

Appendix 4E

AGL Energy Limited

ABN 74 115 061 375

Preliminary Final Report

Results for announcement to the market for the year ended 30 June 2013

Extracts from this report for announcement to the market

Revenue	Up	30.3%	To	<i>\$A million</i> 9,715.7
Statutory Profit after tax attributable to shareholders	Up	238.3%	To	388.7
Underlying Profit after tax attributable to shareholders	Up	24.1%	To	598.3
Statutory Earnings per share	Up	197.1%	To	<i>Cents per share</i> 70.7
Underlying Earnings per share	Up	8.8%	To	108.8
Dividends		Amount per ordinary share		Franked amount per ordinary share
Final dividend		33.0¢		33.0¢
Interim dividend		30.0¢		30.0¢
Record date for determining entitlements to the final dividend:				
6 September 2013 and payable on 27 September 2013.				
Brief explanation of Underlying Profit and Underlying Earnings per share:				
Statutory Profit and Statutory Earnings per share are prepared in accordance with the Corporations Act 2001 and Australian Accounting Standards, which comply with International Financial Reporting Standards.				
Statutory Profit after tax of \$388.7 million included a net loss of \$289.6 million after tax treated as significant items and a gain of \$80.0 million after tax from the changes in the fair value of financial instruments. Excluding these items, the Underlying Profit was \$598.3 million, up 24.1% on the prior corresponding period.				
Underlying Profit is reported to give information to shareholders that provides a greater understanding of the performance of AGL Energy Limited's (AGL's) operations. AGL believes Underlying Profit is useful as it removes significant items and timing mismatches between the fair value of derivatives and the underlying asset being hedged thereby facilitating a more representative comparison of financial performance between financial periods.				
This report should be read in conjunction with the AGL Directors' Report incorporating the Operating and Financial Review and AGL Financial Report for the year ended 30 June 2013 released to the market on 28 August 2013.				

Contents	Page No.
1.0 Results overview	3
1.1 Significant items	4
1.2 Changes in fair value of derivative financial instruments	8
2.0 Earnings per share	10
3.0 Dividend	10
4.0 Review of operations	11
4.1 Retail Energy	12
4.2 Merchant Energy	19
4.3 Upstream Gas	24
4.4 Energy Investments	27
4.5 Centrally managed expenses	28
5.0 Net finance costs	30
6.0 Income tax expense	30
7.0 Operating cash flow	31
8.0 Subsequent events	33
9.0 Information on audits	33

1. Results Overview

The following tables reconcile Statutory Profit to Underlying Profit and Statutory Earnings before Interest and Tax ("EBIT") to Operating EBIT.

	Year ended 30 June 2013	Year ended 30 June 2012
	\$m	\$m
Statutory Profit	388.7	114.9
Adjust for the following after tax items:		
Significant items ⁽¹⁾	289.6	155.1
Changes in fair value of financial instruments ⁽²⁾	(80.0)	212.0
Underlying Profit	598.3	482.0

⁽¹⁾ Section 1.1

⁽²⁾ Section 1.2

	Year ended 30 June 2013	Year ended 30 June 2012
	\$m	\$m
Statutory EBIT	667.2	201.4
Significant items	494.1	211.7
Change in fair value of financial instruments	(114.3)	304.6
Finance income included in Operating EBIT	2.3	12.7
Operating EBIT	1,049.3	730.4
Net finance costs	(205.5)	(51.2)
Underlying Profit before tax	843.8	679.2
Income tax expense	(245.5)	(197.2)
Underlying Profit	598.3	482.0

Underlying Profit and Operating EBIT are the Statutory Profit and Statutory EBIT respectively adjusted for significant items and changes in the fair value of financial instruments. AGL believes that Underlying Profit and Operating EBIT provide a better understanding of its financial performance and allows for a more relevant comparison of financial performance between financial periods.

AGL believes Underlying Profit and Operating EBIT are useful as they:

- remove significant items that are material items of revenue or expense that are unrelated to the underlying performance of the business thereby facilitating a more representative comparison of financial performance between financial periods and;
- remove changes in the fair value of financial instruments recognised in the income statement to remove the volatility caused by mismatches in valuing derivatives and the underlying asset differently.

Underlying Profit is presented with reference to the Australian Securities and Investment Commission Regulatory Guide 230 "Disclosing non-IFRS financial information" issued in December 2011. 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 reviewed by the external auditor of AGL.

1.1 Significant Items

	Year ended 30 June 2013		Year ended 30 June 2012	
	Pre-tax	PAT	Pre-tax	PAT
	\$m	\$m	\$m	\$m
Loy Yang acquisition	(52.9)	(52.9)	(175.9)	(174.3)
Impairment of Upstream Gas New South Wales assets	(343.7)	(284.3)	-	-
Impairment of other Upstream Gas assets	(51.7)	(36.7)	(35.8)	(26.6)
Impairment of Power Development assets	(45.8)	(38.9)	-	-
Tax items	-	123.2	-	45.8
Total significant items	(494.1)	(289.6)	(211.7)	(155.1)

1.1.1 Loy Yang acquisition

Current Year – Stamp Duty

On 29 June 2012, AGL completed the acquisition of the remaining 67.46% of shares and loan notes issued by Great Energy Alliance Corporation Pty Ltd (GEAC) that it did not already own. As a result of the acquisition AGL now owns the 2,210 MW Loy Yang A power station and adjacent brown coal mine.

AGL received external advice that GEAC was not land rich for the purposes of Section 71 of the Duties Act 2000 (Vic) at the time of the acquisition. On this basis, AGL lodged submissions with the Victorian State Revenue Office (SRO) claiming that there should be no liability for stamp duty in relation to the acquisition.

On 30 November 2012, the SRO responded to AGL's submission stating that it believed that the GEAC acquisition was land rich and therefore stamp duty of approximately \$82.0 million was payable. This matter was disclosed as a contingent liability in the financial statements for the year ended 30 June 2012.

Following negotiation with the SRO, AGL advised the market on 29 May 2013 that a final amount of \$52.9 million has now been paid in full settlement of stamp duty in relation to the acquisition of GEAC. In accordance with accounting standards, this amount has been expensed. This stamp duty payment is non-deductible for tax purposes.

Prior Year

The following items were recognised as significant items in the period:

- Acquisition related costs of \$21.8 million before tax and \$19.3 million after tax were incurred in relation to advisor fees, redundancies and other transaction costs.
- Before completing the GEAC acquisition, AGL's 32.54% interest in GEAC was accounted for as an equity investment. Under AASB 3 "Business Combinations", the pre-existing equity interest is required to be remeasured at the acquisition date fair value with the resulting gain or loss recognised in the income statement. This accounting adjustment resulted in a \$120.7 million revaluation loss.
- AASB 3 also requires that any amounts previously recognised in other comprehensive income are recycled to the income statement to the extent they would ordinarily have been recycled to the income statement on a disposal event. AGL's share of GEAC's hedge reserve (\$36.3 million loss as at date of acquisition) that was historically accounted by AGL as part of the equity accounted investment

was therefore released from the hedge reserve and recorded in the income statement.

- Prior to completing the acquisition AGL purchased some of GEAC's junior debt facilities. The facilities were purchased below par resulting in a gain on acquisition of \$2.9 million before tax and \$2.0 million after tax.

1.1.2 Impairment of Upstream Gas New South Wales (NSW) assets

During the year there has been significant change and uncertainty in government policy which has affected the value of AGL's Upstream Gas assets in NSW.

On 19 February 2013, the NSW Government announced its intention to amend the State Environmental Planning Policy (Mining, Petroleum Production and Extractive Industries) 2007 (Mining SEPP) and subsequently issued a Planning White Paper calling for submissions by 28 June 2013. At the date of reporting, the NSW Government was still to release a final amended Mining SEPP.

The proposed Mining SEPP changes include exclusion zones for coal seam gas exploration and development within 2 km of residential areas and within certain critical industry cluster areas covering viticulture and equine activities.

Existing approved projects are not expected to be affected. For AGL, these are the approved and operating project at Camden and the approved project at Gloucester (Stage 1). Proposed but not approved AGL projects that are potentially affected are Camden (Camden North expansion), Hunter and Gloucester (Stages 2 & 3).

Based on the information available at the time of reporting, the expected effect of the proposed Mining SEPP changes on the reserves of AGL's NSW assets is set out in the following table:

AGL share of gas reserves (PJ) *	Reported as at 30 June 2012		Estimated reserves based on Mining SEPP changes	
	2P	3P	2P	3P
Camden	138	183	50	50
Hunter	134	257	0	0
Gloucester	635	790	454	565
Total	907	1,230	504	615

* Consistent with new ASX Listing Rules reporting requirements, gas reserves are now reported net of 'lease fuel', i.e. net of estimated own use fuel consumption upstream of the point of sale. Reserves as at 30 June 2012 have been restated accordingly for comparison purposes.

While the NSW Government is yet to finalise the Mining SEPP, it has been considered prudent to recognise a provision for impairment of the book value of these projects as follows:

	Book value before impairment	Impairment provision		Book value after impairment
	\$m	Pre-tax \$m	PAT \$m	\$m
Camden	130.0	(44.4)	(31.1)	85.6
Hunter	202.8	(192.8)	(178.7)	10.0
Gloucester	454.0	(106.5)	(74.5)	347.5
Total	786.8	(343.7)	(284.3)	443.1

1.1.3 Impairment of other Upstream Gas assets

Current Year

AGL has a 50% joint venture interest in ATP 529P with the other 50% held by Galilee Energy Limited (GLL). During the year a parcel of approximately 16.1% of the shares in GLL was exchanged at less than the value of cash reserves held by GLL, indicating that the interest in the ATP 529P had no value. AGL conducted a carrying value review of its interests in ATP 529P. After allowing for technical and commercial uncertainty associated with the ongoing exploration program, AGL considers its interests in the joint venture has negligible value.

Prior Year

The carrying value review completed as at 30 June 2012 resulted in impairment charges being recognised in relation to the following Upstream Gas assets:

- ATP 1056P – Cooper Old oil exploration
 During the period the results of a five-well oil drilling program were reviewed. The results in relation to four of the wells did not support commercial development with the resulting drilling and permit costs written off. This resulted in an impairment charge in the period of \$21.8 million before tax and \$15.2 million after tax; and
- Geothermal exploration
 During the period AGL reviewed the results of its geothermal exploration programs. The review concluded that none of the results to date were supportive of commercial development. This resulted in an impairment charge of \$14.0 million before tax and \$11.4 million after tax.

	Year ended 30 June 2013		Year ended 30 June 2012	
	Pre-tax \$m	PAT \$m	Pre-tax \$m	PAT \$m
Galilee	(49.9)	(34.9)	-	-
Other	(1.8)	(1.8)	(35.8)	(26.6)
Total other Upstream Gas impairment	(51.7)	(36.7)	(35.8)	(26.6)

1.1.4 Impairment of Power Development assets

A review of the portfolio of power development projects has been conducted in the light of the supply and demand outlook for the National Electricity Market. This review has concluded that a number of projects were unlikely to be developed based upon the expected revenue streams and the costs to develop each project. As a result the previously capitalised costs of these projects have been written off resulting in an impairment charge of \$45.8 million before tax and \$38.9 million after tax. The following assets have been written off:

	Year ended 30 June 2013	
	Pre-tax \$m	PAT \$m
South Australian wind projects	(12.1)	(11.0)
Leafs Gully power station	(8.6)	(7.6)
Other renewable options	(19.2)	(16.0)
Other projects	(5.9)	(4.3)
Total Power Development write-offs	(45.8)	(38.9)

1.1.5 Tax items

Current Year

- Tax treatment of unbilled revenue.

AGL accounts for unbilled revenue using an estimate of energy consumed until reporting date but not yet billed to customers. For taxation purposes, AGL has previously treated unbilled revenue as derived for income tax purposes only when a bill was issued to customers. This treatment gave rise to a deferred tax liability.

AGL and the Australian Taxation Office (ATO) have agreed a revised approach whereby AGL's tax treatment will transition to the approach consistent with the accrual method used for accounting. This in-principle agreement will result in amended assessments in respect of AGL's 2008 to 2012 years of income of \$41.3 million.

The agreement reached with the ATO results in an income tax benefit of \$176.6 million recorded as a significant item, arising from a reversal of the deferred tax liability, net of taxes paid and payable.

- A deferred tax asset originally recognised at 30 June 2012 in relation to the Petroleum Resource Rent Tax (PRRT) Assessment Act 1987 has been de-recognised as at 30 June 2013. The deferred tax asset represented the difference between the PRRT starting tax base amount and the carrying value of the production permits to which the PRRT will apply. Due to the Mining SEPP changes discussed above and the associated reduction in the carrying value of the production permits there is no longer any deferred tax asset to recognise resulting in a charge to current year income tax expense of \$53.4 million.

Prior Year

- Changes to the Petroleum Resource Rent Tax (PRRT) Assessment Act 1987 extend the operation of the PRRT to onshore oil and gas projects from 1 July 2012. As the PRRT falls within the scope of AASB 112 "Income Taxes", AGL is required to account for any associated deferred tax assets or deferred tax liabilities as at 30 June 2012. AGL has recognised a deferred tax asset as at 30 June 2012 of \$53.4 million representing the difference between the PRRT starting base amount and the carrying value of the production permits to which the PRRT will apply.
- AGL has implemented a change to its current and prior year income tax treatment for liabilities owed under various state and federal green product schemes. The liability has now been treated as incurred and deductible for tax purposes at the same time as it is recognised as an accounting liability. This change resulted in a charge to income tax expense of \$7.6 million, a reduction in deferred tax assets of \$54.8 million and a reduction in income tax provision of \$47.2 million.

1.2 Changes in Fair Value of Derivative Financial Instruments

AGL uses derivative financial instruments (“derivatives”), in large part, to manage energy price risks but also to manage its exposure to interest rates and foreign exchange rates arising in the normal course of business. AGL’s intention when transacting derivatives is to prudently manage the energy price risk, interest rate risk and foreign exchange rate risk it faces. AGL considers this activity to be hedging in nature.

Australian Accounting Standard AASB 139 ‘Financial Instruments: Recognition and Measurement’ (“AASB 139”) requires derivatives to be reported at fair value in the financial statements. Changes in the fair value of derivatives between reporting periods for “effective hedges” are recognised in equity as an adjustment to the hedge reserve. Changes in the fair value of derivatives between reporting periods for “ineffective hedges” are recognised in the statement of profit or loss.

AASB 139 considers derivatives to be effective hedges where the change in the fair value of the item being hedged and the change in the fair value of the derivative substantially offset each other. All other hedges are deemed to be ineffective hedges.

In AGL’s view, AASB 139’s definition of an effective hedge results in an appropriate outcome for the interest rate and foreign exchange rate hedging activity currently undertaken by AGL. It does not however adequately address the more complex exposures from managing energy price risk. This means that a material number of AGL’s energy derivatives are not considered effective hedges under AASB 139.

The change in fair value of derivatives reported in profit and loss for the year ended 30 June 2013 was a gain of \$114.3 million before tax and \$80.0 million after tax. For the year ended 30 June 2012 change in fair value of derivatives was a loss before tax of \$304.6 million and \$212.0 million after tax.

AGL has finalised the acquisition accounting associated with the Loy Yang acquisition which resulted in a reduction in derivative assets acquired of \$120.0 million.

A reconciliation of the statement of financial position movement in derivative balances to the amount included in the statement of profit or loss for the year ended 30 June 2013 is presented in the following table:

	Net Assets (Liabilities)		
	30 June 2013	30 June 2012	Change
	\$m	\$m	\$m
Energy derivative contracts	112.7	208.7	(96.0)
Interest rate swap and foreign currency derivative contracts	(55.5)	(224.9)	169.4
Total net assets (liabilities) for derivative contracts	57.2	(16.2)	73.4
Change in derivative net asset	73.4		
Premiums paid	(107.8)		
Settlement of interest rate swaps	(105.1)		
Premium roll off	127.1		
Adjustment to Derivatives acquired	120.0		
Total change in fair value	107.6		

Recognised in equity hedge reserve	(35.5)
Recognised in borrowings	9.9
Recognised in profit and loss (fair value – pre-tax)	114.3
Recognised in profit and loss (interest – pre-tax)	18.9
Total change in fair value	107.6

A reconciliation of the statement of financial position movement in derivative balances to the amount included in the statement of profit or loss for the year ended 30 June 2012 is presented in the following table:

	Net Assets (Liabilities)		
	30 June 2012	30 June 2011	Change
	\$m	\$m	\$m
Energy derivative contracts	208.7	(89.7)	298.4
Interest rate swap and foreign currency derivative contracts	(224.9)	(148.5)	(76.4)
Total net liabilities for derivative contracts	(16.2)	(238.2)	222.0
Change in derivative net liability	222.0	←	
Premiums paid	(169.5)		
Equity accounted Loy Yang fair value	4.0		
Premium roll off	165.4		
Derivatives acquired	(293.1)		
Total change in fair value	(71.2)		
Recognised in equity hedge reserve	170.3		
Recognised in borrowings	63.1		
Recognised in profit and loss	(304.6)		
Total change in fair value	(71.2)		

The two tables above serve to highlight that derivatives can create substantial volatility in AGL's statement of profit or loss. AGL believes this volatility does not reflect the underlying performance of the business and therefore, changes in fair value of derivatives recognised in the statement of profit or loss should be excluded when calculating Underlying Profit.

2. Earnings per Share

Earnings per share (EPS) has been calculated on the profit after tax attributable to shareholders (Statutory) and the Underlying Profit adjusted for significant items and changes in the fair value of financial instruments. Further discussion on the reconciliation between Statutory Profit and Underlying Profit is contained in Section 1.

	Year ended 30 June 2013	Year ended 30 June 2012
	\$m	\$m
Statutory Profit	388.7	114.9
Adjust for the following after tax items:		
Significant items	289.6	155.1
Changes in fair value of financial instruments	(80.0)	212.0
Underlying Profit	598.3	482.0
	cents	cents
EPS on Statutory Profit	70.7	23.8
EPS on Underlying Profit	108.8	100.0

3. Dividend

The Directors have declared a final dividend of 33.0 cents per share for the year, a 3.1% increase on the prior corresponding period's final dividend of 32.0 cents per share. The final dividend will be paid on 27 September 2013. The record date to determine shareholders' entitlements to the final dividend is 6 September 2013 and shares will commence trading ex-dividend on 2 September 2013.

Before declaring the dividend the Directors satisfied themselves that:

- AGL's assets exceeded its liabilities immediately before declaring the dividend and the excess was sufficient for the payment of the dividend;
- the payment of the dividend was fair and reasonable to AGL's shareholders as a whole; and
- the payment of the dividend would not materially prejudice AGL's ability to pay its creditors.

The final dividend will be fully franked.

This will bring the annual dividend to 63.0 cents per share compared with 61.0 cents per share in the prior corresponding period.

The AGL Dividend Reinvestment Plan (DRP) will be in operation. Shares will be allotted at a 1.5% discount to the simple average of the daily weighted average market price at which AGL's ordinary shares are traded on the ASX during each of the 10 trading days commencing on 10 September 2013.

4. Review of Operations

The following review of operations focuses on Operating EBIT defined as EBIT before changes in fair value of financial instruments and significant items. AGL believes that Operating EBIT provides a better understanding of its financial performance by removing significant items and volatile changes in fair value of financial instrument accounting adjustments thereby facilitating a more relevant comparison of financial performance between financial periods.

The following table reconciles Statutory EBIT to Operating EBIT.

	Year ended 30 June 2013	Year ended 30 June 2012
	\$m	\$m
Statutory EBIT	667.2	201.4
Significant items	494.1	211.7
Change in fair value of financial instruments	(114.3)	304.6
Finance income included in Operating EBIT	2.3	12.7
Operating EBIT	1,049.3	730.4

Each segment section commences with a table reconciling Statutory EBIT with the Operating EBIT.

Operating EBIT for the year ended 30 June 2013 was \$1,049.3 million compared with \$730.4 million for the prior corresponding period. The Statutory and Operating EBIT by segment is presented in the following table:

	EBIT (Statutory)		EBIT (Operating)	
	Year ended 30 June 2013	Year ended 30 June 2012	Year ended 30 June 2013	Year ended 30 June 2012
	\$m	\$m	\$m	\$m
Retail Energy	355.5	332.8	355.5	332.8
Merchant Energy	882.1	224.2	869.3	549.7
Upstream Gas	(395.4)	(35.2)	0.0	0.6
Energy Investments	26.2	(140.2)	26.2	24.5
Centrally managed expenses	(201.2)	(180.2)	(201.7)	(177.2)
EBIT	667.2	201.4	1,049.3	730.4
Depreciation and amortisation	287.1	173.9	287.1	173.9
EBITDA	954.3	375.3	1,336.4	904.3
Average funds employed	9,853.4	7,917.2	9,853.4	7,917.2
EBIT / Average funds employed	6.8%	2.5%	10.6%	9.2%

Operating EBIT/Average funds employed increased 1.4 percentage points (ppts) due to a \$318.9 million, or 43.7%, increase in Operating EBIT. Partly offsetting the positive impact of an increase in Operating EBIT was an increase in average funds employed of \$1,936.2 million or 24.5%. The factors affecting Operating EBIT are explained in detail in Sections 4.1 to 4.5.

Average funds employed increased due largely to a full year of ownership of GEAC with the acquisition completed on 29 June 2012.

4.1 Retail Energy Operating EBIT: Increased 6.8% to \$355.5 million from \$332.8 million

	Year ended 30 June 2013	Year ended 30 June 2012
	\$m	\$m
Statutory EBIT	355.5	332.8
Significant items	-	-
Operating EBIT	355.5	332.8
Add back:		
Depreciation and amortisation	75.6	59.1
Operating EBITDA	431.1	391.9
Average funds employed	3,152.4	2,927.6
Operating EBIT/Average funds employed	11.3%	11.4%

Retail Energy is responsible for growing and servicing AGL's consumer customers. Retail Energy sells natural gas, electricity and energy related products and services to residential and small business customers. Retail Energy currently services over 3.5 million customer accounts.

Retail Energy sources its energy from AGL's Merchant Energy business. The transfer price for this energy is calculated based on methodologies adopted by regulators for determining wholesale energy costs in setting tariffs.

4.1.1 Analysis of Operating EBIT

Retail Energy contributed \$355.5 million to Operating EBIT for the year, up 6.8% on the prior corresponding period. The main factors contributing to the change in Operating EBIT are summarised in the table below.

	\$m
Operating EBIT for the year ended 30 June 2012	332.8
Increase in gas and electricity gross margin	47.2
Increase in depreciation and amortisation	(16.5)
Increase in net operating costs	(8.0)
Operating EBIT for the year ended 30 June 2013	355.5

4.1.1.1 Gross Margin

Gross margin, excluding fees and charges, increased by \$47.2 million, or 7.2% compared with the prior corresponding period.

The following table shows gross margin by fuel type:

	Year ended 30 June 2013	Year ended 30 June 2012	Movement
	\$m	\$m	%
Electricity	463.7	437.4	6.0
Gas	238.0	217.1	9.6
Fees and charges	82.6	66.6	24.0
Total gross margin	784.3	721.1	8.8
Gross margin excluding fees and charges	701.7	654.5	7.2

Gross margin increases were primarily driven by regulatory and contract price increases in all states.

The benefit of higher electricity customer numbers in NSW was more than offset by lower average consumption in all states as customers become more energy efficient.

Gas volumes were higher in Victoria during the winter months compared with the prior corresponding period, driven primarily by higher customer numbers in the first half of the year.

Fees and charges increased mainly due to revenue assurance activities, and the inclusion of AGL Solar gross margin of \$10.4 million, previously recorded in Merchant Energy.

In order to provide consistency with the AGL Financial Report, bad debt recoveries have been netted against bad and doubtful debt expense, rather than shown in fees and charges as previously disclosed in the Management Discussion and Analysis report. The prior corresponding period has been restated accordingly, reducing fees and charges by \$10.8 million and bad and doubtful debts by the same amount.

4.1.1.2 Depreciation and Amortisation

Depreciation and amortisation (D&A) increased by \$16.5 million, or 27.9% compared with the prior corresponding period.

	Year ended 30 June 2013	Year ended 30 June 2012	Movement
	\$m	\$m	%
NSW direct customer acquisition cost amortisation	(36.6)	(17.2)	112.8
Other	(39.0)	(41.9)	(6.9)
Total D&A	(75.6)	(59.1)	27.9

The increase in D&A relates to AGL's project to substantially grow its customer base in NSW by 30 June 2014. For the life of the project (which commenced in January 2011) the direct cash costs incurred to acquire NSW customers will be capitalised. These costs will then be amortised over the expected benefit period, typically between two and three years.

The following table outlines expenditure which has been capitalised for direct NSW electricity customer acquisition costs and also the amortisation profile:

	Year ended 30 June 2013	Year ended 30 June 2012	Total Project to date
	\$m	\$m	\$m
Direct cash outlay	43.5	41.4	100.4
Amortised to the income statement	(36.6)	(17.2)	(55.9)
Net capitalised costs	6.9	24.2	44.5
Number of lead sales	196,893	214,822	
Cost per lead sale	\$220.68	\$192.43	
Amortisation for the year ending:	\$m		
30 June 2011	2.1		
30 June 2012	17.2		
30 June 2013	36.6		
30 June 2014	32.2		
30 June 2015	12.3		
Total amortisation	100.4		

In addition to the above capitalised costs, AGL estimates that it spent a further \$6 per new customer on sales fulfilment activities. These costs have been incurred to process new customers onto AGL's system and are consistent with prior corresponding period costs.

Cost per lead sale increased to \$220.68 compared with \$192.43 for the prior corresponding period. The main driver of the increase was increased campaign expenditure due to the intensity of competition in the Retail market during the year.

4.1.1.3 Net Operating Costs excluding Depreciation & Amortisation

Retail Energy's net operating costs excluding D&A increased by \$8.0 million, or 3.0%, during the year compared with the prior corresponding period. The following table includes the breakdown of the material changes in net operating costs:

	Year ended 30 June 2013	Year ended 30 June 2012	Movement
	\$m	\$m	%
Labour and contractor services	(141.8)	(128.7)	10.2
Bad and doubtful debts (net of recoveries)	(48.0)	(50.8)	(5.5)
Campaigns and advertising	(76.4)	(73.1)	4.5
Other expenditure	(87.0)	(76.6)	13.6
Fees and charges	82.6	66.6	24.0
Net operating costs excluding D&A	(270.6)	(262.6)	3.0
Depreciation and amortisation	(75.6)	(59.1)	27.9
Net operating costs	(346.2)	(321.7)	7.6

Labour and contractor services costs increased by \$13.1 million, or 10.2%, as a result of higher call volumes and credit management activity following the introduction of a cost on carbon, increased brand and marketing campaigns throughout the year, the opening of AGL Smarter Living Stores and inclusion of \$5.0 million AGL Solar costs previously recorded in Merchant Energy. Labour rates increased in line with inflation.

Bad and doubtful debt expenses (net of recoveries) decreased by \$2.8 million, or 5.5% compared with the prior corresponding period. The decrease was due to improved credit collection techniques implemented during the year and \$7.5 million of proceeds received from the sale of previously written off debt.

Campaign and advertising expenditure increased by \$3.3 million, or 4.5%, due to increased customer retention activity and AGL's partnership with the flybuys program which commenced in April 2012. The program to date has resulted in over 400,000 AGL accounts linked to the flybuys program, which is expected to improve long term loyalty and retention.

Other expenditure increased by \$10.4 million, or 13.6%, with legal fees increasing due to increased regulatory activity and a higher level of agency collection fees and the inclusion of AGL Solar costs.

Fees and charges increased by \$16.0 million, or 24.0%, mainly due to increased revenue assurance activities and the inclusion of AGL Solar gross margin of \$10.4 million, previously recorded in Merchant.

4.1.2 Dual Fuel Strategy

Retail Energy continued to pursue its dual fuel strategy. AGL now services 1.68 million dual fuel customer accounts, compared with 1.62 million as at 30 June 2012, a 3.7% increase.

4.1.3 Customer Profitability

AGL uses gross margin per customer as its primary measure of customer profitability, with Operating EBIT/Sales used as a secondary measure.

4.1.3.1 Gross Margin per Customer

	Year ended 30 June 2013	Year ended 30 June 2012	Movement %
Gross margin (excluding fees & charges)	\$701.7m	\$654.5m	7.2
Average customer numbers	3,500,200	3,373,200	3.8
Consumer gross margin per customer	\$200.47	\$194.03	3.3

The increase in gross margin per customer was due to regulatory and contract price increases partially offset by higher network costs, increased discounting and lower average consumption.

4.1.3.2 Operating EBIT / Sales Analysis

	Year ended 30 June 2013 \$m	Year ended 30 June 2012 \$m	Movement %
Electricity revenue	3,541.7	3,009.7	17.7
Gas revenue	1,302.3	1,118.0	16.5
Other fees and charges	82.6	66.6	24.0
Total revenue	4,926.6	4,194.3	17.5
Cost of sales	(4,142.3)	(3,473.2)	19.3
Gross margin	784.3	721.1	8.8
Operating costs (excl D&A)	(353.2)	(329.2)	7.3
Operating EBITDA	431.1	391.9	10.0
Depreciation and amortisation	(75.6)	(59.1)	27.9
Operating EBIT	355.5	332.8	6.8
Operating EBIT / Sales %	7.2%	7.9%	-0.7ppts

Operating EBIT / Sales decreased by 0.7 ppts due mainly to a large increase in electricity network distribution costs compared with the prior corresponding period. As distribution costs are passed through to customers without an increase in Operating EBIT, Operating EBIT / Sales decreases.

4.1.4 Operating Efficiency

AGL focuses on net operating costs as a percentage of gross margin (excluding fees and charges) as the primary measure of operating efficiency. As a secondary measure, cost to serve is also analysed.

4.1.4.1 Net Operating Costs as a Percentage of Gross Margin

	Year ended 30 June 2013	Year ended 30 June 2012	Movement
	\$m	\$m	%
Net operating costs	(346.2)	(321.7)	7.6
Gross margin	784.3	721.1	8.8
Fees and charges	(82.6)	(66.6)	24.0
Gross margin less fees and charges	701.7	654.5	7.2
Net operating costs as percentage of gross margin (less fees and charges)	49.3%	49.2%	0.1ppts

Net operating costs as a percentage of gross margin increased by 0.1 percentage points (ppts).

Gross margin (less fees and charges) increased by 7.2% primarily due to regulatory and contract price increases, increasing NSW customer numbers partially offset by lower average consumption, increased discounting and increasing network costs.

Net operating costs increased by 7.6% due to increased amortisation of NSW customer acquisition costs and higher labour costs as a result of higher call volumes and credit management activity following the introduction of a cost on carbon, increased brand and marketing campaigns throughout the year and the opening of AGL Smarter Living Stores.

4.1.4.2 Cost to Serve Analysis

	Year ended 30 June 2013	Year ended 30 June 2012	Movement
	\$	\$	%
Net operating costs	(346.2m)	(321.7m)	7.6
Net operating cost per customer account	(98.90)	(95.38)	3.7
Cost to acquire/retain	(128.0m)	(108.0m)	18.5
Cost to acquire per account acquired/retained	(71.75)	(82.94)	(13.5)
Cost to serve	(218.2m)	(213.7m)	2.1
Cost to serve per customer account	(62.34)	(63.36)	(1.6)

Net operating cost per customer account for the year was \$98.90, a 3.7% increase on the prior corresponding period. The increase in net operating costs is discussed in detail in section 4.1.1.3.

The cost to acquire/retain increased by 18.5% for the year, due to higher amortisation charges relating to NSW electricity customer acquisitions and competitive market conditions resulting in increased retention activity.

Cost to serve increased 2.1% driven by increased labour and other expenses as described in section 4.1.1.3. However, the average number of customers increased by 3.8% for the year resulting in a minor decrease in the cost to serve per customer.

4.1.5 Customer numbers

Competitor activity increased during the year. The following table¹ provides a breakdown of customer numbers by state.

	30 June 2013	30 June 2012	Movement	Movement
	('000)	('000)	('000)	%
Electricity				
Victoria	611	638	(27)	(4.2)
South Australia	444	459	(15)	(3.3)
New South Wales	717	620	97	15.6
Queensland	374	367	7	1.9
	2,146	2,084	62	3.0
Gas				
Victoria	482	487	(5)	(1.0)
South Australia	129	117	12	10.3
New South Wales	683	711	(28)	(3.9)
Queensland	77	75	2	2.7
	1,371	1,390	(19)	(1.4)
Total	3,517	3,474	43	1.2

AGL churn increased to 18.4%, an increase of 3.0% from the prior corresponding period, however, remaining 5.6% below the Rest of Market which increased to 24.0%, up 1.8% during the year.

AGL NSW electricity churn also increased to 19.4% but remained below the Rest of Market at 20.1%.

The favourable gap between AGL's churn rate and the Rest of Market decreased marginally due to higher competition in the market. Maintaining this favourable gap in the current market conditions can be attributed to strong product offers, the flybuys reward scheme and interactive tools such as AGL Energy Online and My AGL IQ.

AGL exited the door to door sales channel in March 2013, focussing instead on alternate sales channels and increased customer retention activities.

¹ Includes 19,311 C&I customers at 30 June 2013 (22,694 at 30 June 2012) but does not include ActewAGL customers.

4.2 Merchant Energy Operating EBIT: Increased 58.1% to \$869.3 million from \$549.7 million

	Year ended 30 June 2013	Year ended 30 June 2012
	\$m	\$m
Statutory EBIT	882.1	224.2
Significant items	98.7	15.9
Finance income included in EBIT	2.3	1.0
Change in fair value of financial instruments	(113.8)	308.6
Operating EBIT	869.3	549.7
Add back:		
Depreciation and amortisation	165.2	78.8
Operating EBITDA	1,034.5	628.5
Average funds employed	5,319.6	3,396.8
Operating EBIT/Average funds employed	16.3%	16.2%

Merchant Energy is responsible for developing, operating and maintaining AGL's power generation assets and managing the risks associated with the procurement and delivery of gas and electricity for AGL's Wholesale and Retail portfolios.

Merchant Energy also manages the relationship with AGL's business customers. In addition to providing gas and electricity the business unit supplies beyond the meter services such as energy efficiency advice and broader carbon management services. The business uses financial hedges, bilateral contracts and physical generation to ensure adequacy of competitively priced supply. Generation assets include both thermal and renewable assets including Australia's largest privately owned and operated renewable portfolio and a pipeline of development opportunities.

The significant item relates to the settlement of stamp duty on the Loy Yang acquisition and the impairment of certain power development projects as described in sections 1.1.1 and 1.1.4 respectively.

Merchant Energy is structured into four business units: Energy Portfolio Management, Merchant Operations, Business Customers and Power Development.

The contribution of each business unit to Merchant Energy's Operating EBIT and EBITDA is set out in the following table.

	Operating EBIT		Operating EBITDA	
	Year ended 30 June 2013	Year ended 30 June 2012	Year ended 30 June 2013	Year ended 30 June 2012
	\$m	\$m	\$m	\$m
Energy Portfolio Management	1,134.6	540.4	1,153.8	551.4
Merchant Operations	(366.6)	(118.8)	(236.4)	(65.5)
Business Customers	122.8	94.1	138.0	108.2
Power Development	(0.9)	40.8	(0.8)	40.9
Sundry	(20.6)	(6.8)	(20.1)	(6.5)
Total Merchant Energy	869.3	549.7	1,034.5	628.5

4.2.1 Energy Portfolio Management Operating EBIT:
Increased 110.0% to \$1,134.6 million from \$540.4 million

	Year ended 30 June 2013	Year ended 30 June 2012	Movement
	\$m	\$m	%
Wholesale Electricity	970.4	381.5	154.4
Wholesale Gas	124.0	114.8	8.0
Eco-Markets	71.2	66.4	7.2
Gross margin	1,165.6	562.7	107.1
Operating costs	(11.8)	(11.2)	5.4
Operating EBITDA	1,153.8	551.5	109.2
Depreciation and amortisation	(19.2)	(11.1)	73.0
Operating EBIT	1,134.6	540.4	110.0

Energy Portfolio Management is responsible for managing the price risk associated with procuring electricity and gas and for managing AGL's green product obligations. It also controls the dispatch of owned and contracted generation assets which complement the portfolio of electricity hedges.

To effectively manage risk, AGL has in place an extensive governance framework which establishes the policy under which energy hedging activities are conducted. Key components of that policy include segregation of duties, independent risk oversight, Earnings at Risk limits and regular reporting to the Board.

The risk policy mandates that the principal purpose of electricity trading is to hedge AGL's market price exposure resulting from operating an integrated energy business. The policy allows for commercial optimisation of the portfolio provided that overall Earnings at Risk limits are adhered to. Commercial optimisation activities include:

- Reducing hedging costs through optimising load diversity between customer classes and regions;
- Harnessing the implicit optionality of the generation portfolio including arbitraging fuel types;
- Accelerating or decelerating hedging programs based on a view of market price; and
- Utilising a variety of instruments including weather derivatives to optimise risk and return.

4.2.1.1 Wholesale Electricity Gross Margin:
Increased 154.4% to \$970.4 million from \$381.5 million

Wholesale Electricity is responsible for managing the procurement and hedging of AGL's wholesale electricity requirements, for commercial management of the generation portfolio and for wholesale pricing to support AGL's retail and business customer base.

The significant increase in gross margin compared with the prior corresponding period was mainly due to additional generation from new assets, primarily the acquisition of Loy Yang A power station, and a net benefit from the introduction of a cost on carbon including transitional assistance. The increase in gross margin was also driven by higher revenue from the Retail business due to higher customer tariffs.

4.2.1.2 Wholesale Gas Gross Margin:
Increased 8.0% to \$124.0 million from \$114.8 million

Wholesale Gas is responsible for sourcing and managing AGL's gas supply and transportation portfolio to maximise wholesale price effectiveness for the retail and business customer base. Wholesale Gas also supplies other retailers and internal and third party gas fired generators.

The 8.0% increase in gross margin was due to higher consumer volumes, particularly in Victoria and higher business customer volumes.

4.2.1.3 Eco-Markets Gross Margin:
Increased 7.2% to \$71.2 million from \$66.4 million

Eco-Markets is responsible for managing the liabilities for both voluntary and mandatory green schemes. The largest of these schemes in which Eco-Markets participates is the Mandatory Renewable Energy Target which was split into the Small-scale Renewable Energy Scheme (SRES) and the Large-scale Renewable Energy Target (LRET) from 1 January 2011.

The 7.2% increase in gross margin compared with the prior corresponding period was due to effective cost management of Small-scale Renewable Energy Certificates (SRECs). This was partly offset by loss of margin associated with the NSW Gas Abatement Scheme which ceased on 30 June 2012.

4.2.2 Merchant Operations Operating EBIT:
Decreased 208.6% to \$366.6 million from \$118.8 million

	Year ended 30 June 2013	Year ended 30 June 2012	Movement
	\$m	\$m	%
Other revenue	80.5	-	n.a.
Labour	(151.2)	(36.1)	318.8
Contractor services	(114.2)	(14.8)	671.6
Other operating costs	(51.5)	(14.6)	252.7
Operating EBITDA	(236.4)	(65.5)	260.9
Depreciation and amortisation	(130.2)	(53.3)	144.3
Operating EBIT	(366.6)	(118.8)	208.6

Merchant Operations is responsible for managing and maintaining both AGL's and third party generation assets. AGL's thermal and renewable generation portfolio includes the 2,210 MW Loy Yang A power station and adjacent brown coal mine, the 1,280 MW gas fired Torrens Island power station, the 150 MW gas fired Somerton power station and 795 MW of hydro generation. AGL also operates and receives the generation revenues from Wattle Point, Hallett 1, Hallett 2, Hallett 4, Hallett 5 and Oaklands Hill and Macarthur wind farms (combined 925 MW of capacity).

Merchant Operations is largely a cost centre with all generation revenues and variable fuel costs included in the Energy Portfolio Management results. Other revenue is predominantly Loy Yang coal sales.

The increase in Merchant Operations operating expenses compared with the prior corresponding period primarily reflects the Loy Yang acquisition which was effectively integrated into the business this year with other movements representing minor increases across the portfolio.

4.2.3 Business Customers Operating EBIT:
Increased 30.5% to \$122.8 million from \$94.1 million

	Year ended 30 June 2013	Year ended 30 June 2012	Movement
	\$m	\$m	%
Electricity gross margin	65.4	57.2	14.3
Gas gross margin	63.6	51.1	24.5
C&I Operations & Customer Services Expenses	(29.2)	(31.7)	(7.9)
Energy Services	38.2	31.6	20.9
Operating EBITDA	138.0	108.2	27.5
Depreciation and amortisation	(15.2)	(14.1)	7.8
Operating EBIT	122.8	94.1	30.5

Business Customers manages AGL's Commercial and Industrial (C&I) gas and electricity customers through an integrated sales and service model. The customer base provides a channel to market for additional energy related services over and above basic energy supply.

Business Customers generates revenue through:

- Retention and acquisition of new gas and electricity customers;
- Provision of energy services in demand-side management, efficiency and utilisation; and
- Development and operation of customer based assets.

In addition, Energy Services is responsible for assisting customers to make their businesses more sustainable and energy efficient through expertise in program maintenance, gas combustion, customer energy infrastructure, customer based asset development and energy efficiency related carbon benefits.

Electricity gross margin increased compared with the prior corresponding period due to improvements in contract management, billing processes and new services including AGL Business IQ together with the lower gross margin contracts rolling off.

Gas gross margin increased compared with the prior corresponding period due to increased margin from Queensland customers, improved billing and contract management and the lower margin contracts rolling off.

C&I Operations & Customer Services expenses includes \$4.4 million of bad and doubtful debt expenses (net of recoveries), compared with \$4.8 million for the prior corresponding period.

Energy Services gross margin increases were due to the commencement of the Qenos co-generation facility in February 2013, and the sale of self-generated carbon certificates to Energy Portfolio Management.

4.2.4 Power Development Operating EBIT:
Decreased to (\$0.9 million) from \$40.8 million

Power Development Operating EBIT consists of profits from developing wind farms, less operating expenses associated with the business unit. Development profits from the construction of wind farms are recognised on a percentage of completion basis.

No development profits were recognised in the year compared with \$43.0 million in the prior corresponding period.

	Year ended 30 June 2013	Year ended 30 June 2012
	\$m	\$m
Hallett 2	-	0.6
Hallett 4	-	5.6
Hallett 5	-	30.0
Oaklands Hill	-	6.8
Total	-	43.0

Operating expenses were \$0.9 million compared with \$2.2 million for the prior corresponding period. The decrease in operating expenses is due mostly to lower spend on feasibility projects.

Development of the Macarthur wind farm concluded during the year with the wind farm officially opening on 12 April 2013.

On 31 July, 2013 AGL announced that two large-scale solar photovoltaic (PV) projects are set to proceed after achieving financial close in respect of funding agreements with the Australian Renewable Energy Agency (ARENA) and the New South Wales (NSW) Government. The AGL solar projects will include a 102 MW solar plant at Nyngan and a 53 MW solar plant at Broken Hill. The total project cost is approximately \$450 million. To support AGL's delivery of the projects, ARENA will provide \$166.7 million and the NSW Government will provide \$64.9 million.

4.2.5 Sundry Operating Expenses
Increased to (\$20.6 million) from (\$6.8 million)

Sundry includes overhead expenses for the Merchant Energy business unit. The increase in operating expenses compared with the prior corresponding period was due to the centralisation of certain employee provisions, recruitment costs and one-off Loy Yang integration costs.

4.3 Upstream Gas Operating EBIT: Decreased by 100% to \$0.0 million from \$0.6 million

	Year ended 30 June 2013	Year ended 30 June 2012
	\$m	\$m
Statutory EBIT	(395.4)	(35.2)
Significant items	395.4	35.8
Operating EBIT	0.0	0.6
Add back:		
Depreciation and amortisation	23.8	20.0
Operating EBITDA	23.8	20.6

Upstream Gas is responsible for AGL's investments and operations in gas exploration, development and production tenements, development and operation of gas storage facilities. The portfolio is divided into two broad regions: (i) Queensland / South Australia; and (ii) New South Wales.

The significant item expense of \$395.4 million for the year related to impairment provision charges in relation to NSW coal seam gas assets resulting from the proposed Mining SEPP changes and the impairment of the Galilee Basin joint venture as discussed in detail in section 1.1.2 and 1.1.3.

The following table provides a breakdown of the contributors to Operating EBIT and EBITDA:

	Operating EBIT		Operating EBITDA	
	Year ended 30 June 2013	Year ended 30 June 2012	Year ended 30 June 2013	Year ended 30 June 2012
	\$m	\$m	\$m	\$m
Queensland / South Australia	6.2	5.7	18.2	15.6
New South Wales	(0.3)	1.5	10.1	11.0
Equity investments	0.0	(0.1)	0.0	(0.1)
Sundry	(5.9)	(6.5)	(4.5)	(5.9)
Total Upstream Gas	0.0	0.6	23.8	20.6

4.3.1 Queensland / South Australia Operating EBIT: Increased by 8.8% to \$6.2 million from \$5.7 million

The Queensland / South Australia portfolio includes the Moranbah Gas Project (MGP) joint venture, the upstream elements of the North Queensland Energy (NQE) joint venture, the Silver Springs Project conventional oil and gas interests in the Surat Basin including underground gas storage, oil and gas exploration interests in the Cooper/Eromanga and Galilee Basins, the Spring Gully joint ventures and until 6 December 2011, AGL's interests in the Cooper Basin (Innamincka) joint venture.

Operating EBIT contribution from the combined MGP and NQE joint ventures was \$0.6 million compared with a loss of \$2.8 million in the prior corresponding period. Increased Operating EBIT was mainly due to increased gas sales of 15.2% to 7.6 PJ compared with 6.6 PJ in the prior corresponding period.

Operating EBIT contribution from the Silver Springs Project was \$5.7 million compared with \$9.6 million for the prior corresponding period. Reduced Operating EBIT was mainly due to reduced storage injection income owing to lower OGC gas availability, reduced oil sales and increased operating expenses predominantly related to higher labour and associated costs.

**4.3.2 New South Wales Operating EBIT:
Decreased to (\$0.3 million) from \$1.5 million**

The New South Wales portfolio includes the Camden Gas Project, gas exploration interests in the Sydney Basin (including Hunter Valley) and Gloucester Basin development assets.

Operating EBIT contribution from the Camden Gas Project was a loss of \$0.3 million compared with a profit of \$1.5 million in the prior corresponding period. Reduced Operating EBIT was mainly due to reduced gas sales of 6.9% to 5.4 PJ compared with 5.8 PJ for the prior corresponding period as well as availability declined and higher operating expenses mainly associated with increased workover activity.

**4.3.3 Equity Investments Operating EBIT:
Increased to \$0.0 million from (\$0.1 million)**

Equity Investments include AGL's 35% share investment in CSM Energy Pty Ltd (CSME) and 10% shareholding in Torrens Energy Limited (TEY).

**4.3.4 Sundry Operating EBIT:
Increased to (\$5.9 million) from (\$6.5 million)**

The Sundry category includes Upstream Gas overheads and three non-core oil and gas exploration interests in New Zealand of which one was relinquished and two were sold during the reporting period resulting in a combined before tax loss of \$0.1 million. In the prior corresponding period, AGL completed the sale of one of its exploration interests in New Zealand resulting in a before tax loss of \$0.4 million.

4.3.5 Gas Sales and Reserves Position

The following table summarises the gas sales volume and associated revenue from each operating region during the period:

AGL share of operations	Year ended 30 June 2013	Year ended 30 June 2012	Movement %
Gas sales volume (PJ)			
Queensland / South Australia	7.6	6.6	15.2
New South Wales	5.4	5.8	(6.9)
Total gas sales	13.0	12.4	4.8
Sales revenue (\$m)			
Queensland / South Australia	24.4	15.7	55.4
New South Wales	20.5	21.5	(4.7)
Total sales revenue	44.9	37.2	20.7
Average gas price (\$/GJ)	3.45	3.00	15.0

**AGL Energy Limited and Subsidiaries
Management Discussion and Analysis
For the year ended 30 June 2013**



AGL's share of proved plus probable (2P) and proved plus probable plus possible (3P) natural gas reserves by project, including coal seam gas and conventional gas is summarised below:

AGL share of gas reserves ¹ (PJ)	30 June 2013		30 June 2012	
	2P	3P	2P	3P
Gloucester (100%)	454	565	635	790
Moranbah (50%)	291	487	361	828
Camden (100%)	50	50	138	183
Hunter (100%)	0	0	134	257
Silver Springs (various)	58	150	58	150
Spring Gully (various)	8	9	7	10
Sub-Total	861	1,261	1,333	2,218
ATP 1103 back-in rights (50%) ⁽²⁾	868	2,065	737	1,594
Total	1,729	3,326	2,070	3,812

⁽¹⁾ Consistent with new ASX Listing Rules reporting requirements, gas reserves are now reported net of 'lease fuel', i.e. net of estimated own use fuel consumption upstream of the point of sale. Reserves as at 30 June 2012 have been restated accordingly for comparison purposes.

⁽²⁾ Under a 50-year project agreement that commenced in 2000, AGL has no effective exploration rights (or ongoing cost obligations) within exploration tenement ATP 1103 (previously designated 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.

AGL engages independent experts SRK Consulting Australia (SRK) to evaluate reserves and resources for its gas projects. Gas reserves and resources within the Gloucester, Camden and Hunter Gas Projects were reassessed by SRK as at 30 June 2013. Dr. Bruce McConachie is a full-time employee of SRK and has the necessary qualifications and 15 years relevant experience to act as a competent person to report reserves under the 2007 Petroleum Resources Management System (PRMS). This work was informed by the proposed changes to the Mining SEPP and factors in substantial exclusion zones around residential areas and within certain industry cluster areas in NSW as best interpreted at the time of the reserves assessment. The effect of the proposed Mining SEPP changes was to reduce total 2P reserves in NSW, net of gas sales over the year, by 403 PJ (44.4%) to 504 PJ. Further discussion of the regulatory changes can be found in section 1.1.2.

Gas reserves within the MGP and ATP 1103 were reassessed by independent reserves and resources evaluation company Netherland Sewell & Associates, Inc as at 31 December 2012. AGL's entitlement of 2P reserves within the combined Project and ATP areas, net of gas sales over the year, increased by 61 PJ (5.6%) to 1,159 PJ as a result of exploration and appraisal activities during the past 12 months.

The estimates of gas reserves shown in the table above were prepared in accordance with the definitions and guidelines set out in the PRMS approved by the Society of Petroleum Engineers. The information was compiled by Andrew Falkner, a full-time employee of AGL, who is qualified in accordance with ASX Listing Rule 5.11 and has consented to the form and context in which this table appears.

Refer to AGL's Annual Reserves Assessment as at 30 June 2013, released to the ASX on 28 August 2013, for more details relating to AGL's gas reserves and resources.

4.4 Energy Investments Operating EBIT: Increased 6.9% to \$26.2 million from \$24.5 million

	Year ended 30 June 2013	Year ended 30 June 2012
	\$m	\$m
Statutory EBIT	26.2	(140.2)
Significant items	-	157.0
Finance income from Loy Yang investment	-	11.7
Change in fair value of financial instruments (Loy Yang)	-	(4.0)
Operating EBIT	26.2	24.5
Add back:		
Depreciation and amortisation	-	-
Operating EBITDA	26.2	24.5

The following table provides a further breakdown of the contributors to the Operating EBIT:

	Year ended 30 June 2013	Year ended 30 June 2012
	\$m	\$m
ActewAGL	26.5	28.0
Loy Yang	-	(3.5)
Diamantina Power Station	(0.3)	-
Operating EBIT	26.2	24.5

4.4.1 ActewAGL (50% AGL Ownership) Operating EBIT: Decreased 5.4% to \$26.5 million from \$28.0 million

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% interest in ActewAGL's retail business.

ActewAGL Retail partnership contributed an equity share of profits of \$26.5 million for the year compared with \$28.0 million for the prior corresponding period. The 5.4% decrease in Operating EBIT contribution was driven by lower electricity consumption in the ACT and NSW.

4.4.2 Loy Yang Investment Operating EBIT:

On 29 June 2012, AGL completed the acquisition of the remaining 67.46% of shares and loan notes issued by Great Energy Alliance Corporation Pty Ltd (GEAC) that it did not already own. As a result of the acquisition AGL now owns the 2,210 MW Loy Yang A power station and adjacent brown coal mine. The Operating EBIT contribution of AGL's 100% ownership of GEAC is included under the Merchant Energy segment. In the prior corresponding period there was an equity accounted loss of \$3.5 million.

4.4.3 Diamantina Power Station Joint Venture

On 6 October 2011, AGL entered into a 50:50 joint venture with the APA Group to construct the Diamantina Power Station in Mt Isa. The power station is due to become operational in FY14. The joint venture posted a loss of \$0.3 million for the year ended 30 June 2013 and did not contribute to Operating EBIT for the prior corresponding period.

4.5 Centrally Managed Expenses: Increased 13.8% to \$201.7 million from \$177.2 million

	Year ended 30 June 2013	Year ended 30 June 2012
	\$m	\$m
Statutory EBIT	(201.2)	(180.2)
Significant items	-	3.0
Change in fair value of financial assets	(0.5)	-
Operating EBIT	(201.7)	(177.2)
Add back:		
Depreciation and amortisation	22.5	16.0
Operating EBITDA	(179.2)	(161.2)

The following table provides a more detailed breakdown of centrally managed expenses.

	Year ended 30 June 2013	Year ended 30 June 2012
	\$m	\$m
Labour	(62.7)	(57.8)
Office leases	(15.6)	(17.6)
Hardware and software costs	(37.9)	(38.3)
Consultants and contractor fees	(12.7)	(12.6)
Insurance premiums	(21.5)	(10.0)
Depreciation and amortisation	(22.5)	(16.0)
Other	(28.8)	(24.9)
Total	(201.7)	(177.2)

The 13.8% increase in operating expenses was due to the inclusion of corporate costs associated with Loy Yang of \$25.8 million. Excluding these costs, centrally managed expenses were slightly down on the prior corresponding period.

Labour costs of \$62.7 million include \$5.7 million in relation to Loy Yang. After adjusting for the Loy Yang costs, labour costs reduced \$0.8 million with labour rate increases in line with inflation more than offset by lower employee provisions.

Office lease costs of \$15.6 million were 11.4% lower than the prior corresponding period due to the sub-letting of unutilised space.

Insurance premium increases were largely due to the inclusion of \$10.8 million of premium costs associated with Loy Yang.

Depreciation and amortisation expenses increased by \$6.5 million due to the commencement of depreciation on a number of IT related projects.

AGL Energy Limited and Subsidiaries
Management Discussion and Analysis
For the year ended 30 June 2013

AGL centrally manages a number of expense items, including information technology and office leases, to maximise operational efficiencies, minimise costs and optimise service levels across business divisions. While these costs would not be incurred but for the existence of the business units, they have not been formally reallocated because the management of these costs is the responsibility of various corporate functions.

However, although not formally reallocated for the purposes of reporting Operating EBIT, a substantial proportion of the expenses can be attributed to the business units. The following tables provide further analysis of the centrally managed expenses incurred on behalf of business units during the years ended 30 June 2013 and 30 June 2012.

	Centrally Managed Expenses \$m	Reallocate Retail Energy \$m	Reallocate Merchant Energy \$m	Reallocate Upstream Gas \$m	Unallocated \$m
30 June 2013					
Labour	(62.7)	-	-	-	(62.7)
Office leases	(15.6)	6.5	6.7	0.7	(1.7)
Hardware and software costs	(37.9)	26.5	7.6	-	(3.8)
Consultants and contractor fees	(12.7)	1.2	3.4	0.1	(8.0)
Insurance premiums	(21.5)	3.6	16.0	1.9	-
Depreciation and amortisation	(22.5)	15.7	4.5	-	(2.3)
Other	(28.8)	2.6	9.5	0.3	(16.4)
Total	(201.7)	56.1	47.7	3.0	(94.9)

	Centrally Managed Expenses \$m	Reallocate Retail Energy \$m	Reallocate Merchant Energy \$m	Reallocate Upstream Gas \$m	Unallocated \$m
30 June 2012					
Labour	(57.8)	-	-	-	(57.8)
Office leases	(17.6)	8.7	5.5	0.9	(2.5)
Hardware and software costs	(38.3)	26.8	7.7	-	(3.8)
Consultants and contractor fees	(12.6)	1.5	0.7	0.1	(10.3)
Insurance premiums	(10.0)	3.4	4.8	1.8	-
Depreciation and amortisation	(16.0)	11.2	3.2	-	(1.6)
Other	(24.9)	4.2	2.2	-	(18.5)
Total	(177.2)	55.8	24.1	2.8	(94.5)

5. Net Finance Costs
Increased to \$205.5 million from \$51.2 million

	Year ended 30 June 2013	Year ended 30 June 2012
	\$m	\$m
Statutory finance costs	(244.7)	(83.9)
Statutory finance income	41.5	45.4
Remove finance income included in EBITDA	(2.3)	(12.7)
Net financing costs	(205.5)	(51.2)

Net financing costs were \$205.5 million compared with \$51.2 million for the prior corresponding period. The significant increase in net finance costs was due to the GEAC acquisition completed on 29 June 2012 which resulted in an overall increase in average net debt to \$2,818.5 million compared with \$990.3 million for the prior corresponding period.

6. Income Tax Expense
Underlying income tax increased 24.5% to \$245.5 million from \$197.2 million

	Year ended 30 June 2013	Year ended 30 June 2012
	\$m	\$m
Statutory income tax expense	(75.3)	(48.0)
Income tax benefit from significant items	(204.5)	(56.6)
Income tax (benefit) / expense from fair value movements	34.3	(92.6)
Underlying tax expense	(245.5)	(197.2)

The increase in the underlying tax expense was in line with underlying earnings growth with the effective tax rate of 29.1% comparable with the 29.0% rate for the prior corresponding period.

7. Operating Cash Flow

7.1 Reconciliation of Operating EBITDA to Statutory Cash Flow:

The following table provides a reconciliation of Operating EBITDA to Statutory Cash Flow.

	Year ended 30 June 2013	Year ended 30 June 2012
	\$m	\$m
Operating EBITDA	1,336.4	904.3
Equity accounted income (net of dividend received)	(1.8)	14.0
Accounting for onerous contracts	(48.8)	(20.9)
Working capital movements		
(Increase) / decrease in receivables	(247.8)	(197.0)
(Increase) / decrease in inventories	21.0	(21.5)
Increase / (decrease) in creditors	22.4	106.6
Increase / (decrease) in carbon liability	144.8	-
Net derivative premiums paid / roll-offs	21.9	(3.9)
Net movement in GST recoverable / payable	13.3	(7.8)
Other	(29.4)	(146.7)
Operating cash flow before interest, tax & significant items	1,232.0	750.7
(Increase) / decrease in net green position	(61.4)	20.0
(Increase) / decrease in future margin calls	8.2	29.8
Net finance costs paid	(212.9)	(96.7)
Income tax paid	(71.1)	(180.8)
Unwind of carbon assistance received	(240.1)	-
Cash flow relating to significant items	(52.9)	(56.5)
Statutory net cash provided by operating activities	601.8	466.5

The impact of carbon on working capital is not significant. The increase in carbon liability of \$144.8 million plus an estimated increase from carbon included in creditors of \$14.0 million is offset by an estimated increase in receivables of \$158.0 million.

7.2 Underlying Operating Cash Flow before Interest and Tax: Increased 64.1% to \$1,232.0 million from \$750.7 million

The statutory net cash flow from operating activities does not take into account a number of material items that affect operating cash flow. AGL has made adjustments to take these items into consideration in calculating the underlying operating cash flow before interest and tax.

	Year ended 30 June 2013	Year ended 30 June 2012
	\$m	\$m
Statutory net cash provided by operating activities	601.8	466.5
Cash flow relating to significant items	52.9	56.5
Increase / (decrease) in futures margin calls	(8.2)	(29.8)
Increase / (decrease) in net green position	61.4	(20.0)
Carbon assistance received	240.1	-
Underlying Operating Cash Flow	948.0	473.2
Net finance costs paid	212.9	96.7
Income tax paid	71.1	180.8
Underlying Operating Cash Flow before interest and tax	1,232.0	750.7

7.2.1 Significant Items

AGL incurred cash expenses in the year relating to the payment of Stamp Duty in relation to the acquisition of GEAC. This payment is discussed further in Section 1.1.

7.2.2 Futures Margin Calls

AGL posts deposits with the futures exchange at the inception of a futures contract in relation to electricity. Depending on market movements, AGL subsequently pays or receives cash. The net receipt for the year ended 30 June 2013 was \$8.2 million compared with a receipt of \$29.8 million for the prior corresponding period.

7.2.3 Net Green Position

AGL purchases various green products to satisfy its green compliance obligations. As at 30 June 2013, AGL had paid \$172.2 million for certificates relating to future obligations compared with \$110.8 million in the prior corresponding period, a net increase of \$61.4 million.

7.2.4 Carbon Transitional Assistance

Immediately prior to AGL's acquisition, GEAC received \$240.1 million of carbon transitional assistance in June 2012. This receipt was not recognised in the underlying cash flow for the year ended 30 June 2012 as it was provided to partially offset the cost of carbon in the 2013 financial year. This receipt has subsequently been recognised in underlying cash flow for the year ended 30 June 2013.

8. Subsequent Events

Australian Power and Gas

On 15 July 2013, AGL announced it had entered into agreements for the outright acquisition of 19.9% of the issued shares of Australian Power and Gas Company Limited (APG), and that it intended to make an off-market takeover offer to acquire all of the issued shares of APG that it does not currently have an interest in at \$0.52 cash per share. The offer places an implicit enterprise valuation on APG of \$158 million.

On 8 August 2013, AGL issued the bidder statement inviting APG shareholders to accept a \$0.52 cash per share offer from AGL.

On 23 August 2013, APG issued its target's statement with the Independent Directors of APG recommending acceptance of AGL's offer and stating that the Independent Expert has concluded that the offer of \$0.52 cash per share is fair and reasonable to Shareholders not associated with AGL.

Solar Projects

On 31 July 2013, AGL announced that two large-scale solar photovoltaic (PV) projects are set to proceed after achieving financial close in respect of funding agreements with the Australian Renewable Energy Agency (ARENA) and the NSW Government.

The AGL solar projects will include a 102 MW solar plant at Nyngan and a 53 MW solar plant at Broken Hill. The total project cost is approximately \$450 million. To support AGL's delivery of the projects, ARENA will provide \$166.7 million and the NSW Government will provide \$64.9 million.

9. Information on audits

This report has been derived from the AGL Financial Report 2013 which has been prepared in accordance with AASB Standards, other AASB authoritative pronouncements and interpretations or other standards acceptable to ASX.

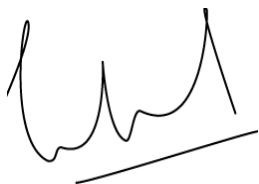
This report, and the financial statements upon which the report is based, use the same accounting policies.

This report does give a true and fair view of the matters disclosed.

This report is based on financial statements that have been audited.

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

The audit report, which is unqualified, is attached to the AGL Financial Report 2013 also released to the market on 28 August 2013.



Jeremy Maycock
Chairman

28 August 2013