026.6
Other	**108.9**	90.9
	1,158.0	1,117.5
Borrowings	**900.8**	1,120.2
Current tax liabilities	**42.5**	229.9
Deferred tax liabilities	**165.6**	218.4
Derivative financial instruments	**624.1**	503.0
Total liabilities	**2,891.0**	3,189.0

Geographical information

The consolidated entity now operates in one geographical area – Australia. During the 2009 financial year, the consolidated entity disposed of its oil and gas interests in Papua New Guinea.

The total of non-current assets other than financial instruments, deferred tax assets and defined benefit assets located in Australia is $6,375.9 million (2009: $6,375.0 million), and the total of these non-current assets located in other countries is $nil (2009: $nil).

Information about major customers

No single customer amounts to 10% or more of the consolidated entity's total external revenue.

	2010 $m	2009 $m
Note 4 – Revenue		
Continuing operations		
Revenue from sale of goods	**6,466.0**	5,818.9
Revenue from rendering of services	**143.9**	135.0
Other revenue		
Royalties	**0.8**	0.8
Dividends	**–**	10.6
	6,610.7	5,965.3
Discontinued operations		
Revenue from sale of goods	**–**	71.5
Gain in fair value of oil derivatives – economic hedges	**–**	13.6
	–	85.1
Revenue from rendering of services	**–**	0.7
	–	85.8

	2010 $m	2009 $m
Note 5 – Other income		
Continuing operations		
Gain on disposal of investments	**–**	903.5
Gain on disposal of subsidiaries	**5.8**	0.4
Net foreign exchange gains	**0.6**	–
	6.4	903.9
Discontinued operations		
Gain on disposal of businesses and subsidiaries	**–**	800.2
Gain in fair value of oil derivatives – economic hedges	**–**	160.8
Other	**–**	4.3
	–	965.3

Note 6 – Expenses

	2010 $m	2009 $m
Continuing operations		
Cost of sales	**5,327.9**	4,756.6
Loss in fair value of electricity derivatives – economic hedges	**177.4**	302.7
	5,505.3	5,059.3
Administrative expenses	**145.8**	141.9
Employee benefits expense	**318.1**	283.4
Other expenses		
Impairment of trade receivables (net of bad debts recovered)	**44.9**	54.8
Impairment of property, plant and equipment	**8.4**	37.2
Impairment of exploration and evaluation assets	**13.9**	–
Impairment of available-for-sale equity investments	**2.0**	–
Phoenix change program costs	**11.7**	49.5
Redundancy, termination and restructure costs	**11.1**	3.6
Demerger costs	**–**	16.1
Merger and acquisition related costs	**5.1**	–
Net loss on disposal of property, plant and equipment	**2.1**	7.8
Operating lease rental expenses	**20.2**	17.3
Other	**48.3**	39.1
	6,136.9	5,710.0
Discontinued operations		
Cost of sales	**–**	18.0
Employee benefits expense	**–**	0.1
Other expenses		
Net foreign exchange losses	**–**	53.0
Other	**–**	2.4
	–	73.5

	2010 $m	2009 $m
Note 7 – Net financing costs		
Finance income		
Interest income		
Associates	**10.1**	11.2
Other entities	**28.0**	42.3
	38.1	53.5
Attributable to:		
Continuing operations	**38.1**	53.2
Discontinued operations	**–**	0.3
	38.1	53.5
Finance costs		
Interest expense		
Other entities	**67.8**	126.8
Less finance costs capitalised	**(18.3)**	(21.8)
Unwinding of discounts on provisions	**11.9**	14.0
Other finance costs	**12.5**	16.0
	73.9	135.0
Attributable to:		
Continuing operations	**73.9**	132.5
Discontinued operations	**–**	2.5
	73.9	135.0
Net financing costs		
Attributable to:		
Continuing operations	**35.8**	79.3
Discontinued operations	**–**	2.2
	35.8	81.5

The weighted average capitalisation rate on funds borrowed for finance costs capitalised is 7.5% (2009: 7.0%).

	2010 $m	2009 $m

Note 8 – Profit before income tax

Profit before income tax has been arrived at after charging the following expenses. The line items below combine amounts attributable to both continuing operations and discontinued operations.

	2010 $m	2009 $m
Depreciation and amortisation		
Property, plant and equipment	**92.6**	80.3
Oil and gas assets	**17.7**	14.7
Intangible assets	**21.4**	22.2
Other	**5.8**	5.8
	137.5	123.0
Attributable to:		
Continuing operations	**137.5**	123.0
Discontinued operations	**–**	–
	137.5	123.0
Employee benefits expense		
Wages and salaries	**268.5**	240.5
Defined benefit superannuation plans	**4.4**	2.2
Defined contribution superannuation plans	**12.3**	10.9
Share-based payment plans	**5.1**	2.8
Other employee benefits	**27.8**	27.1
	318.1	283.5

Significant (expense)/income items

Profit before tax from continuing and discontinued operations includes the following significant (expense)/income items:

	2010 $m	2009 $m
Gain on disposal of investments	**–**	903.5
Gain on disposal of discontinued operations	**–**	800.2
Gain on disposal of subsidiary	**–**	0.4
Gain in fair value of oil derivatives	**–**	160.8
Impairment of exploration and evaluation assets	**(13.9)**	–
Impairment of property, plant and equipment	**(7.8)**	(37.2)
Phoenix change program costs	**(11.7)**	(49.5)
Redundancy, termination and restructure costs	**(11.1)**	(3.6)
Demerger costs	**–**	(16.1)
Merger and acquisition related costs	**(5.1)**	–
Loss on disposal of property, plant and equipment	**–**	(7.8)
Provision for onerous contract	**–**	(3.8)
	(49.6)	1,746.9
Attributable to:		
Continuing operations	**(49.6)**	785.9
Discontinued operations	**–**	961.0
	(49.6)	1,746.9

	2010 $m	2009 $m
Income tax income/(expense) applicable:		
Gain on disposal of investments	–	(277.3)
Gain on disposal of discontinued operations	–	(59.4)
Gain on disposal of subsidiary	–	(0.1)
Gain in fair value of oil derivatives	–	(85.8)
Impairment of exploration and evaluation assets	**4.2**	–
Impairment of property, plant and equipment	**2.3**	11.2
Phoenix change program costs	**3.5**	14.8
Redundancy, termination and restructure costs	**3.3**	1.1
Demerger costs	–	4.3
Merger and acquisition related costs	**0.7**	–
Loss on disposal of property, plant and equipment	–	2.3
Provision for onerous contract	–	1.1
	14.0	(387.8)
Effect of retrospective changes to Tax Consolidation Legislation	**85.5**	–
Reversal of previous write-down of deferred tax assets relating to PNG operations	–	67.8
Refunds of income tax relating to pre-demerger periods	–	14.4
	99.5	(305.6)
Attributable to:		
Continuing operations	**99.5**	(228.2)
Discontinued operations	–	(77.4)
	99.5	(305.6)
Significant (expense)/income items before income tax	**(49.6)**	1,746.9
Income tax income/(expense)	**99.5**	(305.6)
	49.9	1,441.3

	2010 $m	2009 $m
Note 9 – Income tax		
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	**102.3**	344.3
Adjustments in relation to current tax of prior years	**(2.6)**	(14.6)
Effect of retrospective changes to Tax Consolidation Legislation	**(85.5)**	–
Deferred income tax		
Relating to the origination and reversal of temporary differences	**7.3**	128.7
Reversal of previous write-down of deferred tax assets	**–**	(67.8)
Total income tax expense	**21.5**	390.6
Attributable to:		
Continuing operations	**21.5**	293.1
Discontinued operations (Note 10)	**–**	97.5
	21.5	390.6
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 from continuing operations	**377.6**	1,011.3
Profit before tax from discontinued operations	**–**	975.4
Profit from operations	**377.6**	1,986.7
Income tax expense calculated at the Australian tax rate of 30% (2009: 30%)	**113.3**	596.0
Non-deductible expenses	**9.6**	29.9
Gain on disposal of investments	**–**	6.2
Gain on disposal of businesses and subsidiaries	**3.7**	(212.0)
Capital loss on disposal of subsidiary	**–**	18.5
Non-assessable income	**–**	(1.8)
Share of profits of associates and jointly controlled entities	**(12.2)**	(11.0)
Effect of different tax rates in foreign jurisdictions	**–**	47.4
Previously unrecognised tax losses used to reduce deferred tax expense	**(3.3)**	–
Effect of retrospective changes to Tax Consolidation Legislation	**(85.5)**	–
Reversal of previous write-down of deferred tax assets	**–**	(67.8)
Other	**(1.5)**	(0.2)
Adjustments in relation to current tax of prior years	**(2.6)**	(14.6)
	21.5	390.6
Income tax recognised in other comprehensive income		
Deferred income tax		
Revaluation of financial instruments treated as cash flow hedges	**(66.4)**	(197.1)
Actuarial loss on defined benefit plans	**(2.4)**	(19.4)
Net loss on hedge of net investment in foreign operations	**–**	0.3
Income tax (income)/expense recognised in equity	**(68.8)**	(216.2)
Current tax assets and liabilities		
Current tax assets		
Income tax refund receivable	**–**	–
Current tax liabilities		
Income tax payable	**42.5**	229.9

	2010 $m	2009 $m
Deferred income tax recognised in the income statement		
Temporary differences		
Unbilled revenue	**34.6**	(2.1)
Allowance for doubtful debts	**1.1**	(7.2)
Other receivables	**6.1**	2.3
Exploration and evaluation assets	**15.9**	123.6
Oil and gas assets	**5.1**	3.1
Property, plant and equipment	**8.7**	10.8
Defined benefit superannuation plans	**2.3**	2.2
Payables and accruals	**(10.6)**	0.7
Provisions	**0.2**	(0.3)
Derivative financial instruments	**(56.1)**	(4.2)
Share issue transaction costs	**1.3**	1.3
Other	**(1.3)**	(1.5)
	7.3	128.7
Deferred tax balances		
Deferred tax assets/(liabilities) arise from the following:		
Unbilled revenue	**(198.6)**	(164.0)
Allowance for doubtful debts	**19.1**	20.2
Other receivables	**(10.0)**	(3.9)
Exploration and evaluation assets	**(148.2)**	(127.9)
Oil and gas assets	**(5.8)**	(0.9)
Property, plant and equipment	**(87.2)**	(80.4)
Defined benefit superannuation plans	**16.0**	16.0
Payables and accruals	**39.5**	28.1
Provisions	**66.8**	68.4
Derivative financial instruments	**143.2**	24.2
Share issue transaction costs	**1.3**	2.6
Other	**(1.7)**	(0.8)
Net deferred tax asset/(liability)	**(165.6)**	(218.4)
Net deferred tax asset/(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	**(165.6)**	(218.4)
	(165.6)	(218.4)
Unrecognised deferred tax assets/(liabilities)		
Deductible temporary differences	**69.7**	74.3

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 tax benefit of $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. These changes will result in a tax refund of $89.0 million and a deferred tax liability of $3.5 million.

Note 10 – Discontinued operations

Year ended 30 June 2009

Disposal of Papua New Guinea oil and gas interests

On 22 May 2008, the consolidated entity announced its decision to sell its Papua New Guinea (PNG) oil, gas and LNG project assets. On 30 October 2008, the consolidated entity announced that it had executed sale and purchase agreements (SPAs) for all of its oil and gas exploration and production interests in PNG, which included a 3.6% interest in the PNG LNG project. The agreed sale price under the SPA was US$800 million. The disposal was completed on 18 December 2008, on which date control of the business passed to the acquirers.

Disposal of North Queensland gas pipeline business

On 30 June 2008, the consolidated entity and its 50/50 joint venture partner, Arrow Energy Limited (Arrow), announced they had entered into a sale and purchase agreement with Victorian Funds Management Corporation (VFMC) for the sale of the North Queensland gas pipeline. The disposal was completed on 1 August 2008, on which date control of the business passed to the acquirer.

The sale followed the purchase by the consolidated entity and Arrow of the Enertrade assets in November 2007, and related to the gas pipeline asset only. The joint venture retained ownership of the gas processing and compression facility located at Moranbah, which has been integrated into the Moranbah Gas Project joint venture.

Under the terms of the sale, the consolidated entity and Arrow continue to operate the pipeline through a 50/50 jointly owned company, which provides contracted operating and maintenance services to VFMC.

Financial performance of operations disposed

The results of the discontinued operations which have been included in the income statement are as follows:

	2010 $m	PNG oil and gas interests 2009 $m	North Queensland gas pipeline 2009 $m	Chile 2009 $m	Total 2009 $m
Revenue	–	84.7	1.1	–	85.8
Other income	–	165.1	–	–	165.1
Expenses	–	(73.2)	(0.3)	–	(73.5)
Net financing costs	–	(2.2)	–	–	(2.2)
Profit before tax	–	174.4	0.8	–	175.2
Income tax expense	–	(38.1)	–	–	(38.1)
	–	136.3	0.8	–	137.1
Profit on disposal of operations (a)	–	777.1	23.1	–	800.2
Income tax expense	–	(31.3)	(9.6)	(18.5)	(59.4)
	–	745.8	13.5	(18.5)	740.8
Profit after tax from discontinued operations	–	882.1	14.3	(18.5)	877.9

(a) Includes gains of $nil (2009: $83.3 million) recycled into profit and loss on the reversal of associated amounts previously deferred in the foreign currency translation reserve.

Cash flows from discontinued operations

The net cash flows from discontinued operations which have been included in the statement of cash flows are as follows:

	2010 $m	2009 $m
Net cash flows from operating activities	–	48.5
Net cash flows from investing activities	–	1,178.3
Net cash flows from discontinued operations	–	1,226.8

Operations disposed

The major classes of assets and liabilities disposed are as follows:

	2010 $m	PNG oil and gas interests 2009 $m	North Queensland gas pipeline 2009 $m	Total 2009 $m
Assets				
Cash and cash equivalents	–	7.5	–	7.5
Trade and other receivables	–	7.9	0.6	8.5
Inventories	–	25.3	0.2	25.5
Exploration and evaluation assets	–	61.7	–	61.7
Oil and gas assets	–	445.2	–	445.2
Property, plant and equipment	–	–	90.4	90.4
Other financial assets	–	–	–	–
Other assets	–	0.6	–	0.6
	–	548.2	91.2	639.4
Liabilities				
Trade and other payables	–	(17.9)	(0.2)	(18.1)
Provisions	–	(38.3)	(0.1)	(38.4)
Deferred tax liabilities	–	–	(13.1)	(13.1)
	–	(56.2)	(13.4)	(69.6)
Net assets disposed	–	492.0	77.8	569.8
Consideration received or receivable:				
Cash consideration received	–	1,188.9	102.7	1,291.6
Costs directly attributable to the disposal	–	(3.1)	(1.8)	(4.9)
Total disposal consideration	–	1,185.8	100.9	1,286.7
Net assets disposed	–	(492.0)	(77.8)	(569.8)
	–	693.8	23.1	716.9
Transferred from foreign currency translation reserve to profit or loss on disposal of foreign operation	–	83.3	–	83.3
Profit on disposal	–	777.1	23.1	800.2
Net cash inflow on disposal:				
Cash consideration received	–	1,188.9	102.7	1,291.6
Costs directly attributable to the disposal paid	–	(2.9)	(1.8)	(4.7)
Net payments for settlement of foreign currency and oil hedges	–	(77.6)	–	(77.6)
Cash and cash equivalent balances disposed of	–	(7.5)	–	(7.5)
Net cash inflow on disposal	–	1,100.9	100.9	1,201.8

	2010 $m	2009 $m
Note 11 – Dividends		
Recognised amounts		
Final dividend		
Final dividend for 2009 of 28.0 cents per share, fully franked at 30%, paid 30 September 2009 (2009: Final dividend for 2008 of 27.0 cents per share, fully franked at 30%, paid 26 September 2008)	**125.5**	119.9
Interim dividend		
Interim dividend for 2010 of 29.0 cents per share, fully franked at 30%, paid 7 April 2010 (2009: Interim dividend for 2009 of 26.0 cents per share, fully franked at 30%, paid 3 April 2009)	**130.4**	116.2
Total dividends	**255.9**	236.1
Dividends satisfied by the issue of shares under the AGL Dividend Reinvestment Plan (Note 34)	**(36.4)**	(58.7)
Dividends paid as per the statement of cash flows	**219.5**	177.4
Unrecognised amounts		
Since the end of the financial year, the Directors have declared an unfranked final dividend for 2010 of 30.0 cents per share (2009: 28.0 cents fully franked), payable 30 September 2010	**135.0**	125.3

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 2011 financial year.

Dividend reinvestment plan

The AGL Dividend Reinvestment Plan (DRP) will be in operation and shares will be allotted at the simple average of the daily weighted average market price at which AGL's ordinary shares are traded on the ASX during each of the 10 trading days commencing on the second trading day after the dividend record date.

Dividend franking account

	2010 $m	2009 $m
Adjusted franking account balance	**(22.2)**	92.2
Impact on franking account balance of dividends proposed after the reporting date but not recognised as a liability	**–**	(53.7)

Note 12 – Cash and cash equivalents

	2010 $m	2009 $m
Cash at bank and on hand	**41.8**	67.5
Short-term deposits	**438.6**	555.6
	480.4	623.1

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.

	2010 $m	2009 $m
Note 13 – Trade and other receivables (current)		
Trade receivables	**566.2**	658.1
Allowance for doubtful debts	**(63.5)**	(67.5)
	502.7	590.6
Unbilled revenue	**661.9**	546.6
Amounts owing by associates	**3.7**	4.6
Amounts owing by jointly controlled entities	**44.9**	45.1
Other receivables	**21.3**	22.8
	1,234.5	1,209.7

Allowance for doubtful debts

	2010 $m	2009 $m
Movements in the allowance for doubtful debts are detailed below:		
Balance at beginning of financial year	**67.5**	43.4
Impairment losses recognised on receivables	**50.0**	57.3
Amounts written off as uncollectible	**(54.0)**	(33.2)
Balance at end of financial year	**63.5**	67.5

The ageing of trade receivables at the reporting date is detailed below:

	2010		2009	
	Total $m	Allowance $m	Total $m	Allowance $m
Not past due	**360.6**	**(5.0)**	409.3	(4.6)
Past due 31–60 days	**49.2**	**(5.6)**	68.5	(3.0)
Past due 61–90 days	**24.4**	**(3.3)**	34.1	(3.6)
Past 90 days	**132.0**	**(49.6)**	146.2	(56.3)
	566.2	**(63.5)**	658.1	(67.5)

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 $50.0 million (2009: $57.3 million) has been recognised in the year and has been included in other expenses in Note 6.

At the reporting date, trade receivables with a carrying amount of $147.1 million (2009: $185.9 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 50.

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.

	2010 $m	2009 $m
Note 14 – Inventories		
Raw materials and stores – at cost	**28.0**	30.5
Finished goods – at cost	**66.2**	20.7
	94.2	51.2

	2010 $m	2009 $m
Note 15 – Other financial assets (current)		
Derivative financial instruments – at fair value (Note 53)		
Forward foreign exchange contracts – cash flow hedges	**0.1**	–
Energy derivatives – cash flow hedges	**2.3**	88.1
Energy derivatives – economic hedges	**136.6**	269.8
	139.0	357.9
Futures deposits and margin calls	**86.3**	80.4
	225.3	438.3

	2010 $m	2009 $m
Note 16 – Other assets (current)		
Green commodities scheme certificates and instruments	**147.1**	125.2
Prepayments	**27.0**	26.2
	174.1	151.4

	2010 $m	2009 $m
Note 17 – Trade and other receivables (non-current)		
Other receivables	**0.6**	0.7

	2010 $m	2009 $m
Note 18 – Investments accounted for using the equity method		
Investments in associates – unlisted	**180.4**	166.4
Investments in jointly controlled entities – unlisted	**20.4**	16.2
	200.8	182.6
Reconciliation of movements in investments accounted for using the equity method		
Balance at beginning of financial year	**182.6**	585.0
Disposals	**–**	(422.2)
Share of profits after income tax	**70.7**	54.4
Share of movements in reserves	**(21.3)**	11.9
Share of actuarial loss on defined benefit plans	**(4.6)**	(19.5)
Dividends received	**(26.6)**	(27.0)
Balance at end of financial year	**200.8**	182.6

				Ownership interest		Carrying value	
Name of entity	Principal activities	Country of incorporation	Reporting dates	2010 %	2009 %	2010 $m	2009 $m
Associates							
Greater Energy Alliance Corporation Pty Limited	Electricity generation	Australia	31 Dec	**32.5**	32.5	**177.2**	163.0
Gascor Pty Ltd	Victorian gas transmission	Australia	30 June	**33.3**	33.3	**0.9**	0.9
CSM Energy Limited	Coal mine methane gas extraction	Australia	30 June	**35.0**	35.0	**2.3**	2.5
Jointly controlled entities							
ActewAGL Retail Partnership	Energy and water services	Australia	30 June	**50.0**	50.0	**18.8**	15.1
Energy Infrastructure Management Pty Ltd	Pipeline management services	Australia	30 June	**50.0**	50.0	**1.2**	0.7
Central Queensland Pipeline Pty Ltd	Gas pipeline development	Australia	30 June	**50.0**	50.0	**0.4**	0.4
MWF JV Pty Limited	Wind farm development	Australia	30 June	**50.0**	50.0	**–**	–
						200.8	182.6

	2010 $m	2009 $m
Summarised financial information of associates		
Current assets	**743.9**	448.1
Non-current assets	**3,546.1**	3,619.6
Total assets	**4,290.0**	4,067.7
Current liabilities	**701.7**	327.5
Non-current liabilities	**3,055.8**	3,274.7
Total liabilities	**3,757.5**	3,602.2
Net assets	**532.5**	465.5
Revenue	**982.7**	1,080.7
Net profit after tax	**122.0**	72.0
Consolidated entity's share of associates' profit	**39.8**	26.0
Summarised financial information of jointly controlled entities		
Current assets	**142.9**	124.1
Non-current assets	**36.9**	32.0
Total assets	**179.8**	156.1
Current liabilities	**130.0**	114.2
Non-current liabilities	**3.2**	2.8
Total liabilities	**133.2**	117.0
Net assets	**46.6**	39.1
Revenue	**624.2**	571.6
Expenses	**(563.5)**	(517.0)
Consolidated entity's share of jointly controlled entities' profit	**30.9**	28.4

Dividends received from associates and jointly controlled entities

During the year, the consolidated entity received dividends of $nil (2009: $nil) from its associates and $26.6 million (2009: $27.0 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 38 and 40 respectively.

Impairment testing for Greater Energy Alliance Corporation Pty Limited

As at 30 June 2010, the carrying value of the consolidated entity's interest in Greater Energy Alliance Corporation Pty Limited (GEAC) of $281.3 million (2009: $277.20 million), comprised an equity accounted investment of $177.2 million (2009: $163.0 million) (Note 18), loan Notes receivable of $100.4 million (2009: $109.6 million) (Note 23) and interest receivable of $3.7 million (2009: $4.6 million) (Note 13) ('Loy Yang Interest'). The carrying value of the Loy Yang Interest has been tested for impairment at 30 June 2010 using a value in use model, and no impairment loss has been recognised (2009: $nil). The key assumptions in the calculation of value in use are electricity load demand forecasts, coal and gas procurement costs, other plant operating costs, and regulatory outcomes.

Cash flow forecasts are based on management forecasts for the remaining life of the plant. This discount rate used is the pre-tax weighted average cost of capital of 13.4%. The estimated regulatory outcomes assume the commencement of the expanded Mandatory Renewable Energy Target Scheme (Expanded MRET) as well as the introduction of the Carbon Pollution Reduction Scheme (CPRS) from 1 July 2013. It is assumed that the CPRS will be introduced based on a 5% CO_2 emissions reduction target level with carbon permit prices based on those outlined in the Australian Government's report entitled 'Carbon Pollution Reduction Scheme: Australia's Low Pollution Future'. It is also assumed that GEAC will receive Government transitional assistance under the Electricity Sector Adjustment Mechanism under the proposed CPRS. In addition, the value in use model assumes that GEAC will successfully refinance a $455 million core debt bullet repayment and a $35 million working capital facility, both due for repayment in November 2010.

	2010 $m	2009 $m
Note 19 – Exploration and evaluation assets		
Balance at beginning of financial year	**569.9**	25.9
Additions	**52.7**	24.1
Acquisitions through business combinations (Note 43)	**–**	530.5
Impairment loss	**(13.9)**	–
Transferred to property, plant and equipment	**(1.2)**	–
Transferred to oil and gas assets	**–**	(10.6)
Balance at end of financial year	**607.5**	569.9

Impairment loss

In February 2009, the consolidated entity acquired interests in petroleum exploration licences PEL 101 and PEL 103 in the Cooper Basin, South Australia, from Innamincka Petroleum. The farm-in involved a cash payment of $16.0 million including costs directly attributable to the acquisition of $1.0 million and the funding of a $10.0 million work program in future years. The work program was primarily aimed at evaluating the coal seam gas (CSG) prospect known as the Innamincka Dome located in PEL 103.

PEL 101 includes the Ginko and Crocus gas fields. As well as the Innamincka Dome, PEL 103 includes the Juniper and producing Flax oil fields and the Yarrow gas field.

Recent exploration results have not been supportive of a commercial development of the CSG potential in the area at this stage. While some undiscovered conventional gas reserves potential remains within the PELs, this is not considered to be commercially prospective at prevailing gas market prices. As a result, an impairment loss of $13.9 million has been recognised for all the gas-related exploration and evaluation expenditure.

The impairment loss is included in other expenses for continuing operations in the line item 'impairment of exploration and evaluation assets' in Note 6.

	2010 $m	2009 $m
Note 20 – Oil and gas assets		
Producing assets		
Balance at beginning of financial year	**295.2**	150.7
Additions	**55.9**	77.0
Acquisitions through business combinations (Note 43)	**–**	54.2
Transferred from exploration and evaluation assets	**–**	10.6
Transferred from property, plant and equipment	**–**	17.4
Depreciation and amortisation expense	**(17.7)**	(14.7)
Balance at end of financial year	**333.4**	295.2
Cost (gross carrying amount)	**391.0**	335.1
Accumulated depreciation, amortisation and impairment	**(57.6)**	(39.9)
Net carrying amount	**333.4**	295.2

Depreciation and amortisation expense

Depreciation and amortisation expense of $17.7 million (2009: $14.7 million) is included in the line item 'depreciation and amortisation' in the income statement.

Note 21 – Property, plant and equipment

	Freehold land and buildings $m	Leasehold improvements $m	Plant and equipment $m	Total $m
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 43)	**–**	**–**	**0.4**	**0.4**
Transferred from exploration and evaluation assets	**1.2**	**–**	**–**	**1.2**
Disposals	**–**	**–**	**(2.8)**	**(2.8)**
Derecognised on disposal of subsidiaries (Note 44)	**–**	**–**	**(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**
Year ended 30 June 2009				
Balance at 1 July 2008, net of accumulated depreciation and impairment	14.4	15.4	1,791.4	1,821.2
Additions	0.2	0.7	487.0	487.9
Acquisitions through business combinations (Note 43)	2.3	0.1	1.2	3.6
Disposals	–	–	(26.6)	(26.6)
Derecognised on disposal of a subsidiary (Note 44)	–	–	(42.1)	(42.1)
Depreciation expense	(0.1)	(2.1)	(78.1)	(80.3)
Impairment loss	–	–	(37.2)	(37.2)
Transferred to oil and gas assets	–	–	(17.4)	(17.4)
Transfers	–	5.1	(5.1)	–
Balance at 30 June 2009, net of accumulated depreciation and impairment	16.8	19.2	2,073.1	2,109.1
Balance at 1 July 2008				
Cost (gross carrying amount)	15.6	21.3	2,148.8	2,185.7
Accumulated depreciation and impairment	(1.2)	(5.9)	(357.4)	(364.5)
Net carrying amount	14.4	15.4	1,791.4	1,821.2
Balance at 30 June 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

Note 21 – Property, plant and equipment (continued)

Depreciation expense

Depreciation expense of $92.6 million (2009: $80.3 million) is included in the line item 'depreciation and amortisation' in the income statement.

Impairment loss

The consolidated entity reviewed the recoverable amount of assets associated with its outsourced information technology infrastructure services. The consolidated entity is currently transitioning to a new service provider, and as a result, an impairment loss of $7.8 million has been recognised to write-off the carrying amount of certain information technology assets.

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 has been recognised to reduce the carrying amount of plant and equipment to its recoverable amount.

In the 2009 financial year, the consolidated entity reviewed the recoverable amount of its information technology assets. This identified certain assets that had become redundant as a result of being replaced by new systems and infrastructure. As a result, an impairment loss of $21.5 million was recognised.

In the 2009 financial year, the consolidated entity reviewed the recoverable amount of a steam turbine generating plant within the Merchant Energy business. The plant had suffered a number of operational failures and there was significant uncertainty surrounding the reliability and longevity of the plant. As a result, an impairment loss of $15.7 million was recognised.

The impairment loss of $8.4 million (2009: $37.2 million) is included in other expenses for continuing operations 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 $138.3 million (2009: $141.4 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 $220.4 million (2009: $455.4 million).

Note 22 – Intangible assets

	Goodwill $m	Licences $m	Customer relationships and contracts $m	Wind farm development rights $m	Other $m	Total $m
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 43)	**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**
Year ended 30 June 2009						
Balance at 1 July 2008, net of accumulated amortisation	2,624.4	301.2	227.0	–	2.3	3,154.9
Acquisitions through business combinations (Note 43)	–	–	–	28.4	–	28.4
Amortisation expense	–	–	(22.1)	–	(0.1)	(22.2)
Balance at 30 June 2009, net of accumulated amortisation	2,624.4	301.2	204.9	28.4	2.2	3,161.1
Balance at 1 July 2008						
Cost (gross carrying amount)	2,624.4	301.2	248.3	–	3.7	3,177.6
Accumulated amortisation	–	–	(21.3)	–	(1.4)	(22.7)
Net carrying amount	2,624.4	301.2	227.0	–	2.3	3,154.9
Balance at 30 June 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

Amortisation expense

Amortisation expense of $21.4 million (2009: $22.2 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 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**
Year ended 30 June 2009			
Cash-generating unit			
Retail Energy	2,053.8	–	2,053.8
Merchant Energy	570.6	301.2	871.8
	2,624.4	301.2	2,925.6

The licences $301.2 million (2009: $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 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% (2008: 13.4%).

No impairment loss has been recognised for the Retail Energy or the Merchant Energy CGUs for the year ended 30 June 2010 (2009: $nil).

	2010 $m	2009 $m
Note 23 – Other financial assets (non-current)		
Derivative financial instruments – at fair value (Note 53)		
Forward foreign exchange contracts – cash flow hedges	**–**	0.1
Energy derivatives – cash flow hedges	**3.6**	74.0
	3.6	74.1
Available-for-sale financial assets – at fair value		
Shares in listed entities	**0.5**	1.2
Loans to associates and jointly controlled entities – at amortised cost	**102.4**	110.7
	106.5	186.0

For terms and conditions relating to loans to associates and jointly controlled entities, refer to Note 50.

	2010 $m	2009 $m
Note 24 – Other assets (non-current)		
Green commodities scheme certificates and instruments	–	19.0
Generation dispatch agreements	**26.8**	32.6
Other	**1.6**	4.8
	28.4	56.4

Note 25 – Trade and other payables (current)

	2010 $m	2009 $m
Trade payables and accrued expenses	**852.3**	787.2
Goods and services tax payable	**5.3**	11.7
Amounts owing to jointly controlled entities	**2.0**	1.9
	859.6	800.8

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 50.

Note 26 – Provisions (current)

	2010 $m	2009 $m
Employee benefits	**45.4**	40.4
Other (Note 31)	**2.4**	2.5
	47.8	42.9

Note 27 – Other financial liabilities (current)

	2010 $m	2009 $m
Derivative financial instruments – at fair value (Note 53)		
Interest rate swap contracts – cash flow hedges	–	12.0
Forward foreign exchange contracts – cash flow hedges	**0.8**	0.3
Energy derivatives – cash flow hedges	**175.7**	78.0
Energy derivatives – economic hedges	**405.5**	353.7
	582.0	444.0

Note 28 – Other liabilities (current)

	2010 $m	2009 $m
Unearned revenue	**0.6**	1.4

Note 29 – Trade and other payables (non-current)

	2010 $m	2009 $m
Trade payables and accrued expenses	–	19.0

Note 30 – Borrowings (non-current)

	2010 $m	2009 $m
At amortised cost		
Bank loans – unsecured	**886.7**	1,104.1
Finance lease liabilities – secured (Note 39)	**10.6**	9.6
Customer deposits	–	3.0
Other loans – unsecured	**3.5**	3.5
	900.8	1,120.2

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 5.8% (2009: 7.1%)

Finance lease liabilities are secured over the assets leased.

Customer deposits relate to security deposits lodged with certain subsidiaries of the consolidated entity by gas and electricity customers. Deposits are normally held by the consolidated entity for periods of either one or two years. Other gas deposits are held until such time as the customers cease to be customers of the consolidated entity and all outstanding amounts are either paid or deducted from the security deposits.

	2010 $m	2009 $m
Note 31 – Provisions (non-current)		
Employee benefits	**5.9**	6.5
Environmental restoration	**39.2**	32.7
Onerous contracts	**138.2**	150.2
Other	**0.1**	0.2
	183.4	189.6

Movements in each class of provision, except employee benefits are set out below:

	Environmental restoration $m	Onerous contracts $m	Other $m	Total $m
Year ended 30 June 2010				
Balance at beginning of financial year	**32.7**	**150.2**	**2.7**	**185.6**
Additional provisions recognised	**4.3**	**–**	**–**	**4.3**
Provisions utilised	**–**	**(21.7)**	**(0.2)**	**(21.9)**
Unwinding of discount and changes in discount rate	**2.2**	**9.7**	**–**	**11.9**
Balance at end of financial year	**39.2**	**138.2**	**2.5**	**179.9**
Current	**–**	**–**	**2.4**	**2.4**
Non-current	**39.2**	**138.2**	**0.1**	**177.5**
	39.2	**138.2**	**2.5**	**179.9**

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.

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.

	2010 $m	2009 $m
Note 32 – Other financial liabilities (non-current)		
Derivative financial instruments – at fair value (Note 53)		
Interest rate swap contracts – cash flow hedges	**6.4**	9.7
Forward foreign exchange contracts – cash flow hedges	**–**	0.9
Energy derivatives – cash flow hedges	**35.7**	48.4
	42.1	59.0
Note 33 – Other liabilities (non-current)		
Defined benefit superannuation plan liability (Note 48)	**53.4**	53.3
Unearned revenue	**1.1**	1.6
Other	**12.1**	8.9
	66.6	63.8
Note 34 – Issued capital		
450,076,509 fully-paid ordinary shares		
(2009: 447,536,000)	**4,066.7**	4,030.3

Note 34 – Issued capital (continued)

	2010 Number of shares	2010 $m	2009 Number of shares	2009 $m
Movement in fully-paid ordinary shares				
Balance at beginning of financial year	**447,536,000**	**4,030.3**	443,354,097	3,971.6
Shares issued under AGL Dividend Reinvestment Plan (a)(b)	**2,540,509**	**36.4**	4,181,903	58.7
Balance at end of financial year	**450,076,509**	**4,066.7**	447,536,000	4,030.3

(a) On 30 September 2009, 1,332,339 ordinary shares were issued at $13.71 per share to participating Shareholders under the AGL Dividend Reinvestment Plan.
(b) On 7 April 2010, 1,208,170 ordinary shares were issued at $15.03 per share to participating Shareholders under the AGL Dividend Reinvestment Plan.

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.

Note 35 – Reserves

	2010 $m	2009 $m
Investments revaluation	**–**	(1.1)
Foreign currency translation	**–**	–
Employee equity benefits	**4.7**	2.0
Hedging	**(163.6)**	12.2
Other	**(0.5)**	(0.1)
	(159.4)	13.0

Movement in reserves

	2010 $m	2009 $m
Investments revaluation reserve		
Balance at beginning of financial year	**(1.1)**	–
Loss on revaluation of available-for-sale financial assets	**(0.9)**	(1.1)
Loss reclassified to profit or loss on impairment of available-for-sale financial assets	**2.0**	–
Balance at end of financial year	**–**	(1.1)

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.

	2010 $m	2009 $m
Foreign currency translation reserve		
Balance at beginning of financial year	**–**	(24.5)
Exchange differences arising on translation of foreign operations	**–**	173.6
Loss on hedge of net investment in foreign operations	**–**	(62.8)
Gain reclassified to profit or loss on disposal of foreign operation	**–**	(83.3)
Transferred from hedging reserve	**–**	(2.7)
Deferred income tax	**–**	(0.3)
Balance at end of financial year	**–**	–

Exchange differences arising on translation of the net assets of foreign operations are recognised in other comprehensive income and accumulated in the foreign currency translation reserve. Gains and losses on hedging instruments that are designated as hedges of net investments in foreign operations are included in the foreign currency translation reserve. The cumulative amount is reclassified to profit or loss when the foreign operation is disposed of.

	2010 $m	2009 $m
Employee equity benefits reserve		
Balance at beginning of financial year	**2.0**	1.0
Share-based payment plans expense	**5.1**	2.8
Purchase of shares on-market under AGL Share Reward Plan	**(1.5)**	(1.2)
Purchase of shares on-market under AGL Long-Term Incentive Plan	**(0.9)**	(0.6)
Balance at end of financial year	**4.7**	2.0

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 49 for further information on share-based payment plans.

	2010 $m	2009 $m
Hedging reserve		
Balance at beginning of financial year	**12.2**	524.9
Loss in fair value of cash flow hedges	**(252.9)**	(1,235.3)
Reclassified to profit or loss	**30.6**	514.1
Transferred to initial carrying amount of hedged item	**1.0**	(2.9)
Transferred to foreign currency translation reserve	**–**	2.7
Share of (loss)/gain in reserve attributable to an associate	**(20.9)**	11.6
Deferred income tax	**66.4**	197.1
Balance at end of financial year	**(163.6)**	12.2

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.

	2010 $m	2009 $m
Other reserve		
Balance at beginning of financial year	**(0.1)**	(0.1)
Share of (loss)/gain in reserve attributable to an associate	**(0.4)**	0.3
Gain reclassified to profit or loss on disposal of jointly controlled entity	**–**	(0.3)
Balance at end of financial year	**(0.5)**	(0.1)

The other reserve represents the consolidated entity's share of the reserves of associates and jointly controlled entities.

Note 36 – Retained earnings

	2010 $m	2009 $m
Balance at beginning of financial year	**1,802.4**	507.0
Profit for the year attributable to owners of AGL Energy Limited	**356.1**	1,596.1
Dividends paid or provided (Note 11)	**(255.9)**	(236.1)
Actuarial loss on defined benefit plans, net of tax	**(5.4)**	(45.1)
Share of actuarial loss on defined benefit plans attributable to associates	**(4.6)**	(19.5)
Balance at end of financial year	**1,892.6**	1,802.4

	2010 Cents	2009 Cents
Note 37 – Earnings per share (EPS)		
Basic earnings per share		
From continuing operations	**79.3**	161.1
From discontinued operations	**–**	196.9
Total basic earnings per share	**79.3**	358.0
Diluted earnings per share		
From continuing operations	**79.2**	160.9
From discontinued operations	**–**	196.7
Total diluted earnings per share	**79.2**	357.6
Basic earnings per share – before significant items and changes in fair value of financial instruments		
From continuing operations	**95.6**	83.2
From discontinued operations	**–**	7.8
Total basic earnings per share	**95.6**	91.0
Diluted earnings per share – before significant items and changes in fair value of financial instruments		
From continuing operations	**95.4**	83.1
From discontinued operations	**–**	7.8
Total diluted earnings per share	**95.4**	90.9

Earnings used in calculating basic and diluted earnings per share

	Continuing operations 2010 $m	Discontinued operations 2010 $m	Total 2010 $m	Continuing operations 2009 $m	Discontinued operations 2009 $m	Total 2009 $m
Profit for the year attributable to owners of AGL Energy Limited	**356.1**	**–**	**356.1**	718.2	877.9	1,596.1
Earnings used to calculate basic and diluted EPS	**356.1**	**–**	**356.1**	718.2	877.9	1,596.1
Less:						
Significant items after income tax	**49.9**	**–**	**49.9**	557.7	883.6	1,441.3
Changes in fair value of financial instruments after income tax	**(122.7)**	**–**	**(122.7)**	(210.6)	(40.4)	(251.0)
Earnings used to calculate basic and diluted EPS before significant items and changes in fair value of financial instruments after income tax	**428.9**	**–**	**428.9**	371.1	34.7	405.8

Weighted average number of ordinary shares

	2010 No. millions	2009 No. millions
Weighted average number of ordinary shares used in the calculation of basic EPS	**448.8**	445.8
Effect of dilution – LTIP share performance rights	**0.6**	0.5
Weighted average number of ordinary shares used in the calculation of diluted EPS	**449.4**	446.3

	2010 $m	2009 $m
Note 38 – Capital and other expenditure commitments		
Capital expenditure commitments		
Property, plant and equipment		
No longer than one year	**203.7**	172.0
Longer than one year and not longer than five years	**14.9**	50.0
Longer than five years	**–**	–
	218.6	222.0
Consolidated entity's share of joint venture operations capital commitments		
No longer than one year	**–**	–
Longer than one year and not longer than five years	**–**	–
Longer than five years	**–**	–
	–	–
Consolidated entity's share of associates' and jointly controlled entities' capital commitments		
No longer than one year	**–**	–
Longer than one year and not longer than five years	**–**	–
Longer than five years	**–**	–
	–	–
Other expenditure commitments		
Consolidated entity's share of joint venture operations other expenditure commitments		
No longer than one year	**14.9**	36.2
Longer than one year and not longer than five years	**–**	–
Longer than five years	**–**	–
	14.9	36.2
Other – Information technology services		
No longer than one year	**35.1**	29.7
Longer than one year and not longer than five years	**89.8**	54.7
Longer than five years	**16.4**	–
	141.3	84.4

Note 39 – Lease commitments

Finance lease liabilities	Minimum future lease payments 2010 $m	Present value of payments 2010 $m	Minimum future lease payments 2009 $m	Present value of payments 2009 $m
No longer than one year	**–**	**–**	–	–
Longer than one year and not longer than five years	**–**	**–**	–	–
Longer than five years	**178.4**	**10.6**	178.4	9.6
Minimum future lease payments*	**178.4**	**10.6**	178.4	9.6
Less future finance charges	**(167.8)**	**–**	(168.8)	–
Present value of minimum lease payments	**10.6**	**10.6**	9.6	9.6
Included in the financial statements as:				
Current borrowings		**–**		–
Non-current borrowings (Note 30)		**10.6**		9.6
		10.6		9.6

* Minimum future lease payments includes the aggregate of all lease payments and any guaranteed residual.

Finance leases comprise leases of property, plant and equipment. There are no contingent rental payments due or payable. There are no renewal or purchase options, escalation clauses or restrictions imposed by lease arrangements concerning dividends, additional debt and further leasing.

Note 39 – Lease commitments (continued)

	2010 $m	2009 $m
Operating leases		
Non-cancellable operating lease rentals are payable as follows:		
No longer than one year	**16.4**	17.2
Longer than one year and not longer than five years	**45.2**	44.5
Longer than five years	**32.7**	37.2
	94.3	98.9

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 40 – Contingent liabilities and contingent assets

	2010 $m	2009 $m
Contingent liabilities		
	–	–

Other contingent liabilities

Details of other 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) As detailed in Note 44 of AGL's annual financial report for the year ended 30 June 2009, the consolidated entity recognised income of approximately $27.0 million derived from gas sales in the Victorian gas market and furthermore it was party to a dispute with TRUenergy regarding this income. The matter has concluded with the result being that AGL will retain this income.

(c) 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 41 – Remuneration of auditors

	2010 $000	2009 $000
Auditor of the Parent Entity		
Audit and review of financial reports	**1,228**	1,353
Other regulatory audit services	**37**	72
Other assurance services	**111**	38
Other accounting advice and services	**120**	122
	1,496	1,585

The auditor of AGL Energy Limited is Deloitte Touche Tohmatsu.

Note 42 – Subsidiaries

Name of subsidiary	Note	Country of incorporation	Ownership interest and voting power held 2010 %	2009 %
AGL Limited		New Zealand	**100**	100
AGL ACT Retail Investments Pty Limited	(a)	Australia	**100**	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 Energy Services (Queensland) Pty Limited	(d)	Australia	**–**	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 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 Pty Limited	(c)	Australia	**–**	100
AGL Pipelines Investments (QLD) Pty Limited	(a)	Australia	**100**	100
AGL Power Generation Pty Limited (formerly AGL Power Generation (Victoria) Pty Limited)	(a)	Australia	**100**	100
AGL Power Generation (NSW) Pty Limited	(a)	Australia	**100**	100
AGL Power Generation (QLD) Pty Limited	(a)	Australia	**100**	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	(a)	Australia	**100**	100
AGL (SG) (Camden) Operations Pty Limited	(a)	Australia	**100**	100
AGL (SG) (Hunter) Operations Pty Limited	(a)	Australia	**100**	100
AGL (SG) (Wyong) Operations Pty Limited	(a)	Australia	**100**	100
AGL (SG) Operations Pty Limited	(a)	Australia	**100**	100
AGL (SHL) Pty Limited	(a)	Australia	**100**	100
AGL South Australia Pty Limited	(a)	Australia	**100**	100
AGL Southern Hydro Holdings Pty Limited	(a)	Australia	**100**	100
AGL Southern Hydro Investments Pty Ltd	(a)	Australia	**100**	100
AGL Southern Hydro Pty Limited	(a)	Australia	**100**	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 Infrastructure Investments Pty Limited (formerly AGL Gloucester LE Pty Ltd)	(a)	Australia	**100**	100
AGL Upstream Investments Pty Limited (formerly AGL Gas Production (Camden) Pty Limited)	(a)	Australia	**100**	100

Note 42 – Subsidiaries (continued)

Name of subsidiary	Note	Country of incorporation	Ownership interest and voting power held 2010 %	2009 %
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	(a)	Australia	**100**	100
Australia Plains Wind Farm Pty Ltd	(a)	Australia	**100**	100
Barn Hill Wind Farm Pty Ltd	(a)(b)	Australia	**100**	–
Ben Lomond Wind Farm Pty Ltd	(a)	Australia	**100**	100
Box Hill Wind Farm Pty Limited	(a)	Australia	**100**	100
Brown Hill North Pty Limited	(c)	Australia	**–**	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	(a)	Australia	**100**	100
Geogen Pty Limited	(a)	Australia	**100**	100
Geogen Victoria Pty Ltd	(a)	Australia	**100**	100
Hallett 4 Pty Limited	(c)	Australia	**–**	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
Oaklands Hill Wind Farm Pty Ltd	(a)	Australia	**100**	100
Powerdirect Pty Ltd	(a)	Australia	**100**	100
The Australian Gas Light Company Limited (formerly PGI Pty Ltd)	(d)	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 46.
(b) Acquired during the financial year.
(c) Disposed during the financial year.
(d) Deregistered during the financial year.

Note 43 – Acquisition of subsidiaries and businesses

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 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, the entity has contributed $nil to revenue and $nil to profit before tax from continuing operations.

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 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, the business has contributed $0.9 million to revenue and $0.1 million to operating profit before tax from continuing operations.

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 is 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 is not expected to be deductible for tax purposes.

The initial accounting for the above acquisitions 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.

2009

Acquisition of wind farm development projects

On 23 July 2008, the consolidated entity acquired 100% of the issued capital of Allco Wind Energy Investments Pty Limited (now AGL Power Generation (Wind) Pty Limited) and its subsidiaries from Allco Finance Group Limited for $14.5 million including costs directly attributable to the acquisition of $2.0 million.

The assets acquired comprised six wind farm development projects in Queensland, New South Wales and South Australia.

On 9 December 2008, the consolidated entity acquired 100% of the issued capital of Coopers Gap Wind Farm Pty Ltd and Oaklands Hill Wind Farm Pty Ltd from Investec Wind Holdings Pty Ltd for $14.3 million including costs directly attributable to the acquisition of $0.3 million.

The assets acquired comprised two wind farm development projects in Queensland and Victoria.

Acquisition of Gloucester Basin coal seam gas interests

On 19 December 2008, the consolidated entity acquired 100% of the issued capital of Lucas Energy Pty Limited (now AGL Gloucester LE Pty Ltd) from AJ Lucas Group Limited and 100% of the issued capital of Molopo (Gloucester) NL (now AGL Gloucester MG Pty Ltd) from Molopo Australia Limited for $377.8 million including costs directly attributable to the acquisition of $5.7 million.

The acquired entities hold 100% of the interests in petroleum exploration licence PEL 285, the Gloucester Basin gas project in New South Wales.

Acquisition of Sydney Gas Limited

On 31 March 2009, the consolidated entity completed the acquisition of 100% of the issued capital of Sydney Gas Limited (now AGL (SG) Pty Limited) by way of an off-market takeover for $189.9 million including costs directly attributable to the acquisition of $2.9 million. For consolidation purposes, the acquisition was considered to be effective from 27 January 2009.

Sydney Gas was a gas exploration company whose activities were the development of coal seam gas resources in New South Wales. Sydney Gas, held in joint venture with the consolidated entity, four petroleum exploration licences (PELs 2, 4, 5 and 267) and five petroleum production leases (PPLs 1, 2, 4, 5, and 6).

Note 43 – Acquisition of subsidiaries and businesses (continued)

Acquisition of other coal seam gas interests

On 5 November 2008, the consolidated entity acquired 50% of Tri-Star Petroleum Company's (Tri-Star) joint venture working interests and related assets in the Spring Gully Project in Queensland for $15.9 million including costs directly attributable to the acquisition of $0.1 million.

Tri-Star held a 1.5% interest in the project agreement in relation to ATP 592P, PL 195 and PL 203 and a 0.075% interest in the project agreement in relation to PL 204. The consolidated entity acquired 50% of these interests and became a participant in the associated joint ventures.

The consolidated entity also acquired the rights to take 400 terajoules of Tri-Star's banked gas from the Spring Gully Project comprising past production where Tri-Star had elected not to participate in gas sales agreements.

On 17 February 2009, the consolidated entity acquired a 35% interest in petroleum exploration licence PEL 101 and a 37.5% interest in PEL 103 in the Cooper Basin in South Australia from Innamincka Petroleum Limited for $16.0 million including costs directly attributable to the acquisition of $1.0 million.

Under the farm-in arrangements, the consolidated entity will also fund a $10 million work program primarily aimed at evaluating the coal seam gas prospect known as the Innamincka Dome located in PEL 103.

PEL 101 included the Ginko and Crocus gas fields. As well as the Innamincka Dome, PEL 103 included the Juniper and producing Flax oil fields and the Yarrow gas field. This has been impaired in the year ended 30 June 2010 as referred to in Note 19.

Acquisition of Geogen geothermal assets

On 11 December 2008, the consolidated entity acquired 100% of the issued capital of Geogen Pty Limited and Geogen Victoria Pty Ltd from the Kitch Family Trust and A G Carroll for $5.1 million including costs directly attributable to the acquisition of $0.1 million.

The acquired entities' activities are the exploration for and evaluation of geothermal resources in Victoria, New South Wales and Queensland.

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 2009 $m	Gloucester Basin CSG interests 2009 $m	Sydney Gas Limited 2009 $m	Other CSG interests 2009 $m	Geogen geothermal assets 2009 $m	Total 2009 $m
Assets						
Cash and cash equivalents	–	–	9.1	–	–	9.1
Trade and other receivables	0.4	–	6.2	–	–	6.6
Inventories	–	–	1.8	1.3	–	3.1
Other assets	–	–	2.3	–	–	2.3
Exploration and evaluation assets	–	377.8	133.4	14.2	5.1	530.5
Oil and gas assets	–	–	37.8	16.4	–	54.2
Property, plant and equipment	–	–	3.6	–	–	3.6
Intangible assets	28.4	–	–	–	–	28.4
Deferred tax assets	–	–	4.2	–	–	4.2
Liabilities						
Trade and other payables	–	–	(6.7)	–	–	(6.7)
Provisions	–	–	(1.0)	–	–	(1.0)
Other liabilities	–	–	(0.8)	–	–	(0.8)
Fair value of identifiable net assets	28.8	377.8	189.9	31.9	5.1	633.5
Goodwill arising on acquisition	–	–	–	–	–	–
	28.8	377.8	189.9	31.9	5.1	633.5
Consideration transferred						
Consideration paid in cash	28.8	377.8	189.7	31.9	4.1	632.3
Contingent consideration payable	–	–	–	–	1.0	1.0
Directly attributable costs payable	–	–	0.2	–	–	0.2
	28.8	377.8	189.9	31.9	5.1	633.5

	2010 $m	2009 $m
Net cash outflow on acquisitions		
Consideration paid in cash	**7.8**	632.3
Cash and cash equivalent balances acquired	**–**	(9.1)
	7.8	623.2

Note 44 – Disposal of subsidiaries

2010

Disposal of Hallett 4 Pty Ltd and Brown Hill North Pty Ltd

On 30 September 2009, the consolidated entity disposed of 100% of the issued capital in Hallett 4 Pty Ltd and on 1 October 2009, the consolidated entity disposed of 100% of the issued capital in Brown Hill North Pty Ltd. The proceeds on disposal of $157.1 million were 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.

2009

Disposal of North Queensland Pipeline No 1 Pty Ltd (discontinued operation)

On 1 August 2008, the consolidated entity disposed of its 100% interest in North Queensland Pipeline No 1 Pty Ltd. Refer Note 12 for further details.

Disposal of AGL Power Generation (Hallett Hill) Pty Limited

On 29 August 2008, the consolidated entity disposed of its 100% interest in AGL Power Generation (Hallett Hill) Pty Limited, the subsidiary that was constructing the 71 MW Hallett 2 wind farm in South Australia. The proceeds on disposal of $42.1 million were received in cash.

The major classes of assets and liabilities disposed were as follows:

	2010 $m	2009 $m
Assets		
Inventories	**0.1**	–
Property, plant and equipment	**236.7**	42.1
Liabilities		
Deferred tax liabilities	**(3.6)**	(0.4)
Net assets disposed	**233.2**	41.7
Consideration received		
Consideration received in cash	**239.7**	42.1
Costs directly attributable to the disposal paid	**(0.7)**	–
	239.0	42.1
Gain on disposal of subsidiaries		
Consideration received	**239.0**	42.1
Net assets disposed	**(233.2)**	(41.7)
	5.8	0.4
Net cash inflow on disposal of subsidiaries		
Consideration received in cash	**239.7**	42.1
Costs directly attributable to the disposal paid	**(0.7)**	–
	239.0	42.1

Note 45 – Jointly controlled operations and assets

Joint venture/area	Principal activities	Output interest 2010 %	Output interest 2009 %
Moranbah Gas Project	Gas production and exploration	**50.0**	50.0
Moranbah Exploration	Gas exploration	**50.0**	50.0
Galilee Basin	Gas exploration	**50.0**	50.0
Spring Gully Project	Gas production and exploration	**0.75**	0.75
Cooper Basin	Gas exploration and oil production	**35.0–37.5**	35.0–37.5
North Queensland Energy	Sale of gas and electricity	**50.0**	50.0

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:

	2010 $m	2009 $m
Current assets		
Cash and cash equivalents	**3.3**	21.7
Trade and other receivables	**3.6**	6.5
Inventories	**2.0**	4.2
Other assets	**4.9**	5.8
Total current assets	**13.8**	38.2
Non-current assets		
Oil and gas assets	**227.5**	203.9
Total non-current assets	**227.5**	203.9
Total assets	**241.3**	242.1

The consolidated entity's share of capital expenditure commitments and contingent liabilities of jointly controlled operations are disclosed in Notes 38 and 40 respectively.

Note 46 – Deed of cross guarantee

Pursuant to ASIC Class Order 98/1418 (as amended), the wholly-owned subsidiaries identified in Note 42 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 (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.

Barn Hill Wind Farm Pty Ltd became a party to the Deed of Cross Guarantee on 24 June 2010, by virtue of a Deed of Assumption.

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 Energy Services (Queensland) Pty Limited
- AGL Pipelines Investments Pty Limited
- Brown Hill North Pty Limited
- Hallett 4 Pty Limited
- The Australian Gas Light Company Limited

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	
	2010 $m	2009 $m
Income statement		
Revenue	**5,908.0**	5,329.6
Other income	**6.4**	905.6
Expenses	**(5,639.0)**	(5,184.8)
Share of profits of associates and jointly controlled entities accounted for using the equity method	**70.7**	54.4
Profit before net financing costs, depreciation and amortisation	**346.1**	1,104.8
Depreciation and amortisation	**(123.5)**	(111.3)
Profit before net financing costs	**222.6**	993.5
Finance income	**34.2**	48.4
Finance costs	**(68.7)**	(131.6)
Net financing costs	**(34.5)**	(83.2)
Profit before tax from continuing operations	**188.1**	910.3
Income tax expense	**(21.5)**	(293.1)
Profit after tax from continuing operations	**166.6**	617.2
Profit after tax from discontinued operations	**–**	877.9
Profit for the year	**166.6**	1,495.1
Statement of comprehensive income		
Profit for the year	**166.6**	1,495.1
Other comprehensive income		
Cash flow hedges	**(221.3)**	(694.2)
Available-for-sale financial assets	**1.1**	(1.1)
Exchange differences on translating foreign operations	**–**	27.5
Actuarial loss on defined benefit plans	**(7.8)**	(64.5)
Share of other comprehensive income of an associate	**(25.9)**	(7.9)
Income tax relating to components of other comprehensive income	**68.8**	216.2
Other comprehensive income for the year, net of income tax	**(185.1)**	(524.0)
Total comprehensive income for the year	**(18.5)**	971.1

Note 46 – Deed of cross guarantee (continued)

	Closed Group 2010 $m	Closed Group 2009 $m
Statement of financial position		
Current assets		
Cash and cash equivalents	**480.7**	623.1
Trade and other receivables	**1,159.5**	1,171.8
Inventories	**78.4**	34.7
Other financial assets	**159.3**	282.0
Other assets	**25.6**	26.3
Total current assets	**1,903.5**	2,137.9
Non-current assets		
Trade and other receivables	**0.6**	0.7
Investments accounted for using the equity method	**200.8**	182.6
Exploration and evaluation assets	**607.5**	569.9
Oil and gas assets	**333.4**	295.2
Property, plant and equipment	**1,315.5**	1,409.2
Intangible assets	**2,311.8**	2,323.9
Other financial assets	**1,630.4**	1,760.2
Other assets	**1.6**	4.8
Total non-current assets	**6,401.6**	6,546.5
Total assets	**8,305.1**	8,684.4
Current liabilities		
Trade and other payables	**769.2**	717.6
Provisions	**47.4**	29.3
Current tax liabilities	**42.5**	229.9
Other financial liabilities	**730.6**	452.6
Other liabilities	**0.6**	1.4
Total current liabilities	**1,590.3**	1,430.8
Non-current liabilities		
Borrowings	**890.2**	1,110.6
Provisions	**183.4**	202.9
Deferred tax liabilities	**165.6**	218.4
Other financial liabilities	**42.1**	55.7
Other liabilities	**66.6**	63.8
Total non-current liabilities	**1,347.9**	1,651.4
Total liabilities	**2,938.2**	3,082.2
Net assets	**5,366.9**	5,602.2
Equity		
Issued capital	**4,066.7**	4,030.3
Reserves	**(152.1)**	20.3
Retained earnings	**1,452.3**	1,551.6
Total equity	**5,366.9**	5,602.2
Summary of movements in retained earnings		
Retained earnings at beginning of financial year	**1,551.6**	359.2
Profit for the year	**166.6**	1,495.1
Dividends paid or provided	**(255.9)**	(236.1)
Adjustment for entities added to the deed of cross guarantee	**–**	(2.0)
Actuarial loss on defined benefit plans, net of tax	**(5.4)**	(45.1)
Share of actuarial loss on defined benefit plans attributable to associates	**(4.6)**	(19.5)
Retained earnings at end of financial year	**1,452.3**	1,551.6

Note 47 – 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		
Mark Johnson	Chairman, Non-Executive Director	
Michael Fraser	Managing Director and Chief Executive Officer	
Les Hosking	Non-Executive Director	
Jeremy Maycock	Non-Executive Director	
Sandra McPhee	Non-Executive Director	
Max Ould	Non-Executive Director	
Bruce Phillips	Non-Executive Director	
Graham Reaney	Non-Executive Director	Retired 29 October 2009
John Stanhope	Non-Executive Director	
Executives		
Jeff Dimery	Group General Manager Merchant Energy	
Ken Hodgson	Group General Manager Retail Energy	
Paul McWilliams	Group Head of Corporate Support Services and Company Secretary	
Stephen Mikkelsen	Chief Financial Officer	
Mike Moraza	Group General Manager Upstream Gas	

The aggregate remuneration made to key management personnel of the consolidated entity is set out below:

	2010 $	2009 $
Remuneration by category		
Short-term employee benefits	**10,168,411**	8,532,765
Post-employment benefits	**714,021**	731,047
Termination benefits	**–**	347,061
Share-based payments	**2,985,802**	1,947,816
	13,868,234	11,558,689

Further details are contained in the Remuneration Report, found in the Directors' Report.

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:

2010 Share performance rights	Balance at 1 July 2009	Granted during the year	Vested during the year	Lapsed/ forfeited during the year	Balance at 30 June 2010	Vested and exercisable 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**	**–**	**–**
Mike Moraza	**14,362**	**16,728**	**(1,429)**	**–**	**29,661**	**–**	**–**
	327,138	**205,127**	**(29,488)**	**–**	**502,777**	**–**	**–**

Details of SPRs 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**

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 49.

2009 Share performance rights	Balance at 1 July 2008	Granted during the year	Vested during the year	Lapsed/ forfeited during the year	Balance at 30 June 2009	Vested and exercisable at 30 June 2009	Vested but not exercisable at 30 June 2009
Directors							
Michael Fraser	117,124	107,639	(4,442)	(2,163)	218,158	–	–
Executives							
Jeff Dimery	19,106	18,056	(2,327)	(1,132)	33,703	–	–
Ken Hodgson	–	–	–	–	–	–	–
Phil James	10,725	–	(7,213)	(3,512)	–	–	–
Paul McWilliams	9,563	3,132	(1,152)	(560)	10,983	–	–
Stephen Mikkelsen	35,932	14,000	–	–	49,932	–	–
Mike Moraza	8,153	7,639	(962)	(468)	14,362	–	–
	200,603	150,466	(16,096)	(7,835)	327,138	–	–

Details of SPRs granted to key management personnel during the 2009 financial year are as follows:

Date granted	Number of SPRs	Performance period	Vesting date	Weighted average fair value
27 October 2008	150,466	1 October 2008 – 1 October 2011	1 October 2011	$10.30

Note 47 – Key management personnel disclosures (continued)

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:

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**	–
Mike 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.

2009 Ordinary shares	Balance at 1 July 2008	AGL Share Purchase Plan (a)	Dividend Reinvestment Plan (b)	Received on vesting of SPRs	Net change other	Balance at 30 June 2009	Balance held nominally
Directors							
Mark Johnson	239,446	19,978	9,419	–	–	268,843	–
Michael Fraser (c)	264,868	65,845	–	4,442	–	335,155	–
Carolyn Hewson (d)	52,899	–	–	–	–	–	–
Les Hosking	–	–	–	–	2,000	2,000	–
Jeremy Maycock	34,466	9,669	1,485	–	–	45,620	–
Sandra McPhee	3,200	–	–	–	7,000	10,200	–
Max Ould	22,115	4,040	722	–	–	26,877	–
Bruce Phillips	29,000	–	–	–	–	29,000	–
Graham Reaney	97,211	4,100	–	–	–	101,311	–
John Stanhope	–	–	–	–	–	–	–
Executives							
Jeff Dimery	45,649	4,902	188	2,327	(12,200)	40,866	–
Ken Hodgson	–	–	–	–	–	–	–
Phil James (e)	–	–	–	7,213	–	–	–
Paul McWilliams	–	888	–	1,152	–	2,040	–
Stephen Mikkelsen	–	1,955	–	–	–	1,955	–
Mike Moraza	7,972	3,410	–	962	–	12,344	–

(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 either has been, or will be, allocated shares in three tranches. During the 2009 financial year, the second tranche of 27,623 shares with a face value of $400,000 was acquired under the AGL Share Purchase Plan.

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 AGL Share Purchase Plan at that date.

(d) Ms Hewson retired as a Director on 28 February 2009 and the number of shares represent those held at the date of leaving office.

(e) Mr James retired from the position of Group General Manager Retail Energy on 30 September 2008 and the number of shares represent those held at the date of cessation of employment.

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.

Note 48 – 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.

	2010 $m	2009 $m
Amounts recognised in the statement of comprehensive income		
Actuarial loss incurred during the year and recognised in the statement of comprehensive income		
Actuarial loss	**(7.8)**	(64.5)
Tax effect	**2.4**	19.4
Actuarial loss, net of tax	**(5.4)**	(45.1)
Cumulative actuarial loss recognised in the statement of comprehensive income	**(53.3)**	(47.9)
Amounts recognised in the income statement		
Current service cost	**4.8**	3.7
Interest cost	**9.1**	9.0
Expected return on plan assets	**(9.5)**	(10.5)
Expense recognised in the income statement as part of employee benefits expense (Note 8)	**4.4**	2.2
Actual return on plan assets	**14.6**	(22.3)
Amounts included in the statement of financial position		
Fair value of plan assets	**155.7**	135.5
Present value of defined benefit obligations	**(209.1)**	(188.8)
Net liability – non-current	**(53.4)**	(53.3)
Net (liability)/asset at beginning of year	**(53.3)**	3.8
Expense recognised in the income statement	**(4.4)**	(2.2)
Amount recognised in retained earnings	**(7.8)**	(64.5)
Employer contributions	**12.1**	9.6
Net liability at end of year	**(53.4)**	(53.3)
Movements in the present value of defined benefit obligations		
Opening defined benefit obligations	**188.8**	154.7
Current service cost	**4.8**	3.7
Interest cost	**9.1**	9.0
Contributions by plan participants	**2.9**	3.2
Actuarial loss	**12.9**	31.7
Benefits paid	**(7.5)**	(12.2)
Taxes and premiums paid	**(1.9)**	(1.7)
Net transfers in	**–**	0.4
Closing defined benefit obligations	**209.1**	188.8
Movements in the fair value of plan assets		
Opening fair value of plan assets	**135.5**	158.5
Expected return on plan assets	**9.5**	10.5
Actuarial loss	**5.1**	(32.8)
Employer contributions	**12.1**	9.6
Contributions by plan participants	**2.9**	3.2
Benefits paid	**(7.5)**	(12.2)
Taxes and premiums paid	**(1.9)**	(1.7)
Net transfers in	**–**	0.4
Closing fair value of plan assets	**155.7**	135.5

Note 48 – Defined benefit superannuation plans (continued)

History of experience adjustments

	2010 $m	2009 $m	2008 $m	2007 $m
Present value of defined benefit obligations	**(209.1)**	(188.8)	(154.7)	(62.9)
Fair value of plan assets	**155.7**	135.5	158.5	83.0
(Deficit)/surplus	**(53.4)**	(53.3)	3.8	20.1
Experience adjustments on plan assets	**5.1**	(32.8)	(15.2)	6.0
Experience adjustments on plan liabilities	**(1.8)**	(7.0)	(4.2)	5.0

The consolidated entity expects to contribute $11.0 million (2009: $12.4 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	
	2010 %	2009 %	2010 %	2009 %	2010 %	2009 %
Australian equities	**31.0**	31.4	**37.0**	36.0	**29.0**	29.0
International equities	**26.0**	28.6	**25.0**	25.0	**19.0**	21.0
Fixed interest securities	**28.5**	28.3	**13.0**	12.0	**15.0**	19.0
Property	**5.4**	6.7	**10.0**	11.0	**12.0**	16.0
Cash	**6.9**	4.0	**6.0**	6.0	**7.0**	6.0
Other	**2.2**	1.0	**9.0**	10.0	**18.0**	9.0

Principal actuarial assumptions

The principal actuarial assumptions at the reporting date (expressed as weighted averages) were as follows:

	SSMT		EF		EISS	
	2010 %	2009 %	2010 %	2009 %	2010 %	2009 %
Discount rate (after tax) active members	**4.7**	5.1	**4.5**	5.2	**4.7**	5.1
Discount rate (after tax) pensioners	**–**	–	**–**	–	**5.1**	5.5
Expected return on plan assets – active members	**7.0**	7.0	**7.0**	7.0	**6.6**	6.6
Expected return on plan assets – pensioners	**–**	–	**–**	–	**7.6**	8.0
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 2010 was $12.3 million (2009: $10.9 million).

Note 49 – 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 on 5 October 2006. Under the Plan, 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 the performance target 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 Plan 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.

Plan 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 Plan shares and to implement procedures to prevent any dealing with those shares.

Plan 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
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**
2009					
22 September 2008	–	83,020	$14.13	(6,160)	76,860
20 September 2007	64,638	–	–	(7,119)	57,519
	64,638	83,020		(13,279)	134,379

During the year, there were 1,533 eligible employees (2009: 1,186) who were each granted 73 ordinary shares in AGL (2009: 70). 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:

	2010 $m	2009 $m
Employee benefits expense	**1.5**	1.2

Note 49 – Share-based payment plans (continued)

AGL Share Purchase Plan

The AGL Energy Limited Board of Directors approved the AGL Share Purchase Plan on 5 October 2006. Under the Plan, 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 Plan. 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 Plan 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 will be 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.

Plan shares may not be disposed before the earlier of 10 years after the date of acquisition, 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 Plan shares and to implement procedures to prevent any dealing with those shares.

Plan 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
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**
2009					
Non-executive Directors	44,888	37,787	$14.63	–	82,675
Managing Director and Chief Executive Officer (a)	74,740	27,623	$14.48	–	102,363
Managing Director and Chief Executive Officer (b)	–	38,222	$13.74	–	38,222
Employees	18,162	38,243	$14.46	(4,013)	52,392
	137,790	141,875		(4,013)	275,652

(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 AGL Share Purchase Plan. During the 2009 financial year, the second tranche of 27,623 shares with a face value of $400,000 was acquired under the AGL Share Purchase Plan. 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.

(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 AGL Share Purchase Plan at that date.

At the reporting date, there were four non-executive Directors (2009: 4) and 139 employees including the Managing Director (2009: 79) participating in the Plan. 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 Plan as they are acquired out of salary sacrificed remuneration.

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) that vest to the executive, providing (and to the extent that) performance hurdles applicable to the SPRs 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 as they deliver rewards to employees consistent with the returns to Shareholders.

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 to executives are determined based on market practice to give AGL comparability in remuneration against our comparator group.

The Board has sought external advice regarding market practice in Australia and overseas to assist with selecting appropriate measures for the LTIP. In August 2009, the Board amended the LTIP rules which apply for any new grants of SPRs.

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, before the expiry of the vesting period applicable to a grant of SPRs, a Plan participant ceases employment as a result of total and permanent disablement, redundancy, retirement, death or such other circumstances, the Board, in its discretion, may determine that the SPRs held by that participant will vest, subject to the satisfaction of performance conditions applicable to those SPRs, measured as at a date determined by the Board.

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 a plan participant, and the performance conditions which must be satisfied before SPRs can vest and the period over which SPRs vest.

On 26 February 2010, 128,109 SPRs were granted to eligible executives. The number of SPRs granted was determined by taking the participant's Total Fixed Remuneration (TFR) as at 1 September 2009 multiplied by their pre-agreed percentage LTI component, and divided by $13.75 (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 2009).

The SPRs granted are subject to two performance hurdles based on annual growth in:

- Total Shareholder Return (TSR); and
- Earnings before interest and tax (EBIT)/Funds Employed

TSR measures the total change in the value of AGL shares over the measurement period assuming that all dividends and other distributions by AGL were reinvested in AGL shares. 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 Annual Growth in TSR outcome and the EBIT/Funds Employed outcome for the financial year ending 30 June 2010.

Note 49 – Share-based payment plans (continued)

Annual Growth in TSR	Number of SPRs awarded
Equal to or greater than 14%	2 times SPRs granted
Greater than 4% and less than 14%	Progressive on a straight-line basis from 0 times to 2 times SPRs granted
Between 4% and –4%	0 times SPRs granted
Less than –4% and greater than –14%	Progressive deduction on a straight-line basis from 0 times to minus 2 times SPRs granted
Equal to or less than –14%	Minus 2 times SPRs 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 granted
Greater than 2% and less than 13%	Progressive on a straight-line basis from 0 times to 2 times SPRs granted
Between 2% and –4%	0 times SPRs granted
Less than –4% and greater than –15%	Progressive deduction on a straight-line basis from 0 times to minus 2 times SPRs granted
Equal to or less than –15%	Minus 2 times SPRs granted

In the event the EBIT/Funds Employed outcome is greater than 13%, the opening 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 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%

SPRs granted on 11 January 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 26 October 2007.

The performance condition will be tested on 30 June 2010 and the number of SPRs that vest will be determined in accordance with the table below.

AGL's TSR ranking relative to ASX100	Percentage of SPRs that vest
TSR below 50th percentile	0%
TSR equal to 50th percentile	50%
TSR between 51st and 74th percentile	Progressive vesting on a straight-line basis from >50% and <100%
TSR equal to or greater than 75th 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
26 February 2010	128,109	1 July 2009 – 30 June 2010	1 September 2010	$12.09
27 October 2008	133,094	1 October 2008 – 1 October 2011	1 October 2011	$10.30
11 January 2008	128,109	26 October 2007 – 30 June 2010	1 September 2010	$9.16

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	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
2010						
8 November 2006	**16,285**	**–**	**(16,285)**	**–**	**–**	**–**
1 April 2007 – tranche 2	**25,029**	**–**	**(24,493)**	**(536)**	**–**	**–**
11 January 2008	**115,923**	**–**	**(13,029)**	**(3,373)**	**99,521**	**–**
27 October 2008	**146,774**	**–**	**(9,925)**	**(3,755)**	**133,094**	**–**
26 February 2010	**–**	**128,109**	**–**	**–**	**128,109**	**–**
	304,011	**128,109**	**(63,732)**	**(7,664)**	**360,724**	**–**
2009						
8 November 2006	16,285	–	–	–	16,285	–
1 April 2007 – tranche 1	32,073	–	(21,585)	(10,488)	–	–
1 April 2007 – tranche 2	32,054	–	(4,726)	(2,299)	25,029	–
11 January 2008	139,266	–	(22,084)	(1,259)	115,923	–
27 October 2008	–	146,774	–	–	146,774	–
	219,678	146,774	(48,395)	(14,046)	304,011	–

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	2010 26 Feb 10	2009 27 Oct 08
Weighted average fair value at grant date	**$12.09**	$10.30
Share price at grant date	**$14.37**	$13.40
Expected volatility	**20.0%**	24.0%
SPR life	**0.5–4.5 years**	3 years
Expected dividend yield	**3.9%**	3.5%
Risk free interest rate (based on government bonds)	**3.8%–5.0%**	4.3%

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:

	2010 $m	2009 $m
Employee benefits expense	**1.9**	1.0

Note 49 – Share-based payment plans (continued)

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.

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.

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 26 February 2010, Mr Fraser was granted 134,546 SPRs. The number of SPRs granted was determined by dividing Mr Fraser's TFR as at 1 September 2009 of $1,850,000 by $13.75 (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 2009).

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 granted to Mr Fraser on 26 February 2010 are subject to two performance hurdles based on annual growth in:

– Total Shareholder Return (TSR); and
– 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 Annual Growth in TSR outcome and the EBIT/Funds Employed outcome for the financial year ending 30 June 2010.

Annual Growth in TSR	Number of SPRs awarded
Equal to or greater than 14%	2 times SPRs granted
Greater than 4% and less than 14%	Progressive on a straight-line basis from 0 times to 2 times SPRs granted
Between 4% and –4%	0 times SPRs granted
Less than –4% and greater than –14%	Progressive deduction on a straight-line basis from 0 times to minus 2 times SPRs granted
Equal to or less than –14%	Minus 2 times SPRs 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 granted
Greater than 2% and less than 13%	Progressive on a straight-line basis from 0 times to 2 times SPRs granted
Between 2% and –4%	0 times SPRs granted
Less than –4% and greater than –15%	Progressive deduction on a straight-line basis from 0 times to minus 2 times SPRs granted
Equal to or less than –15%	Minus 2 times SPRs granted

In the event the EBIT/Funds Employed outcome is greater than 13%, the opening 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 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 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%

SPRs granted on 25 February 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 26 October 2007.

The performance condition will be tested on 30 June 2010 and the number of SPRs that vest will be determined in accordance with the table below.

AGL's TSR ranking relative to ASX100	Percentage of SPRs that vest
TSR below 50th percentile	0%
TSR equal to 50th percentile	50%
TSR between 51st and 74th percentile	Progressive vesting on a straight-line basis from >50% and <100%
TSR equal to or greater than 75th 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
26 February 2010	134,546	1 July 2009 – 30 June 2010	1 September 2010	$12.09
27 October 2008	107,639	1 October 2008 – 1 October 2011	1 October 2011	$10.30
25 February 2008	80,584	26 October 2007 – 30 June 2010	1 September 2010	$7.66
25 February 2008	23,331	26 October 2007 – 30 June 2010	1 September 2010	$7.66

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	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
2010						
25 February 2008	**80,584**	**–**	**–**	**–**	**80,584**	**–**
25 February 2008	**23,331**	**–**	**–**	**–**	**23,331**	**–**
27 October 2008	**107,639**	**–**	**–**	**–**	**107,639**	**–**
26 February 2010	**–**	**134,546**	**–**	**–**	**134,546**	**–**
	211,554	**134,546**	**–**	**–**	**346,100**	**–**
2009						
25 February 2008	80,584	–	–	–	80,584	–
25 February 2008	23,331	–	–	–	23,331	–
27 October 2008	–	107,639	–	–	107,639	–
	103,915	107,639	–	–	211,554	–

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	2010 26 Feb 10	2009 27 Oct 08
Weighted average fair value at grant date	**$12.09**	$10.30
Share price at grant date	**$14.37**	$13.40
Expected volatility	**20.0%**	24.0%
SPR life	**0.5–4.5 years**	3 years
Expected dividend yield	**3.9%**	3.5%
Risk free interest rate (based on government bonds)	**3.8%–5.0%**	4.3%

Note 49 – Share-based payment plans (continued)

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:

	2010 $m	2009 $m
Employee benefits expense	**1.7**	0.6

Note 50 – 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 42.

Equity interests in associates and jointly controlled entities

Details of interests in associates and jointly controlled entities are disclosed in Note 18.

Key management personnel

Disclosures relating to key management personnel are set out in Note 47 and in the Directors' Report.

Loans to associates

The Parent Entity has provided a loan of $100.4 million (2009: $109.6 million) to Greater Energy Alliance Corporation Pty Limited (GEAC). Interest is charged at 10% pa and payments are due in August and February. Interest of $10.1 million (2009: $11.2 million) was accrued during the year of which $nil (2009: $10.3 million) was capitalised as loan principal. Interest and principal repayments of $20.2 million (2009: $nil) were received from GEAC during the year. At the end of the reporting period, interest accrued but not yet receivable totals $3.7 million (2009: $4.6 million). The outstanding loan principal including any capitalised interest must be repaid on or before 7 April 2024.

	2010 $m	2009 $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	**8.4**	7.1
The consolidated entity sold gas and electricity to the ActewAGL Retail Partnership on normal commercial terms and conditions	**253.9**	251.2
Greater Energy Alliance Corporation Pty Limited		
The consolidated entity paid difference receipts from the settlement of electricity hedges on normal commercial terms and conditions	**(59.3)**	(0.2)
Queensland Gas Company Limited		
The consolidated entity disposed of its ownership interest in Queensland Gas Company Limited (QGC) on 5 November 2008. Up until the date of disposal, there were the following transactions between the consolidated entity and QGC:		
The consolidated entity purchased 0.8 petajoules of gas from QGC on normal commercial terms and conditions under a gas sale agreement	**–**	2.0
The consolidated entity provided gas market development services to QGC on normal commercial terms and conditions	**–**	2.5
Amounts owing by associates and jointly controlled entities		
ActewAGL Retail Partnership	**44.9**	45.1
Greater Energy Alliance Corporation Pty Limited	**3.7**	4.6
	48.6	49.7

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.

	2010 $m	2009 $m
Amounts owing to jointly controlled entities		
ActewAGL Retail Partnership	**2.0**	1.9

Note 51 – Cash flow information

(a) Reconciliation of profit for the period to net cash flows from operating activities

	2010 $m	2009 $m
Profit for the year	**356.1**	1,596.1
Share of profits of associates and jointly controlled entities	**(70.7)**	(54.4)
Dividends received from jointly controlled entities	**26.6**	27.0
Depreciation and amortisation	**137.5**	123.0
Impairment of non-current assets	**22.3**	37.2
Impairment of available-for-sale equity investments	**2.0**	–
Share-based payments expense	**5.1**	2.8
Net loss in fair value of derivatives	**177.4**	128.3
Gain on disposal of investments	**–**	(903.5)
Gain on disposal of businesses and subsidiaries	**(5.8)**	(800.6)
Net loss on disposal of property, plant and equipment	**2.1**	7.8
Net foreign exchange (gains)/losses	**(0.4)**	47.2
Non-cash finance costs	**14.2**	16.5
Capitalised finance costs	**(18.3)**	(21.8)
Changes in assets and liabilities		
(Increase)/decrease in trade and other receivables	**(25.7)**	(42.4)
(Increase)/decrease in inventories	**(42.9)**	(12.3)
(Increase)/decrease in derivative financial instruments	**11.7**	(39.7)
(Increase)/decrease in other financial assets	**(5.9)**	(66.8)
(Increase)/decrease in other assets	**(4.8)**	(40.7)
Increase/(decrease) in trade and other payables	**0.1**	(63.9)
Increase/(decrease) in provisions	**(17.6)**	(8.8)
Increase/(decrease) in other liabilities	**(5.5)**	(18.4)
Increase/(decrease) in tax assets and liabilities	**(167.5)**	322.8
Net cash provided by operating activities	**390.0**	235.4

(b) Subsidiaries and businesses acquired

	2010 $m	2009 $m
Net cash outflow on acquisition of subsidiaries and businesses (Note 43)	**7.8**	623.2

(c) Subsidiaries and businesses disposed

	2010 $m	2009 $m
Net cash inflow on disposal of subsidiaries and businesses:		
Discontinued operations (Note 10)	**–**	1,201.8
Subsidiaries disposed in current year (Note 44)	**239.0**	42.1
Subsidiary disposed in prior year	**–**	3.6
	239.0	1,247.5

(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 can be reconciled to the related items in the statement of financial position as follows:

	2010 $m	2009 $m
Cash at bank and on hand	**41.8**	67.5
Short-term deposits	**438.6**	555.6
	480.4	623.1

Note 51 – Cash flow information (continued)

	2010 $m	2009 $m
(e) Non-cash financing and investing activities		
Dividends satisfied by the issue of shares under the AGL Dividend Reinvestment Plan (Note 34)	**36.4**	58.7
(f) Financing facilities		
The consolidated entity has access to the following committed bank facilities:		
Total facilities		
Bank loans – unsecured	**2,061.7**	2,261.7
Amounts used		
Bank loans – unsecured	**886.7**	1,104.1
Bank guarantees	**459.4**	455.0
	1,346.1	1,559.1
Amounts unused	**715.6**	702.6

Details of major financing facilities

Amortising Syndicated Subscription Facility – $886.7 million (2009: $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 2010 the facility was fully utilised.

Amortising Syndicated Subscription Facility – $nil (2009: $200.0 million) facility provided by a syndicate of international banks. This facility was cancelled at AGL's request in April 2010.

Revolving Syndicated Facility – $600.0 million (2009: $600.0 million) facility provided by a syndicate of international banks. The facility matures in June 2012. As at 30 June 2010, the facility was undrawn.

Bilateral Facility Agreements – $575.0 million (2009: $575.0 million) fully underwritten facilities provided by four international banks. The borrower under these facilities is AGL Energy Limited. These facilities are used for the issuance of bank guarantees. Of these facilities, $100.0 million matures in October 2010, $150.0 million matures in December 2010, $205.0 million matures in October 2011 and $120.0 million matures in May 2013. As at 30 June 2010, $nil was utilised as borrowings and $459.4 million of bank guarantees were issued.

Note 52 – 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 53 – 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 2009.

The capital structure of the consolidated entity consists of debt, which includes the borrowings disclosed in Note 30, cash and cash equivalents disclosed in Note 12 and total equity, comprising issued capital, reserves and retained earnings as disclosed in Notes 34, 35 and 36 respectively.

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 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:

	2010 $m	2009 $m
Total borrowings	**900.8**	1,120.2
Cash and cash equivalents	**(480.4)**	(623.1)
Net debt	**420.4**	497.1
Total equity	**5,799.9**	5,845.7
Less: hedging reserve	**163.6**	(12.2)
Adjusted equity	**5,963.5**	5,833.5
Net debt	**420.4**	497.1
Adjusted total capital	**6,383.9**	6,330.6
Gearing ratio	**6.6%**	7.9%

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:

	2010 $m	2009 $m
Profit before net financing costs	**413.4**	2,068.2
Depreciation and amortisation	**137.5**	123.0
Finance income included in EBITDA	**11.7**	12.5
EBITDA	**562.6**	2,203.7
Significant expense/(income) items	**49.6**	(1,746.9)
Changes in fair value of financial instruments	**177.4**	336.3
Operating EBITDA	**789.6**	793.1
Share of profits of associates and jointly controlled entities	**(65.6)**	(50.4)
Dividends from equity accounted investments	**26.6**	27.0
Income tax paid	**(189.0)**	(61.7)
Funds from operations (FFO)	**561.6**	708.0
Net financing costs	**35.8**	81.5
Finance income included in EBITDA	**11.7**	12.5
Finance costs capitalised	**18.3**	21.8
Unwinding of discounts on provisions	**(11.9)**	(14.0)
Net interest expense	**53.9**	101.8
FFO to interest expense cover (times)	**10.4**	7.0

Note 53 – Financial instruments (continued)

(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:

	2010 Carrying amount $m	2010 Fair value $m	2009 Carrying amount $m	2009 Fair value $m
Financial assets – current				
Cash and cash equivalents	**480.4**	**480.4**	623.1	623.1
Trade and other receivables	**1,234.5**	**1,234.5**	1,209.7	1,209.7
Futures deposits and margin calls	**86.3**	**86.3**	80.4	80.4
Derivative financial instruments – at fair value				
Forward foreign exchange contracts – cash flow hedges	**0.1**	**0.1**	–	–
Energy derivatives – cash flow hedges	**2.3**	**2.3**	88.1	88.1
Energy derivatives – economic hedges	**136.6**	**136.6**	269.8	269.8
	1,940.2	**1,940.2**	2,271.1	2,271.1
Financial assets – non-current				
Trade and other receivables	**0.6**	**0.6**	0.7	0.7
Available-for-sale financial assets – at fair value	**0.5**	**0.5**	1.2	1.2
Loans to associates	**102.4**	**102.4**	110.7	110.7
Derivative financial instruments – at fair value				
Forward foreign exchange contracts – cash flow hedges	**–**	**–**	0.1	0.1
Energy derivatives – cash flow hedges	**3.6**	**3.6**	74.0	74.0
	107.1	**107.1**	186.7	186.7
Total financial assets	**2,047.3**	**2,047.3**	2,457.8	2,457.8
Financial liabilities – current				
Trade and other payables	**859.6**	**859.6**	800.8	800.8
Derivative financial instruments – at fair value				
Interest rate swap contracts – cash flow hedges	**–**	**–**	12.0	12.0
Forward foreign exchange contracts – cash flow hedges	**0.8**	**0.8**	0.3	0.3
Energy derivatives – cash flow hedges	**175.7**	**175.7**	78.0	78.0
Energy derivatives – economic hedges	**405.5**	**405.5**	353.7	353.7
	1,441.6	**1,441.6**	1,244.8	1,244.8
Financial liabilities – non-current				
Trade and other payables	**–**	**–**	19.0	19.0
Bank loans	**886.7**	**886.7**	1,104.1	1,104.1
Finance lease liabilities	**10.6**	**10.6**	9.6	9.6
Customer deposits	**–**	**–**	3.0	3.0
Other loans	**3.5**	**3.5**	3.5	3.5
Derivative financial instruments – at fair value				
Interest rate swap contracts – cash flow hedges	**6.4**	**6.4**	9.7	9.7
Forward foreign exchange contracts – cash flow hedges	**–**	**–**	0.9	0.9
Energy derivatives – cash flow hedges	**35.7**	**35.7**	48.4	48.4
	942.9	**942.9**	1,198.2	1,198.2
Total financial liabilities	**2,384.5**	**2,384.5**	2,443.0	2,443.0

(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, environmental products and oil 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's interest rate risk arises mainly from debt. The consolidated entity is exposed to cash flow interest rate risk as funds are borrowed at floating interest rates. The risk is managed by maintaining an appropriate mix between fixed and floating rate borrowings, by the use of interest rate swap contracts or other hedging instruments. At 30 June 2010, $370.0 million (2009: $1,100.0 million) of the consolidated entity's borrowings was at fixed rates after taking into account the effect of interest rate swaps.

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 (other than derivatives) exposed to floating interest rate risk:

Floating rate instruments	2010 $m	2009 $m
Financial assets		
Cash and cash equivalents	**480.4**	623.1
	480.4	623.1
Financial liabilities		
Bank loans	**886.7**	1,104.1
Other loans	**3.5**	3.5
Interest rate swap contracts	**(370.0)**	(1,100.0)
	520.2	7.6

Interest rate swap contracts – cash flow hedges

Generally, the consolidated entity raises debt at floating rates and swaps a portion into fixed rates based on the requirements of the Corporate Treasury policy.

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.

Note 53 – Financial instruments (continued)

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 floating for fixed contracts	2010 %	2009 %	2010 $m	2009 $m	2010 $m	2009 $m
Less than 1 year	**4.9**	6.5	**45.0**	1,100.0	**–**	(12.0)
1 to 2 years	**6.3**	–	**325.0**	–	**(6.4)**	–
2 to 3 years	**–**	6.5	**–**	275.0	**–**	(9.7)
			370.0	1,375.0	**(6.4)**	(21.7)

The aggregate notional principal amount of the outstanding interest rate swap contracts at 30 June 2010 was $370.0 million (2009: $1,375.0 million). Included in the amount for 2009 were $275.0 million of forward interest rate swap contracts that commenced in the 2010 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 originally forecast.

The following table details the movements in the hedging reserve from interest rate swap contracts:

Hedging reserve	2010 $m	2009 $m
Balance at beginning of financial year	**(15.2)**	15.0
Loss in fair value of cash flow hedges	**(6.8)**	(46.4)
Reclassified to finance costs	**22.1**	3.2
Income tax on items taken directly to or reclassified from equity	**(4.6)**	13.0
Balance at end of financial year	**(4.5)**	(15.2)
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)	
	2010 $m	2009 $m	2010 $m	2009 $m
Interest rates +0.5% (50 basis points)	**(0.1)**	2.2	**1.5**	(2.8)
Interest rates –0.5% (50 basis points)	**0.1**	(2.2)	**(1.5)**	2.8

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 is exposed to foreign currency risk on certain transactions that are denominated in a currency other than the respective entity's functional currency, hence exposures to exchange rate fluctuations arise. Foreign currency risk arises primarily from firm commitments for the purchase of plant and equipment denominated mainly in United States dollars, Japanese yen, British pounds and Euros. The consolidated entity uses forward foreign exchange contracts to hedge its currency exposure.

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	2010	2009	2010 FCm	2009 FCm	2010 $m	2009 $m	2010 $m	2009 $m
Cash flow hedges								
Buy US dollars								
Less than 6 months	**0.741**	0.717	**1.6**	0.4	**2.2**	0.5	**(0.2)**	(0.1)
6 to 12 months	**0.636**	0.678	**0.1**	0.7	**0.2**	1.0	**(0.1)**	(0.1)
1 to 2 years	**–**	0.637	**–**	1.0	**–**	1.5	**–**	(0.3)
2 to 3 years	**–**	0.624	**–**	0.9	**–**	1.5	**–**	(0.2)
Buy Euro								
Less than 6 months	**0.661**	–	**1.8**	–	**2.7**	–	**(0.1)**	–
6 to 12 months	**0.493**	0.506	**0.3**	0.2	**0.6**	0.4	**(0.1)**	–
1 to 2 years	**–**	0.495	**–**	0.5	**–**	1.0	**–**	(0.1)
2 to 3 years	**–**	0.484	**–**	0.3	**–**	0.7	**–**	(0.1)
Buy British pounds								
Less than 6 months	**0.415**	–	**0.2**	–	**0.5**	–	**(0.1)**	–
6 to 12 months	**0.412**	0.414	**0.2**	0.1	**0.5**	0.3	**(0.1)**	(0.1)
1 to 2 years	**–**	0.412	**–**	0.4	**–**	1.0	**–**	(0.1)
2 to 3 years	**–**	0.406	**–**	0.3	**–**	0.6	**–**	(0.1)
Buy Japanese yen								
Less than 6 months	**–**	81.99	**–**	197.2	**–**	2.4	**–**	0.1
							(0.7)	(1.1)

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, British pounds 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 12 months 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 originally forecast.

Note 53 – Financial instruments (continued)

The following table details the movements in the hedging reserve from forward foreign exchange contracts:

Hedging reserve	2010 $m	2009 $m
Balance at beginning of financial year	**(0.7)**	(1.2)
(Loss)/gain in fair value of cash flow hedges	**(0.7)**	3.6
Transferred to plant and equipment	**1.0**	(2.9)
Income tax on items taken directly to or transferred from equity	**(0.1)**	(0.2)
Balance at end of financial year	**(0.5)**	(0.7)
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)	
	2010 $m	2009 $m	2010 $m	2009 $m
US dollar +10%	**–**	–	**(0.1)**	0.3
US dollar –10%	**–**	–	**0.1**	(0.2)
Euro +10%	**–**	–	**(0.2)**	0.1
Euro –10%	**–**	–	**0.2**	(0.1)
British pound +10%	**–**	–	**(0.1)**	0.1
British pound –10%	**–**	–	**0.1**	(0.1)
Japanese yen +10%	**–**	–	**–**	0.2
Japanese yen –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.

(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 energy 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.

In the 2009 financial year, the consolidated entity disposed of its oil and gas interests in Papua New Guinea. The consolidated entity sold oil denominated in United States dollars to international markets based upon the Tapis crude oil spot price and hence was exposed to fluctuations in oil prices. Forward contracts were used to manage oil price risk and the consolidated entity's policy was to hedge the sale of forecast oil production utilising a combination of swaps and options.

The following table details the fair value of electricity derivatives outstanding at the end of the reporting period:

	2010 $m	2009 $m
Energy derivative financial assets – current		
Electricity derivatives – cash flow hedges	**2.3**	88.1
Electricity derivatives – economic hedges	**136.6**	269.8
	138.9	357.9
Energy derivative financial assets – non-current		
Electricity derivatives – cash flow hedges	**3.6**	74.0
	3.6	74.0
Energy derivative financial liabilities – current		
Electricity derivatives – cash flow hedges	**175.7**	78.0
Electricity derivatives – economic hedges	**405.5**	353.7
	581.2	431.7
Energy derivative financial liabilities – non-current		
Electricity derivatives – cash flow hedges	**35.7**	48.4
	35.7	48.4

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 2010 were 73.6 million MWhs (2009: 80.4 million MWhs). 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 balance sheet 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 loss of $154.4 million (2009: loss of $298.7 million) was recognised in profit or loss by the consolidated entity.

The following table details the movements in the hedging reserve from electricity and oil derivatives:

Hedging reserve	2010 $m	2009 $m
Balance at beginning of financial year	**27.5**	522.1
Loss in fair value of cash flow hedges	**(245.4)**	(1,192.5)
Reclassified to cost of sales	**8.5**	464.4
Reclassified to revenue from sale of goods	**–**	46.5
Transferred to foreign currency translation reserve	**–**	2.7
Income tax on items taken directly to or transferred from equity	**71.1**	184.3
Balance at end of financial year	**(138.3)**	27.5
Cash flow ineffectiveness loss recognised immediately in profit or loss	**(23.0)**	(4.0)

Note 53 – Financial instruments (continued)

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)	
	2010 $m	2009 $m	2010 $m	2009 $m
Electricity forward price +10%	**77.7**	74.8	**67.2**	133.8
Electricity forward price –10%	**(73.5)**	(76.7)	**(67.7)**	(131.7)

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 over 3.2 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 13.

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.

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

The consolidated entity has an appropriate liquidity risk management framework for the management of 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 51(f) sets out details of undrawn financing facilities that the consolidated entity has access to at the end of the reporting period.

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
2010						
Non-derivative financial liabilities						
Trade and other payables	**859.6**	–	–	–	–	**859.6**
Bank loans – unsecured	**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**
2009						
Non-derivative financial liabilities						
Trade and other payables	800.8	–	19.0	–	–	819.8
Bank loans – unsecured	21.1	24.3	55.2	1,147.4	–	1,248.0
Finance lease liabilities	–	–	–	–	178.4	178.4
Customer deposits	–	–	3.0	–	–	3.0
Other loans	–	–	3.6	–	–	3.6
	821.9	24.3	80.8	1,147.4	178.4	2,252.8

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
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**
2009						
Non-derivative financial assets						
Cash and cash equivalents	629.0	–	–	–	–	629.0
Trade and other receivables	1,209.7	–	0.7	–	–	1,210.4
Futures deposits and margin calls	80.4	–	–	–	–	80.4
Loans to associates	5.5	5.5	11.0	33.0	216.4	271.4
	1,924.6	5.5	11.7	33.0	216.4	2,191.2

The consolidated entity has access to financing facilities as described in Note 51(f), of which $715.6 million (2009: $702.6 million) was unused at the end of the reporting period. The consolidated entity expects to meet its other obligations from operating cash flows and proceeds of maturing financial assets.

Note 53 – Financial instruments (continued)

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/(outflows) on those derivatives instruments that settle on a net basis. 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
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)**
2009						
Derivative financial instruments						
Net settled						
Interest rate swap contracts	(18.6)	(4.4)	(7.0)	(2.8)	–	(32.8)
Forward foreign exchange contracts	–	(0.2)	(0.5)	(0.4)	–	(1.1)
Electricity derivatives	(136.1)	(29.2)	(125.8)	(78.8)	(1.1)	(371.0)
	(154.7)	(33.8)	(133.3)	(82.0)	(1.1)	(404.9)

(k) Fair value measurements

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

As of 1 July 2009, the consolidated entity has adopted the amendment to AASB 7 *Financial Instruments: Disclosures* which requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- 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).

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 at 30 June 2010. Comparative information has not been provided as permitted by the transitional provisions of the new rules.

	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
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 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 for the year ended 30 June 2010.

	Energy derivatives 2010 $m
Opening balance	**39.5**
Total gains and losses recognised in profit or loss	**(3.6)**
Purchases	**16.5**
Settlements	**(13.6)**
Closing balance	**38.8**

Of the total gains or losses for the period included in profit or loss $13.3 million relates to electricity derivative contracts held at the end of the reporting period. Fair value gains or losses on electricity derivatives are included in the line item 'cost of sales – loss in fair value of electricity derivatives' in Note 6.

Note 54 – 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:

Mosaic Oil NL proposed acquisition

On 14 July 2010, AGL Energy Limited (AGL) and Mosaic Oil NL (Mosaic) announced that they had entered into a Scheme Implementation Deed, under which AGL proposes to acquire all of the issued shares in Mosaic by way of a Scheme of Arrangement (Scheme).

Mosaic shareholders will either receive cash of $0.15 per Mosaic share or will receive 1.01 AGL shares per 100 Mosaic shares for all their Mosaic shares.

The implementation date of the Scheme is expected to be 20 October 2010.

US$300 million debt raising

On 23 July 2010, AGL announced that it had successfully priced US$300 million of unsecured notes in the United States Private Placement market.

The US$300 million unsecured Note issue comprises two tranches of 12 year and 15 year maturities for US$165 million and US$135 million, respectively.

The US$300 million will be converted to A$338 million at margins of 259 and 254 basis points above floating A$ bank bill swap rates for the 12 year and 15 year tranches, respectively.

The proceeds are expected to be received in September 2010 and will be used to cancel existing bank debt facilities.

Macarthur wind farm

On 12 August 2010, AGL announced that it had entered into binding contracts to construct, with its joint venture partner Meridian Energy, a 420 MW wind farm at Macarthur in Victoria's south west at a total capital cost of $1 billion.

On completion in early 2013, the Macarthur wind farm will be the largest wind farm in the southern hemisphere. The wind farm will comprise 140 Vestas V112-3.0 MW wind turbine generators and be constructed by a Vestas/Leighton Contractors consortium.

Note 55 – Parent Entity information

	2010 $m	2009 $m
Financial position		
Assets		
Current assets	**514.3**	670.2
Non-current assets	**7,831.0**	8,104.1
Total assets	**8,345.3**	8,774.3
Liabilities		
Current liabilities	**257.9**	746.5
Non-current liabilities	**2,542.2**	2,398.1
Total liabilities	**2,800.1**	3,144.6
Equity		
Issued capital	**4,066.7**	4,030.3
Reserves		
Investments revaluation	**–**	(1.1)
Employee equity benefits	**4.7**	2.0
Hedging	**(5.0)**	(15.9)
Retained earnings	**1,478.8**	1,614.4
Total equity	**5,545.2**	5,629.7
Financial performance		
Profit for the year	**120.4**	1,651.9
Other comprehensive income	**11.9**	(47.5)
Total comprehensive income	**132.3**	1,604.4

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 46 and 42 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

	2010 $m	2009 $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	–

Directors' Declaration

For the year ended 30 June 2010

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 42 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

Mark Johnson
Chairman

Sydney, 26 August 2010

Independent Auditor's Report

to the Members of AGL Energy Limited

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
Fax: +61 (0) 2 9322 7001
www.deloitte.com.au

Deloitte.

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 2010, 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 49 to 127.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies 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. These Auditing 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 and fair presentation of the financial report 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*.

Auditor's 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 2010 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 39 to 48 of the directors' report for the year ended 30 June 2010. 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.

Auditor's Opinion

In our opinion the Remuneration Report of AGL Energy Limited for the year ended 30 June 2010, complies with section 300A of the *Corporations Act 2001*.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

J A Leotta
Partner
Chartered Accountants
Sydney, 26 August 2010

Liability limited by a scheme approved under Professional Standards Legislation.

Member of **Deloitte Touche Tohmatsu**

Auditor's Independence Declaration

to the Directors 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
Fax: +61 (0) 2 9322 7001
www.deloitte.com.au

The Board of Directors
AGL Energy Limited
101 Miller Street
North Sydney NSW 2060

26 August 2010

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 2010, 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 Accountant

Shareholding Information

The following information is provided regarding the Issued Capital of AGL as at 11 August 2010:

1. The Issued Capital consisted of 450,076,509 fully-paid ordinary shares.
2. There were 116,874 holders of these ordinary shares.
3. There were 1,891 holders of less than a marketable parcel of 34 shares.
4. The distribution of holders was:

DISTRIBUTION	NO. OF HOLDERS	%
1–1,000 shares	59,245	50.69
1,001–5,000 shares	48,699	41.67
5,001–10,000 shares	5,992	5.13
10,001–100,000 shares	2,830	2.42
100,001 shares and over	108	0.09
	116,874	**100**

5. The location of holders was:

LOCATION	NO. OF HOLDERS	%	NO. OF SHARES	%
Australia	113,042	96.72	440,981,597	97.98
USA and Canada	488	0.42	415,430	0.09
United Kingdom	345	0.29	384,601	0.09
New Zealand	2,754	2.36	7,874,849	1.75
Other	245	0.21	420,032	0.09
	116,874	**100**	**450,076,509**	**100**

6. The class of holders was:

CLASS OF HOLDER	NO. OF HOLDERS	%	NO. OF SHARES	%
Individuals	90,657	77.57	156,924,478	34.87
Companies and other	26,217	22.43	293,152,031	65.13
	116,874	**100**	**450,076,509**	**100**

7. The twenty largest holders held 45.08% of the Issued Capital:

TWENTY LARGEST HOLDERS AS AT 11 AUGUST 2010	FULLY-PAID ORDINARY SHARES	% OF TOTAL ISSUED SHARES
HSBC Custody Nominees (Australia) Limited	53,348,984	11.85
J P Morgan Nominees Australia Limited	43,647,441	9.70
National Nominees Limited	37,998,224	8.44
Citicorp Nominees Pty Limited	18,379,669	4.08
RBC Dexia Investor Services Australia Nominees Pty Limited	8,976,009	1.99
Cogent Nominees Pty Limited	4,973,454	1.11
ANZ Nominees Limited	4,952,900	1.10
Australian Foundation Investment Company Limited	4,286,991	0.95
AMP Life Limited	3,555,155	0.79
UBS Wealth Management Australia Nominees Pty Ltd	3,411,017	0.76
Bond Street Custodians Limited	3,338,224	0.74
Argo Investments Limited	2,453,787	0.55
Questor Financial Services Limited	2,152,620	0.48
Custodial Services Limited	2,033,213	0.45
BT Portfolio Services Limited (WA)	1,955,463	0.44
Avanteos Investments Limited	1,862,110	0.42
Perpetual Trustee Company Limited	1,534,436	0.34
Invia Custodian Pty Limited	1,383,658	0.31
Milton Corporation Limited	1,368,500	0.30
Gwynvill Investments Pty Limited	1,263,150	0.28
	202,875,005	**45.08**

Shareholder Information

Website access
Through AGL's online Investor Centre you may access your shareholdings using the link of the same name. The AGL website address is: www.agl.com.au

You can also check the share price and graphs, check your current holding balances, download a variety of instruction forms, subscribe to email announcements and elect to receive electronic dividend statements.

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) +612 8280 7115 (International)
Facsimile:	02 9287 0303 (within Australia) +612 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.

The final dividend
The final dividend of 30.0 cents per share, unfranked, will be paid on 30 September 2010. As the final dividend will only be paid by direct credit, Australian and New Zealand shareholders will 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 percent 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. (In 2009/10, no discount was applicable to either the interim or 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 highest 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

Directory

AGL Energy Limited
Registered office
Level 22, 101 Miller Street
North Sydney NSW 2060

Locked Bag 1837
St Leonards NSW 2065

Telephone:	(02) 9921 2999
Facsimile:	(02) 9921 2552
Internet:	www.agl.com.au

About this report
The inside pages of this report are printed on Envi, Australia's first carbon-neutral paper. Envi is also the first paper stock in Australia to carry the Federal Government's Greenhouse Friendly certification, and is the stock of choice for all AGL customer communications.

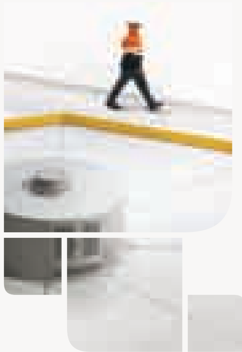
All inks and varnishes used to print it have a vegetable oil base (such as linseed oil and soy oil) obtained from non-genetically modified plants and trees.

It was designed by Precinct and printed by Blue Star Print Group.

AGL

AGL Energy Limited
ABN 74 115 061 375

Level 22
101 Miller Street
North Sydney NSW 2060



Notice of Annual General Meeting of Shareholders

17 September 2010

Dear Shareholder,

I am pleased to invite you to attend the 2010 Annual General Meeting of Shareholders (AGM), which has been scheduled as follows:

Date: Thursday, 21 October 2010
Time: 10:30am
Venue: City Recital Hall, Angel Place, Sydney

A map and transportation instructions (whether travelling by train, bus, car or taxi) follow, for your information.

The business to be dealt with at the AGM is provided on page 3 of this Notice of Meeting.

If you are able to attend the AGM, please bring the enclosed Shareholder Voting Form with you to facilitate registration at the AGM.

If you do not plan on attending the AGM, you are encouraged to appoint a proxy to attend and vote on your behalf by lodging your proxy appointment online at www.linkmarketservices.com.au or by completing the enclosed Shareholder Voting Form and returning it in the envelope provided. Instructions on how to appoint a proxy are detailed on the back of the Shareholder Voting Form. Proxies must be received no later than 10.30am (Sydney time) on Tuesday, 19 October 2009 to be valid for the AGM. Proxies may be lodged online or returned by mail or by fax on 02 9287 0303.

You are encouraged to let us know of any questions you may have before the AGM. Details of how to lodge those questions prior to the AGM are on the last page of this Notice.

We look forward to seeing you at the AGM.

Yours sincerely

Mark Johnson Chairman

How to find the City Recital Hall

You can use the map below to find the nearest transport routes and the location of the Meeting – the City Recital Hall, Angel Place, Sydney NSW.

By train

The City Recital Hall is a short walk from Wynyard Station

By bus

Major bus interchanges are nearby at George and York Streets

By car

There are many car parks located within walking distance

By taxi

Your taxi can enter from George Street

For more specific information about public transport routes and timetables, contact the State Transit Authority on 131 500 or visit 131500.com.au

Ordinary business

1. To receive and consider the Financial Report of the Company and the consolidated entity and the Reports of the Directors and Auditor for the financial year ended 30 June 2010.

2. To adopt the Remuneration Report for the financial year ended 30 June 2010, as set out in the Directors' Report section of the Annual Report. **(Note – the vote on this resolution is advisory only and does not bind the Directors or the Company).**

3. To elect Directors:

   To consider and, if thought fit, to pass the following resolution as an ordinary resolution:

   'That Mr Bruce Phillips, a Director who retires by rotation at the close of the Meeting in accordance with Clause 58 of the Company's Constitution and being eligible, is re-elected as a Director of the Company.'

Special business

4. To increase the maximum aggregate remuneration of non-executive Directors:

   To consider and, if thought fit, to pass the following resolution as an ordinary resolution:

   'That with effect from 1 January 2011, the aggregate maximum sum available for the remuneration of non-executive Directors be increased by $250,000 per year to $2,000,000 per year.'

By Order of the Board

Paul McWilliams
Company Secretary
17 September 2010

Determination of entitlement to vote

For the purpose of the Meeting, the Directors have determined that shares will be taken to be held by persons registered as Shareholders as at **7.00pm** (Sydney time) on **Tuesday, 19 October 2010**.

Shareholder voting

Each Shareholder who is entitled to vote at the AGM may appoint a proxy, who need not be a Shareholder, to attend and vote at the AGM on the Shareholder's behalf. A Shareholder who is entitled to attend and cast two or more votes at the Meeting may appoint two proxies and may specify the proportion or number of votes each proxy is appointed to exercise on a poll. If the Shareholder appoints two proxies and the appointment does not specify the proportion or number of the Shareholder's votes that each may exercise, each may exercise half of the votes (disregarding fractions) on a poll.

Each Shareholder who is entitled to vote at the AGM may appoint a proxy and specify the way that the proxy is to vote in relation to a resolution and indicate that the specification is to be regarded as a direct vote. Except where the Directors have determined, prior to the Meeting, that direct voting will not be permitted in relation to a particular resolution, a direct vote on a resolution by a Shareholder will, if a poll is demanded (but not on a show of hands), be effective to cast, at the Meeting, the votes of the Shareholder as specified in the Shareholder Voting Form without the need for, or regardless of, any further action by the proxy and the proxy will therefore have no authority to vote on a poll on the resolution on the Shareholder's behalf.

A Shareholder Voting Form and, if the Shareholder Voting Form is not signed by the Shareholder, the Power of Attorney or other authority (if any) under which the Shareholder Voting Form is signed (or a certified copy of that Power of Attorney or other authority) must be received by the Company at least 48 hours before the time for holding the Meeting – that is, by **10.30am** (Sydney time) on **Tuesday, 19 October 2010.** Documents may be lodged with the Company by:

(i) appointing a proxy online at the AGL Share Registry's website: www.linkmarketservices.com.au; or

(ii) posting them in the accompanying reply-paid envelope to: Link Market Services Limited, Locked Bag A14, Sydney South NSW 1235; or

(iii) sending them by fax to the AGL Share Registry on 02 9287 0303; or

(iv) delivering them to the AGL Share Registry located at: Link Market Services Limited, Level 12, 680 George Street, Sydney NSW 2000.

Corporate representatives

A company wishing to appoint a person to act as its representative at the Meeting must provide that person with a letter executed in accordance with the company's constitution and the *Corporations Act 2001* (Cth) authorising him or her to act as the Shareholder's representative.

Explanatory notes

Ordinary Business

ITEM 1

To receive and consider the Financial, Directors' and Auditor's Reports for the financial year ended 30 June 2010

Shareholders have been notified that the AGL Annual Report 2010 can be found on the Company's website (www.agl.com.au) under 'Investor Centre' and have been given the option of having a printed copy of the Report sent to them. The Report has been sent to those Shareholders who have requested it. During discussion of this item, there will be an opportunity for Shareholders to ask questions about, or comment on, the Report and the management and performance of the Company.

ITEM 2

Adoption of the Remuneration Report for the financial year ended 30 June 2010

The Company is required under the *Corporations Act 2001* (Cth) to include, in the business of its AGM, a resolution that its Remuneration Report for the financial year ended 30 June 2010 be adopted. The resolution is advisory only and does not bind the Directors or the Company. During discussion of this item, there will be an opportunity for Shareholders to ask questions about, or comment on, the Remuneration Report.

The Remuneration Report is set out in the Directors' Report section of the AGL Annual Report 2010. The Remuneration Report:

- sets out the Company's policy in respect of remuneration paid to the Board, the Managing Director and senior Executives;
- explains how Directors' fees are determined within the aggregate limit approved by Shareholders;
- describes the elements of remuneration paid to the Managing Director and senior Executives, the links to Company and individual performance and the criteria used to assess performance; and
- sets out the remuneration details for each Director and specified Executives.

The Directors recommend that Shareholders vote in favour of Item 2.

ITEM 3
Election of Directors

Mr Bruce Phillips – Age 55

Term: Non-executive Director since August 2007.

Independent: Yes.

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

Directorships: Chairman of Platinum Capital Limited (commenced as a Director in March 2009), Director of AWE Limited (commenced in November 2009) and an alternate Director of the Very Small Particle Company Limited (commenced in April 2009).

Experience: Mr Phillips is 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 AWE Limited. Mr Phillips also held prior positions of Director of Sunshine Gas Limited (commenced in October 2007 and resigned in October 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.

The Directors (excluding Mr Bruce Phillips) recommend that Shareholders vote in favour of Item 3.

ITEM 4
Increasing the maximum aggregate remuneration of non-executive Directors.

The maximum remuneration payable by the Company to non-executive Directors is determined by Shareholders in general meeting and may not be increased without the prior approval of Shareholders, as required under clause 61.1 of the Company's constitution and ASX Listing Rule 10.17.

The maximum aggregate remuneration of non-executive Directors is currently $1,750,000 per year. This cap includes all fees and superannuation contributions paid to non-executive Directors and is the default sum provided for under the Company's constitution, which reflects the amount previously approved by Shareholders of the Company two years ago at its AGM on 15 October 2008.

All elements of the remuneration of non-executive Directors for the financial year ended 30 June 2010 are disclosed in detail in the Remuneration Report for that financial year.

The Company's policy is to adequately remunerate non-executive Directors at market rates for comparable companies for their time, commitment and responsibilities. The Board has taken external advice from independent remuneration advisers, which includes a market comparison of remuneration paid to non-executive Directors of other companies of comparator groups across the ASX100.

Based on this advice and prevailing market conditions, the People and Performance Committee of the Board has recommended an increase to the remuneration of non-executive Directors by $250,000, effective from 1 January 2011. This will increase the current aggregate remuneration of non-executive Directors from $1,750,000 to $2,000,000 per year.

The new cap of $2,000,000 per year will also contain an allowance to accommodate fees for an additional non-executive Director to assist in the Board succession. The intention is that new Directors will be appointed to the Board prior to the retirement of existing Directors to allow time for an orderly transfer of responsibilities.

Accordingly, the Board seeks Shareholder approval of a new maximum aggregate sum of $2,000,000 per year for non-executive Directors' remuneration. This increase will allow the Board to:

- recognise increases in both the workload and responsibilities of non-executive Directors on the Board and its committees;
- provide for effective succession planning and permitting effective transition arrangements; and
- have the flexibility to attract and retain the services of non-executive Directors of the highest calibre.

As each of the non-executive Directors has a personal interest in Item 4, it is not appropriate for them to make any recommendation as to how Shareholders should vote on this resolution.

Questions from Shareholders

AGL Energy Limited (AGL) aims to ensure that Annual General Meetings and the Annual Report meet Shareholders' expectations. Your views are essential to this.

If you would like further information on AGL, or would like to ask a question of AGL or the Auditor at this AGM, you may lodge your questions online by visiting the AGL Share Registry's website www.linkmarketservices.com.au or by completing the enclosed form and returning it in the enclosed reply paid envelope.

Questions for the AGM should be relevant to the business of the Meeting, and may include questions relating to the financial or other statutory reports or the motions before the Meeting, or general questions on AGL's management or performance, or questions to the Auditor concerning the content of the Auditor's Report or the conduct of the audit.

Questions for the AGM (including written questions to the Auditor) must be received at any of the addresses below by 5.00pm on Thursday, 14 October 2010.

The Chairman of the Meeting will answer as many of the frequently asked questions as possible.

The AGM will be webcast live at www.agl.com.au and a copy of the Chairman's speech will be available on the AGL website.

In accordance with the *Corporations Act 2001* (Cth), Shareholders will also be given a reasonable opportunity, as a whole, to ask:

- questions about, or make comments on, the management of the Company and the Remuneration Report, at the Meeting; and
- the Auditor questions relevant to the conduct of the audit, the preparation and content of the Auditor's Report, the accounting policies adopted by the Company and the independence of the Auditor, at the Meeting.

If you would like to make a suggestion or comment on the Annual Report, please advise the Company in one of the following ways (this will allow us to incorporate your views into the content and design of future Annual Reports):

- **Online** at the AGL Share Registry's website: www.linkmarketservices.com.au
- **Write** to the AGL Share Registry or the Company Secretary by completing the enclosed form and sending it to the Share Registry in the enclosed reply paid envelope to:

  Link Market Services Limited
  Locked Bag A14
  Sydney South NSW 1235

- or **post** to:

  Company Secretary
  AGL Energy Limited
  Locked Bag 1837
  St Leonards NSW 2065

- or **fax** to:

  the AGL Share Registry on 02 9287 0303.

AGL Energy Limited
ABN 74 115 061 375

LODGE YOUR VOTE

ONLINE www.linkmarketservices.com.au

By mail:
AGL Energy Limited
C/- Link Market Services Limited
Locked Bag A14
Sydney South NSW 1235 Australia

By fax: +61 2 9287 0309

All enquiries to: Telephone: 1800 824 513 **Overseas:** +61 2 8280 7115

X99999999999

SHAREHOLDER VOTING FORM

PLEASE MARK EITHER STEP 1 OR STEP 2
I/We being a Shareholder of AGL Energy Limited (AGL) and entitled to attend and vote hereby:

STEP 1 VOTE DIRECTLY

elect to lodge my/our **vote(s) directly (mark box)**

in relation to the Annual General Meeting of AGL to be held at 10:30am on Thursday, 21 October 2010, and at any adjournment or postponement of the Meeting.
You should mark either 'for' or 'against' for each item. Do not mark the 'abstain' box.

OR

STEP 2 APPOINT A PROXY

the **Chairman of the Meeting (mark box)**

OR if you are **NOT** appointing the Chairman of the Meeting as your proxy, please write the name of the person or body corporate (excluding the registered Shareholder) you are appointing as your proxy below

or failing the person/body corporate named, or if no person/body corporate is named, the Chairman of the Meeting, as my/our proxy and to vote for me/us on my/our behalf at the Annual General Meeting of AGL to be held at 10:30am on Thursday, 21 October 2010, at the City Recital Hall, Angel Place, Sydney, Sydney NSW 2000 and at any adjournment or postponement of the Meeting.

Voting Directions will only be valid and accepted by AGL if they are signed and received no later than 48 hours before the Meeting.
Please read the voting instructions overleaf before marking any boxes with an X

STEP 3 VOTING DIRECTIONS

	For	Against	Proxy Only Abstain*
Resolution 2 Remuneration Report			
Resolution 3 Re-Election of Mr Bruce Phillips			
Resolution 4 Increasing the maximum aggregate remuneration of non-executive Directors			

* If you are voting under Step 2 and mark the Abstain box for a particular Item, you are directing your proxy not to vote on your behalf on a show of hands or on a poll and your votes will not be counted in computing the required majority on a poll.

STEP 4 SIGNATURE OF SHAREHOLDERS - THIS MUST BE COMPLETED

Shareholder 1 (Individual)	Joint Shareholder 2 (Individual)	Joint Shareholder 3 (Individual)
Sole Director and Sole Company Secretary	Director/Company Secretary (Delete one)	Director

This form should be signed by the Shareholder. If a joint holding, either Shareholder may sign. If signed by the Shareholder's attorney, the Power of Attorney must have been previously noted by the registry or a certified copy attached to this form. If executed by a company, the form must be executed in accordance with the company's constitution and the *Corporations Act 2001* (Cth).

AGK PRX003

HOW TO COMPLETE THIS VOTING FORM

Your Name and Address

This is your name and address as it appears on AGL's share register. If this information is incorrect, please make the correction on the form. Shareholders sponsored by a broker should advise their broker of any changes. **Please note: you cannot change ownership of your shares using this form.**

Voting under Step 1 – Vote Directly

If you ticked the box under Step 1 you are indicating that you wish to vote directly. Please only mark either **'for'** or **'against'** for each item. Do not mark the **'abstain'** box. If you mark the **'abstain'** box for an item, your vote for that item will be invalid.

If no direction is given on all of the items, or if you complete both box Step 1 and box Step 2, your vote may be passed to the Chairman of the Meeting as your proxy.

Custodians and nominees may, with the Share Registrar's consent, identify on the voting form the total number of votes in each of the categories **'for'** and **'against'** and their votes will be valid.

If you have lodged a direct vote, and then you attend the Meeting, your attendance will cancel your direct vote.

The Chairman's decision as to whether a direct vote is valid is conclusive.

Voting under Step 2 – Appoint a Proxy

If you wish to appoint the Chairman of the Meeting as your proxy, mark the box in Step 2. If the person you wish to appoint as your proxy is someone other than the Chairman of the Meeting please write the name of that person in Step 2. If you leave this section blank, or your named proxy does not attend the Meeting, the Chairman of the Meeting will be your proxy. A proxy need not be a Shareholder of AGL. A proxy may be an individual or a body corporate.

Votes on Items of Business – Proxy Appointment

You should direct your proxy how to vote by placing a mark in one of the boxes opposite each item of business. All your shares will be voted in accordance with such a direction unless you indicate only a portion of voting rights are to be voted on any item by inserting the percentage or number of shares you wish to vote in the appropriate box or boxes. If you do not mark any of the boxes on the items of business, your proxy may vote as he or she chooses. If you mark more than one box on an item your vote on that item will be invalid.

Appointment of a Second Proxy

You are entitled to appoint up to two persons as proxies to attend the Meeting and vote on a poll. If you wish to appoint a second proxy, an additional Shareholder Voting Form may be obtained by telephoning AGL's share registry or you may copy this form.

To appoint a second proxy you must:

(a) on each of the first Shareholder Voting Form and the second Shareholder Voting Form state the percentage of your voting rights or number of shares applicable to that form. If the appointments do not specify the percentage or number of votes that each proxy may exercise, each proxy may exercise half your votes. Fractions of votes will be disregarded.

(b) return both forms together.

Signing Instructions

You must sign this form as follows in the spaces provided:

Individual: where the holding is in one name, the holder must sign.

Joint Holding: where the holding is in more than one name, either Shareholder may sign.

Power of Attorney: to sign under Power of Attorney, you must have already lodged the Power of Attorney with the registry. If you have not previously lodged this document for notation, please attach a certified photocopy of the Power of Attorney to this form when you return it.

Companies: where the company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. If the company (pursuant to section 204A of the *Corporations Act 2001*) does not have a Company Secretary, a Sole Director can also sign alone. Otherwise this form must be signed by a Director jointly with either another Director or a Company Secretary. Please indicate the office held by signing in the appropriate place.

Corporate Representatives

If a representative of the corporation is to attend the Meeting the appropriate 'Certificate of Appointment of Corporate Representative' should be produced prior to admission in accordance with the Notice of Meeting. A form of the certificate may be obtained from AGL's share registry.

Lodgement of a Shareholder Voting Form

This Shareholder Voting Form (and any Power of Attorney under which it is signed) must be received at an address given below by 10:30am on Tuesday, 19 October 2010, being not later than 48 hours before the commencement of the Meeting. Any Shareholder Voting Form received after that time will not be valid for the scheduled Meeting.

Shareholder Voting Forms may be lodged using the reply paid envelope or:

ONLINE **www.linkmarketservices.com.au**

Select the 'Proxy Voting' option on the top right of the home page. Choose AGL as the company you wish to lodge your vote for from the drop down menu, enter your holding details as shown on this form, and follow the prompts to lodge your vote. To use the online lodgement facility, Shareholders will need their 'Holder Identifier' (Shareholder Reference Number (SRN) or Holder Identification Number (HIN) as shown on the front of the Shareholder Voting Form).

by mail:

AGL Energy Limited
C/- Link Market Services Limited
Locked Bag A14
Sydney South NSW 1235 Australia

by fax:

+61 2 9287 0309

by hand:

delivering it to Link Market Services Limited, Level 12, 680 George Street, Sydney NSW 2000.

If you would like to attend and vote at the AGM, please bring this form with you.
This will assist in registering your attendance.

AGL Energy Limited
ABN 74 115 061 375

LODGE YOUR QUESTIONS

ONLINE www.linkmarketservices.com.au

By mail:
AGL Energy Limited
C/- Link Market Services Limited
Locked Bag A14
Sydney South NSW 1235 Australia

By fax: +61 2 9287 0309

All enquiries to: Telephone: 1800 824 513 **Overseas:** +61 2 8280 7115

X99999999999

AREAS OF INTEREST TO SHAREHOLDERS

Your concerns as Shareholders are important to us. Please use this form to submit any questions about AGL Energy Limited (AGL) that you would like us to respond to at AGL's 2010 Annual General Meeting. Your questions should relate to matters that are relevant to the business of the Meeting, as outlined in the accompanying Notice of Meeting and Explanatory Notes. If your question is for AGL's Auditor it should be relevant to the content of the Auditor's Report, or the conduct of the audit of the Financial Report.

This form must be received by AGL's share registrar, Link Market Services Limited, by 5.00pm on Thursday, 14th October 2010.

Questions will be collated. During the course of the Annual General Meeting, the Chairman of the Meeting will endeavour to address as many of the more frequently raised Shareholder topics as possible and, where appropriate, will give a representative of AGL's Auditor, the opportunity to answer written questions submitted to the Auditor. However, there may not be sufficient time available at the Meeting to address all topics raised. Please note that individual responses will not be sent to Shareholders.

Question(s)

1. Question is for the ☐ Chairman or ☐ Auditor

____

____

____

2. Question is for the ☐ Chairman or ☐ Auditor

____

____

____

3. Question is for the ☐ Chairman or ☐ Auditor

____

____

____