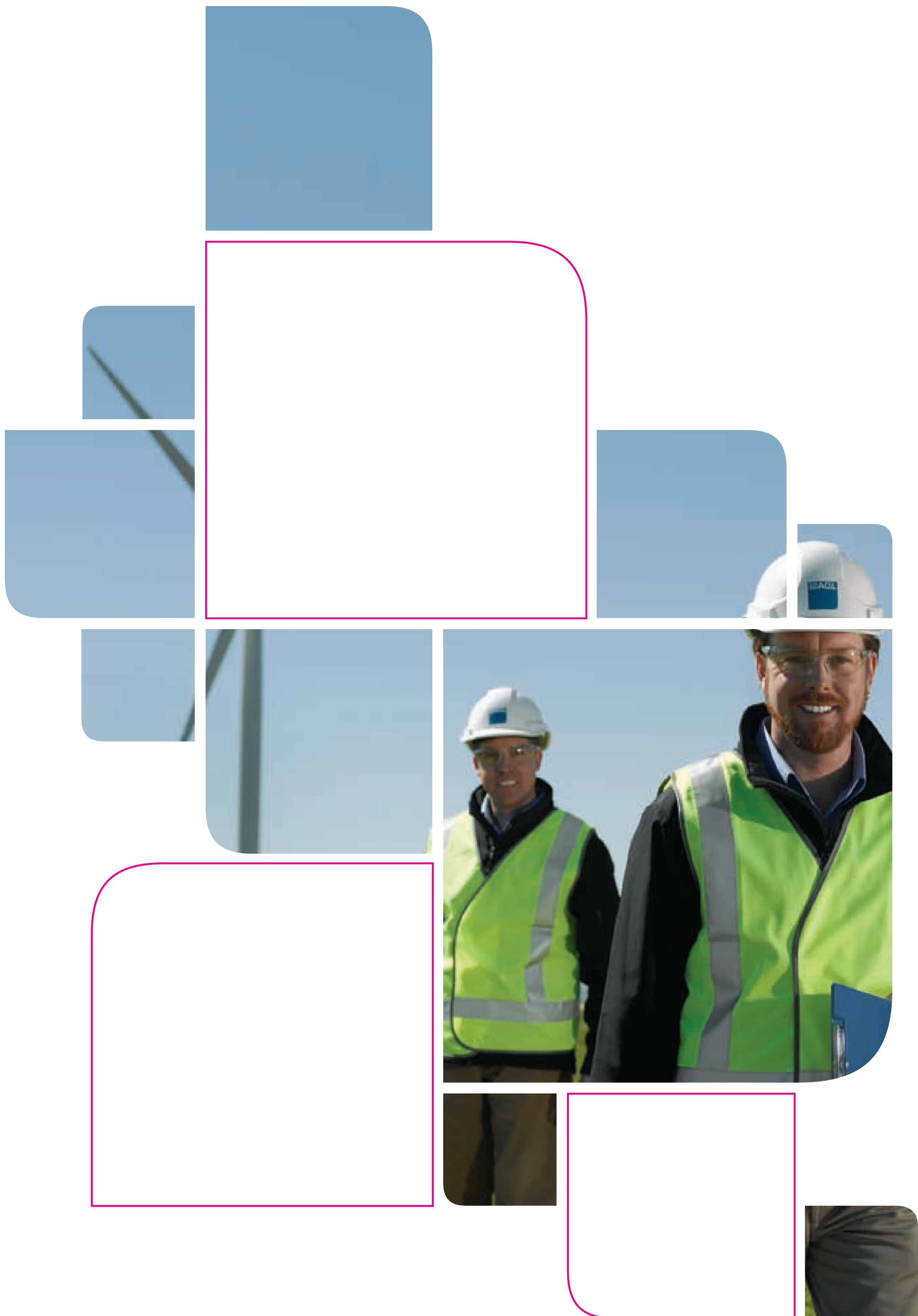


Energy in action.®

AGL Annual Report 2008

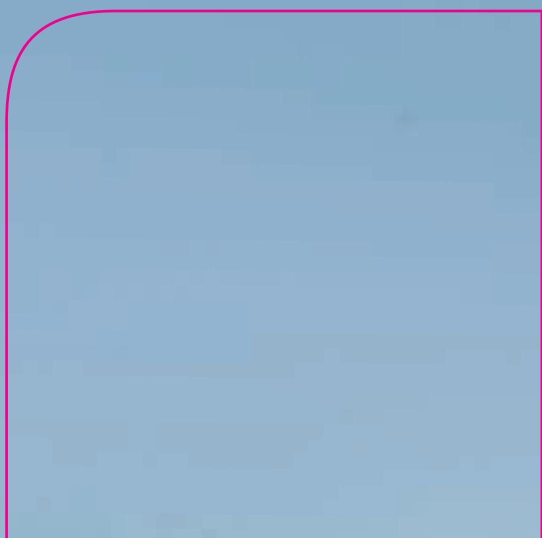
AGL Energy Limited
ABN 74 115 061 375

Look beyond the surface and you'll see the whole picture.

Tackling climate change at an industry level requires a cohesive strategy for the crucial times ahead.

In our first full year as AGL Energy, we've taken action on multiple fronts. We've continued to assemble Australia's largest privately owned and operated portfolio of renewable assets and strengthened our retail and generation assets. We've cleared the way for all of our people – our customers, employees and shareholders – to be well placed in the new carbon constrained economy.

Change calls for more than words; it calls for action. We want to show what energy in action was able to achieve this year.



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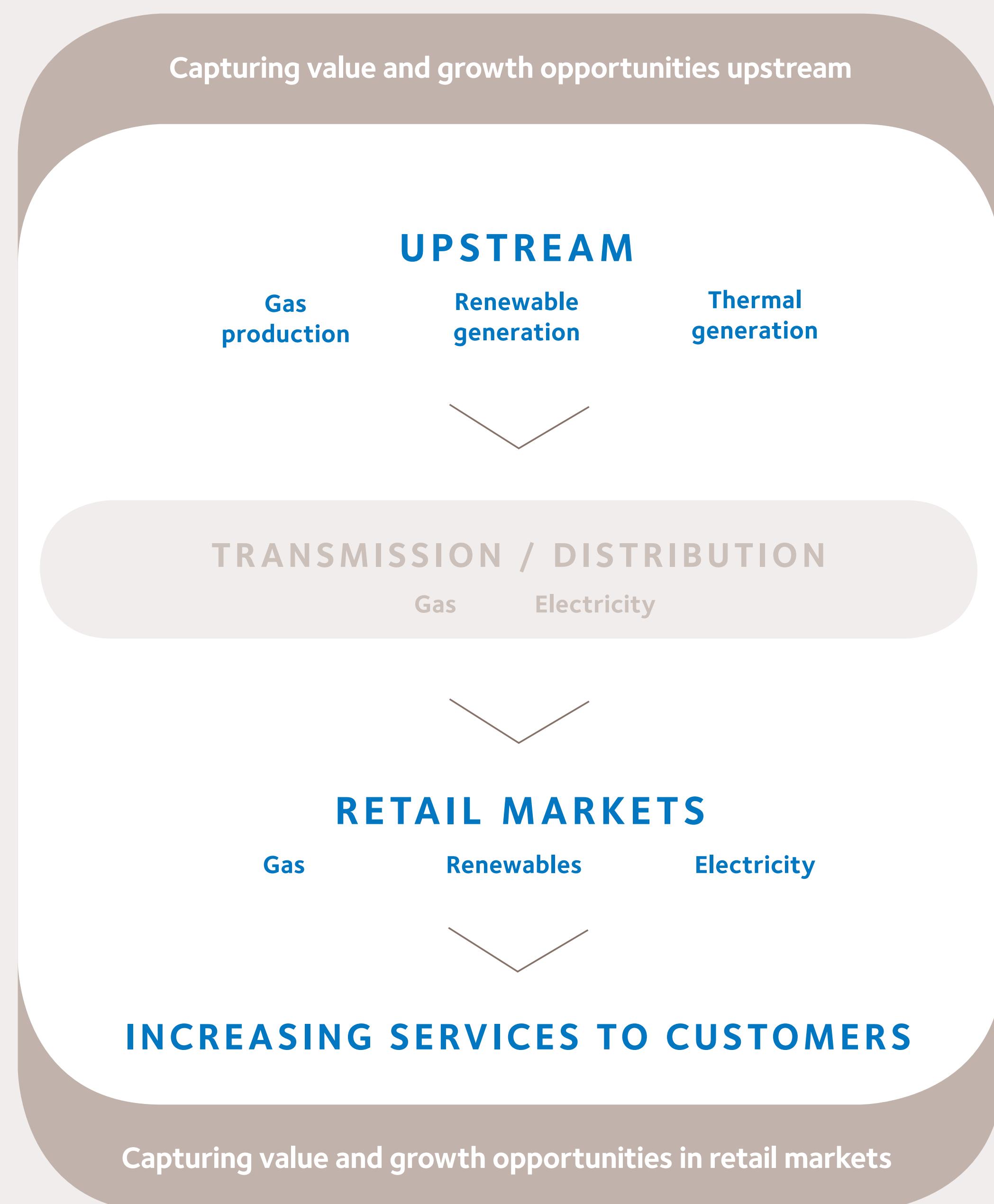
AGL employees Adam Mackett and Justin Parker at Hallett Stage 1 wind farm



Our integrated strategy

Upstream gas

- Equity gas
- Contract gas
- Transmission and haulage contracts
- Gas storage

Generation

- Thermal generation
- Renewable generation
- Carbon solutions
- Hedge products and trading

Market leadership

- Economies of scale
- Customer service
- Sales and marketing capability
- Regulatory and risk management

Key numbers

$271.7m

Retail Energy operating EBIT

+41.1% on 2007

This year's result includes a full-year contribution from the Powerdirect and SunGas businesses.

$300.8m

Merchant Energy operating EBIT

+7.4% on 2007

The result includes a contribution from the Torrens Island Power Station in its first year of AGL ownership.

$355.5m

Underlying net profit after tax*

+7.6% on 2007

Underlying net profit after tax was at the upper end of AGL's revised earnings guidance of $330–$360 million for 2008.

*See page 36 for a reconciliation of underlying net profit after tax.

$155.1m

Gas and Power Development operating EBIT

+18.8% on 2007

The result includes a full-year contribution from the investment in Queensland Gas Company Limited.

3.22m

Customer accounts increased during the year by almost 34,000. We have 1.41 million gas customer accounts and 1.81 million electricity accounts.

Chairman's Report

For AGL, the focus for much of the year has been on restoring market confidence in the Company, following the earnings downgrade in October last year. To earn market confidence again and to restore support for AGL required management stability, improved operating performance, restoration of balance sheet strength and progress toward AGL's strategic objectives.

I believe our efforts so far have been successful. They reflect real credit on Managing Director Michael Fraser, his executive team, and all of AGL's people. Financial results for the full year are in line with the revised guidance we gave shareholders in October 2007 and dividend payments have been maintained at forecast levels.

The energy markets in which we operate are highly competitive and they require a strong business framework, efficient processes and committed employees to earn an adequate return for shareholders. Over the last year, AGL has lifted its abilities to better serve its customers with our Phoenix program – the integration of our eight major legacy billing systems into one – going live. Phoenix provides much improved customer service levels, better and faster information, and gives AGL the capacity to offer more competitively priced products at a lower cost to serve. This is all consistent with our strategic aim of making AGL the most efficient and customer focused energy supplier in Australia.

Also this year, AGL successfully integrated the Powerdirect and SunGas retail businesses in Queensland and the Torrens Island Power Station business in South Australia. Torrens Island Power Station's value in supporting our integrated energy strategy was demonstrated when power demand in South Australia reached historically high levels during extreme heat conditions in February and March this year.

We continued to develop our market-leading renewable energy portfolio. The successful completion of the Hallett Stage 1 wind farm, which was opened in June this year, and the hydro generation plant at Bogong, which is on track to be completed in October 2009, will maintain AGL's leadership position in developing renewable energy sources in Australia. The outlook is for these assets to continue to grow in value.

It is important for AGL to maintain an investment grade credit rating and a strong balance sheet if it is to operate efficiently in national energy markets and optimise shareholder returns. This means that we need to manage the amount of debt we can incur, and we need to invest in the assets that are really important to long-term performance and balance sheet strength.

During the year, AGL sold its Chilean gas distribution business (GasValpo) and its 33% interest in AlintaAGL, realising approximately $600 million. The GasValpo business had been owned by AGL for 10 years, was well managed and produced solid earnings every year, but a variety of local issues in Chile meant the business was unlikely to grow appreciably. AGL's interest in AlintaAGL was acquired as part of the transaction with Alinta Limited in October 2006. AlintaAGL is a good business selling gas to residential and business customers in Perth, but Western Australia is not connected to the national electricity market, leaving few opportunities to take advantage of AGL's scale to increase value for shareholders. The Board concluded that the capital invested in both GasValpo and AlintaAGL should be redeployed in other assets more closely aligned with AGL's strategic objectives.

Similarly, AGL is now engaged in the process of selling its PNG joint venture oil and gas interests. The joint venture partners have recently committed to the front-end engineering and design phase of a large liquefied natural gas (LNG) project which, if successfully implemented, will see large volumes of PNG gas exported to world markets. As a result of the joint venture decision, the value of AGL's interest in the project has significantly increased. However, as PNG gas would not be available to AGL in Australia on satisfactory commercial terms, the Board has determined to realise that value and use the capital to further develop AGL's strategy in Australia.

AGL aspires to be Australia's leading integrated energy company, efficiently supplying gas and electricity customers in national markets. It manages the associated risks of these activities through appropriate control over the sources of its products – in electricity, these include physical generation assets, despatch rights and a flexible portfolio of hedge contracts, and, in gas, secure and diversified long-term supply arrangements.

In electricity, our portfolio of generation assets and hedge contracts is well matched against our current customer load. Future investment in electricity generation is likely to be mainly from developing our own assets including assets that use renewable energy.

In gas, we are Australia's leading retailer. Some commentators have suggested that our market-leading position may be eroded because we do not have large direct holdings in proven gas reserves. Our portfolio of long-term contracts with established and reliable major gas producers provides us with ample access to gas to meet the needs of the market and our customers for a number of years. However, we are increasing the emphasis on developing the interests we already have in gas projects at Moranbah and the Galilee Basin in Queensland, at Camden and the Hunter Valley in New South Wales, and by investing in emerging gas producers.

AGL has lifted its abilities to better serve its customers with our Phoenix program. Phoenix provides improved customer service levels and gives AGL the capacity to offer more competitively priced products at a lower cost to serve. This is all consistent with our strategic aim of making AGL the most efficient and customer focused energy supplier in Australia.

We continued to develop our renewable energy portfolio. The successful completion of the Hallett Stage 1 wind farm and the hydro generation plant at Bogong will maintain AGL's leadership position in developing renewable energy sources in Australia. The outlook is for these assets to continue to grow in value.

Our strategy is clear. It has been in place for several years now, but the manner in which we seek to implement it obviously needs to adapt to changing conditions – and conditions really are changing. The past year has been most eventful for Australian energy markets. Important new energy sources have emerged, prospects of a more efficient national energy market may be closer, and carbon constraints based on international obligations are likely to radically affect energy supplies and costs for as far ahead as can be foreseen.

The level of proven coal seam gas reserves, particularly in Queensland, has increased dramatically and corporate activity has followed. As noted earlier, AGL has material and increasing interests in coal seam gas in Queensland and New South Wales and we intend to spread our interests further.

AGL fully supports the New South Wales Government's plans to privatise its electricity retail assets. We also believe it should privatise its electricity generation assets as an essential element of encouraging the substantial investment in new generation assets required to maintain security of electricity supply for New South Wales. In turn, sensible new investment will contribute to a more efficient national energy market – a matter of concern to every Australian.

In supporting the New South Wales Government's plans, we believe it is imperative that the sale process establishes a clear and transparent operating framework for the privatised businesses. Buyers of the retail businesses must have confidence in the mechanism for setting regulated tariffs and in the Government's timetable for remaining retail price controls.

The election of a Labor Federal Government in November last year has seen Australia ratify the Kyoto Protocol, committing Australia to absolute reductions in the emission of its greenhouse gases.

The Federal Government has also committed to the implementation of a national emissions trading scheme (to be known as the Carbon Pollution Reduction Scheme) from 1 July 2010 and the imposition of additional mandatory targets for the proportion of Australia's total energy needs to be obtained from renewable energy sources. These measures have significant implications for all Australian energy users.

AGL supports the implementation of both an emissions trading scheme and expanded mandatory renewable energy targets as important elements of any plan to reduce Australia's carbon emissions.

It is critical to the success of both these initiatives that they operate to change patterns of energy consumption and investment decisions across the entire economy – from large industry through to domestic households. Many sectors will require compensation for the higher cost of energy, or the decline in value of assets, that may follow as the economy adjusts to an emissions trading scheme. This will be an exceedingly difficult task, but the principles for providing assistance should be transparent and seek to minimise the distortions in the energy choices made by all Australians.

Corporate governance
The Board is continuing its renewal process. We expect that new appointments will add experience in risk management and in upstream generation.

In August 2007, Bruce Phillips was appointed to the Board as a non-executive Director. Bruce has extensive management experience, particularly in the upstream sector of the oil and gas industry and has already made a valuable and important contribution.

In February, Charles Allen AO stepped down from the Board after serving for 12 years and making a distinguished and substantial contribution. During his tenure, AGL was transformed from a regional gas retailer and distributor to the largest integrated energy company in Australia, and completed a merger/demerger transaction with Alinta Limited which realised considerable value for all shareholders. On behalf of all shareholders, I thank him.

Workplace health and safety has become more significant as AGL increases its ownership of operating assets. At the same time the importance of companies behaving sustainably and responsibly has increased, and is likely to continue increasing with the introduction of an emissions trading scheme.

During the year, the Board formed a separate Safety, Sustainability and Corporate Responsibility Committee to oversee AGL's efforts in these important areas.

Conclusion
Australian energy markets face a future of uncertainty. A far reaching emissions trading scheme, increased mandatory renewable energy targets, industry consolidation and the privatisation of electricity assets in New South Wales are a part of this. Interest rates, credit conditions and world oil prices add to the uncertainty.

What is clear is that new investment on an unprecedented scale is required to meet the nation's need for energy on a carbon constrained basis. Investment in energy is long term, and technologies will – and should – change as the costs of reducing carbon work through the markets. As this adjustment process proceeds, industry participants and energy consumers will have to deal with higher risk and increased costs.

AGL is in the centre of all these events. It has many assets which provide opportunities for the Company to maintain industry leadership – a market leading retail position, a portfolio of low-emission electricity generation assets, and secure gas supplies, all focused on better meeting the needs of our customers. It has a clear strategy – in place for several years – which is robust but adaptable to rapid change. It has many good people committed to the achievement of the Company's objectives. Your Board is confident that AGL can thrive in this challenging environment.

Mark Johnson
Chairman

Managing Director's Report

In light of the uncertainty that followed the earnings downgrade in October 2007, it has been pleasing to see that, by focusing the Company's efforts, we have been able to deliver on the revised earnings guidance despite highly competitive market conditions.

The results that were achieved are a tribute to the efforts of AGL's employees and shows that putting our heads down and working diligently to focus on our core business is paying dividends. AGL's underlying business is strong, our strategy robust and we look forward to the future with optimism.

2007/2008 in review
During the year, we have focused on three key areas: improving our core operations, staff engagement and positioning the Company strategically for a carbon constrained future. Our results demonstrate that we have made good progress in each of these areas.

Our underlying profit after tax increased by 7.6% to $355.5 million, with strong contributions from across the business.

In Retail Energy, we were able to increase our customer base, grow our profit margins and reduce operating costs per customer whilst operating in some of the most competitive energy markets in the world. We also completed the integration of the Powerdirect and SunGas businesses, which we acquired during 2007.

The Merchant Energy business, again, recorded a strong result and our gas and electricity portfolios remain well positioned. The acquisition of the gas-fired Torrens Island Power Station (TIPS) in South Australia was completed and successfully integrated it into our portfolio of electricity generation assets. Employees at TIPS deserve special praise for maintaining an impeccable safety record during the year, bringing up more than eight years without a lost time injury.

We also added to our generation portfolio by acquiring the despatch rights to the Oakey and Yabulu Power Stations in Queensland as well as commissioning the Hallett Stage 1 wind farm in South Australia.

The Gas and Power Development group also performed well with a growing contribution from the development of our renewable energy portfolio and upstream gas activities.

We moved to strengthen our balance sheet by divesting non-core businesses, including the sale of our 33% interest in AlintaAGL and the disposal of GasValpo in Chile. We also announced the Company's intention to sell our PNG oil, gas and LNG project assets by the end of the calendar year. In total, we reduced our debt by approximately $700 million from its peak in December 2007 and successfully re-financed in excess of $500 million in debt facilities.

Valuing our people
Staff engagement was recognised as a key issue following a period characterised by significant corporate activity, including major business restructuring and downsizing.

We adopted a back-to-basics approach; to give every employee clarity about what's important and valued at AGL; tools and support to do their jobs well; and a work environment where contributions are valued and performance is rewarded.

As a result, I am pleased to report that during 2007/2008, employee engagement has improved significantly as a core metric. We have seen a marked improvement in our ratings, though this is the first step in the journey to being an employer of choice in Australia.

Engaged people enjoy a more positive work experience and directly impact the productivity and effectiveness of a business. An engaged workforce will be fundamental to our continued success in 2008/2009 and beyond as we focus on our customers and our employees to improve returns to shareholders.

Building retail
In Retail Energy, we continued to build world-class competitive capability at industry-leading cost to serve through the ongoing roll-out of the Phoenix Change Program. The Program is on track and delivering early benefits with more than 1.6 million customers already transferred to the

new SAP platform last year, and the final migration to take place by 31 December 2008. Phoenix will give us a strong platform for enhanced customer service in the future.

In a highly competitive environment, we had a moderate net gain of 34,000 customer accounts, as well as improved margins and lower operating costs per customer.

A crucial part of delivering our integrated strategy is reinvigorating our retail operations and marketing by re-establishing the prominence of the AGL brand in retail energy markets. We launched the new "Energy in Action" campaign in February to highlight AGL's integrated strategy and the scale of our renewable energy investments.

Moving on carbon
The Federal Government has released its Green Paper on emissions trading and will reveal its draft legislation for the proposed Carbon Pollution Reduction Scheme (CPRS) by the end of the year. This Scheme will have implications across the whole economy and is one of the most significant economic policies this country has seen.

AGL has been actively engaged with Governments at a Federal and State level, participating in the shaping of these deep, industry changing reforms. AGL supports the introduction of the CPRS and we will continue to work with the Government ahead of its formal implementation in 2010.

We completed Australia's first carbon trade in May 2008, more than two years ahead of the new national trading scheme, and we have continued to trade with other business partners. This will grow into a multi-billion dollar market, with AGL at the leading edge of the activity. We also continued to be an active member of the world's largest voluntary and legally binding greenhouse gas emissions trading program, the Chicago Climate Exchange (CCX).

In August 2008, we launched a new business unit dedicated to helping our customers cut their greenhouse emissions. Our new Carbon Management Services group will offer services in the areas of carbon foot printing, strategy development and delivery to help customers reduce their direct and indirect greenhouse gas emissions.

Through diligence and discipline, we have done what we said we would do: we have delivered on our earnings guidance and on our integrated strategy.

Renewable energy
The Federal Government has confirmed its Mandatory Renewable Energy Target (MRET) of 20% by 2020, which will require 45,000 GWh of renewable energy generation.

AGL is already Australia's largest private owner and operator of renewable energy generation assets and we have a number of development opportunities that will help meet our mandatory obligations in the future, and enhance our market leading position.

We are continuing to explore new wind energy options through further development of the Hallett wind farm complex in South Australia and of the proposed Macarthur wind farm in Victoria, and early in the new financial year we announced that we have acquired the wind farm interests of Allco Finance Group.

We have also taken our first step into the geothermal energy sector with a cornerstone investment in Torrens Energy Limited, which has extensive geothermal exploration licences in South Australia well located near established electricity transmission infrastructure. A pilot plant could be operational within three years.

Conclusion
The revised earnings guidance meant that 2008 was always going to be an important year for AGL.

Through diligence and discipline, we have done what we said we would do: we have delivered on our earnings guidance and on our integrated strategy. Our focus remains fixed on building on these foundations to deliver ongoing and sustainable returns for our shareholders.

It's taken a lot of hard work from our people to get here. Over the last year, we have been rebuilding the business to ensure we are well positioned for the future.

Now, with a stronger balance sheet providing flexibility to pursue disciplined growth and with many identified growth opportunities, we are optimistic about the future.

Michael Fraser
Managing Director

Part 1: Building a better business

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Energy in renewable sources: Hallett Group and Bogong Hydro **page 12**
Energy in better designed projects: Camden Gas and Torrens Island Power Station **page 14**
Energy in trading in the new economy: Carbon Pollution Reduction Scheme **page 16**
Review of Operations
Energy in better customer experiences: Retail Energy **page 18**
Energy in generating solutions: Merchant Energy **page 20**
Energy in better power: Gas and Power Development **page 22**
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AGL employee Justin Parker

Leadership Team

Michael Fraser
Managing Director and CEO
B Com, CPA, Fellow Taxation Institute of Australia

Michael, who joined AGL in 1984, became Managing Director and Chief Executive Officer of AGL in October 2007.

He was previously Group General Manager Merchant Energy and, in this role, led the rapid expansion of AGL's upstream energy interests. He had responsibility for AGL's power generation, wholesale gas and electricity trading portfolios and energy sales to major customers. Michael managed over 1,900 MW of gas-fired generation capacity in Victoria, South Australia and Queensland, and Australia's largest privately-owned renewable generation portfolio, with over 900 MW of installed capacity and a further 315 MW under construction.

Michael also had responsibility for AGL's upstream gas interests in PNG, its coal seam gas projects and investments, and AGL's industry leading 3,000 PJ contract wholesale gas portfolio.

He has more than 20 years energy industry experience including having established AGL as the country's largest energy retailer and headed up its national sales, marketing and trading activities. He also has extensive experience in customer service, regulatory management, energy distribution and corporate services. He is a director of Queensland Gas Company Limited (QGC).

Stephen Mikkelsen
Chief Financial Officer
CA, BBS

Stephen joined AGL in 2006 as Chief Financial Officer. He has overall responsibility for the preparation, analysis and presentation of financial information, capital structuring, treasury activities, investor relations and group business development. He is also the Chairman of AGL's trading risk management committee, the key governance panel controlling electricity derivates and gas risk management.

Stephen has over 12 years experience in senior financial positions in Australia and New Zealand's electricity markets. Prior to the electricity industry he spent a number of years specialising in treasury activities within the banking sector.

Stephen is the non-executive Chairman of GEAC and also a director of QGC.

Phil James
Group General Manager Retail Energy
Grad. Dip (Marketing) MGSM, Grad. AICD

Phil joined AGL in 1982. He is the Group General Manager Retail Energy and has responsibility for Australia's largest energy retail customer base of gas and electricity accounts. He is also the business sponsor of AGL's Phoenix program.

Prior to his current role, Phil was the Chief Executive of NGC Holdings, a listed New Zealand energy company, majority owned by AGL at that time. Previously, Phil was the General Manager Business Strategy in AGL's Energy Sales & Marketing division.

He is a director of Entity Holdings Pte Ltd, a Singapore-based energy metering and measurement company.

Jeff Dimery
Group General Manager Merchant Energy
B Bus, Exec progr. IMD

Jeff holds the dual roles of Group General Manager Merchant Energy and General Manager Victoria. Jeff was appointed to this role in January 2008, after joining Solaris Power in 1996.

Jeff has more than 20 years experience in the energy and water resources industry, having been with AGL for the past 13 years. He has held senior management roles in the areas of Sales, Power Generation and Wholesale Trading.

Jeff has held numerous industry directorships during his time with AGL including the National Generators Forum, the Australian Energy Market Commission Reliability Panel and the Clean Energy Council.

Michael Moraza
Group General Manager Gas and Power Development
BE (Chem Eng), MBA

Michael joined AGL in 1996 and was appointed to the role of Group General Manager Gas and Power Development in January 2008. Michael's team is responsible for all gas and power development activities across the AGL Group.

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

Michael joined AGL in a business development role within AGL's pipeline division and later became General Manager Corporate Development. Michael's next role was General Manager Corporate Strategic Planning in 2005.

Michael is a director of QGC.

Paul McWilliams
Head of Corporate Support Services and Company Secretary
MApFin, BA (Accounting), Member ICAA

Paul joined AGL in 2004 and in September 2006 became Head of Corporate Support Services and Company Secretary. Paul's team is responsible for AGL's risk, insurance, tax, legal, internal audit, energy regulation and company secretarial functions.

Prior to this, Paul was the General Manager of Tax and Treasury at Southcorp Limited.

Emily Kucukalic
Group Head of Brand and External Relations
BCom (Hons)

As Group Head of Brand and External Relations at AGL, Emily oversees the coordinated leverage of AGL's corporate brand across internal and external interfaces including media, government, and investor communities, our customers and the community at large.

Emily joined AGL in May 2007 in this newly created role after three years as EDS Asia Pacific's Marketing and Communications Director, where she oversaw all marketing, product and communications activities for the company, ranked as one of the largest service companies on the Fortune 500.

An Ernst & Young Entrepreneur prize winner and finalist in the 2000 Telstra Business Woman of the Year award, Emily has more than 10 years experience working in strategic sales and marketing roles in information technology and telecommunication, and energy industries.

Emily was a winner of three Lucent Leadership Awards. She is currently a member of the New South Wales Premier's Register for Boards and Committees.

Jane Thomas
Group Head of People and Culture
BBus (Hons), LLB (Hons)

Jane joined AGL in 2007 as the Head of People and Culture.

Jane has a significant depth of experience in human resources management (HR) and industrial relations (IR) in large organisations including PepsiCo, Westpac Banking Corporation and Philips Electronics Australia.

With almost five years in the role at PepsiCo, Jane was a key member of the executive team, PepsiCo International's Asia Region HR leadership team, and led the local national HR team.

Jane also holds a Master of Organisational Coaching, is a Registered Legal Practitioner in the ACT Supreme Court; Grad. Dip. in Legal Practice; and is a Fellow Member of the Australian Human Resources Institute.

Jane was awarded two global HR awards for her cultural contribution to the strategic direction of HR at PepsiCo.

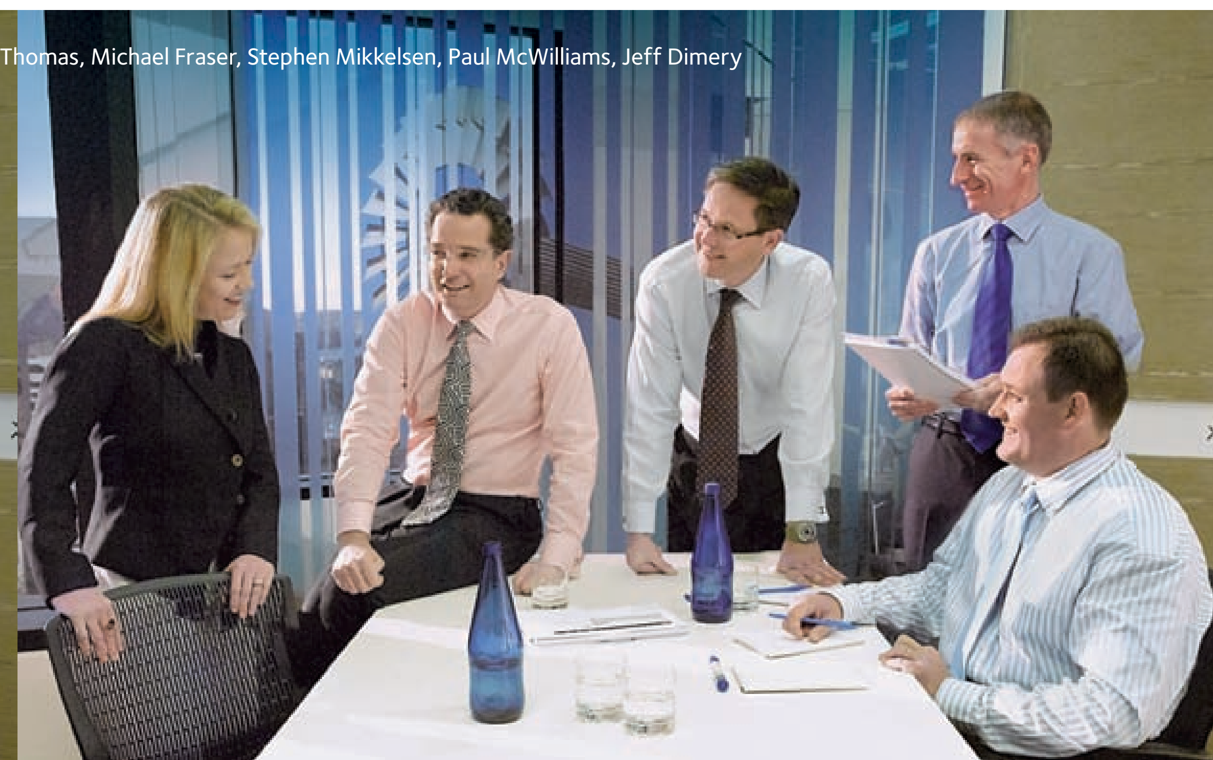
Owen Coppage
Chief Information Officer

Owen joined AGL in 2005 as Program Director for the Phoenix program, responsible for delivering Retail Energy's business strategy of operational excellence. This will be achieved through redesigning core business processes, and radically simplifying AGL business systems.

In mid-2007, Owen was appointed AGL's Chief Information Officer, responsible for the transformation and simplification of information technology within AGL which will support current activities and future business requirements at a lower cost.

Owen has worked across the energy industry in Australia and New Zealand, with over 20 years of management and operations experience in high-voltage transmission, distribution and hydro-generation, and has implemented a range of customer information systems within the energy industry.

Phil James, Michael Moraza, Emily Kucukalic, Owen Coppage


Jane Thomas, Michael Fraser, Stephen Mikkelsen, Paul McWilliams, Jeff Dimery

Energy in renewable sources

AGL continues to invest in proven, commercially viable and sustainable technologies. Building new green generation assets is a key strategy.

With 932 MW of installed capacity, AGL is the largest private owner and operator of renewable energy generation assets in Australia. Our renewable energy assets represent 26% of our total generation capacity and more than 50% of Australia's large scale, grid connected renewable generation capacity not owned by Government instrumentalities.

The Hallett Group of wind farms represent AGL's most significant investment in the world's fastest growing emission-free energy resource.

Hallet Stage 1 is one of the largest wind farms in Australia, sited within an hour's drive of South Australia's Flinders ranges. The last of its 45 turbines was erected in March 2008, marking the project's completion on time and under budget. While around 100 jobs were created during planning and construction, the local community also received tangible help with numerous small but significant projects through our on-going AGL Hallett Wind Farm Community Fund.

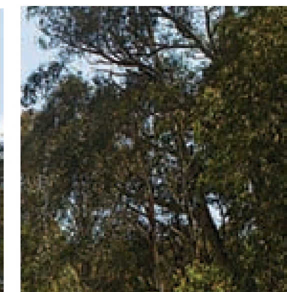
Stages 2, 3 and 4 are planned for neighbouring sites. If all projects proceed as scheduled, AGL will be operating over 232 wind turbines in South Australia with a combined capacity of over 460 MW by 2011.

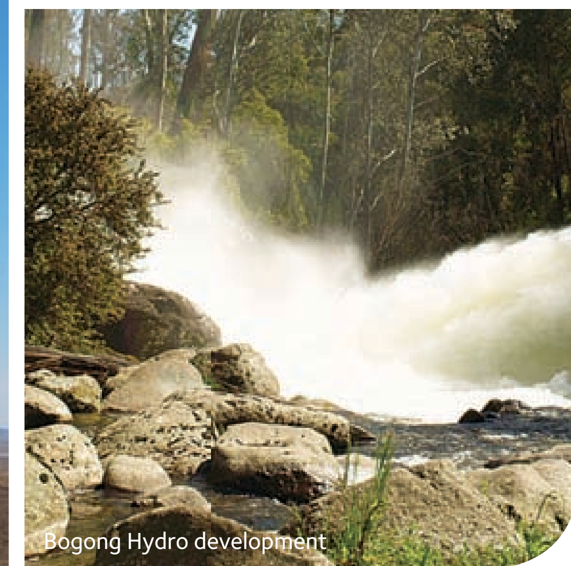
The Bogong Hydro Development is the largest hydro-electric scheme developed in mainland Australia in the past 20 years. A new power station on the shores of Lake Guy, 300km north-east of Melbourne, will be connected to an existing outlet by a tunnel nearly 7km long. It offers a fast start generation capacity, ideal for meeting the sharp spikes of demand witnessed in Victoria and relieving the pressure for additional fossil-fuel generation in the State.

Scheduled for completion in the second half of 2009, the 140 MW project will generate enough renewable energy to power approximately 120,000 homes. Like wind power, hydro is emission free – meaning Bogong will abate in excess of 93,000 tonnes of greenhouse gas emissions every year once operational.

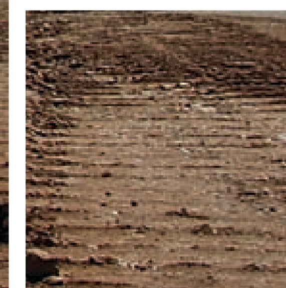
The project's environmental impact is also being carefully managed. No threatened or endangered species will be affected by the development. It also delivers a strong positive gain by reinstating the flow of the Pretty Valley branch of the East Kiewa River and restoring previously degraded land.

Hallett Stage 1 wind farm





Bogong Hydro development



Energy in better designed projects

Camden Gas Project

AGL strengthened its investment in low-emission power sources at two significant sites this year.

The Camden Gas Project is a 50/50 joint venture between AGL and Sydney Gas Limited. Launched in 2007, it will explore and develop the sizeable coal seam gas resource of the Macarthur region in Sydney's far south west by adding 16 new wells within the existing Spring Farm and Menangle Park sites. Annual production is expected to double within two years, from 5.4 PJ to 10.8 PJ.

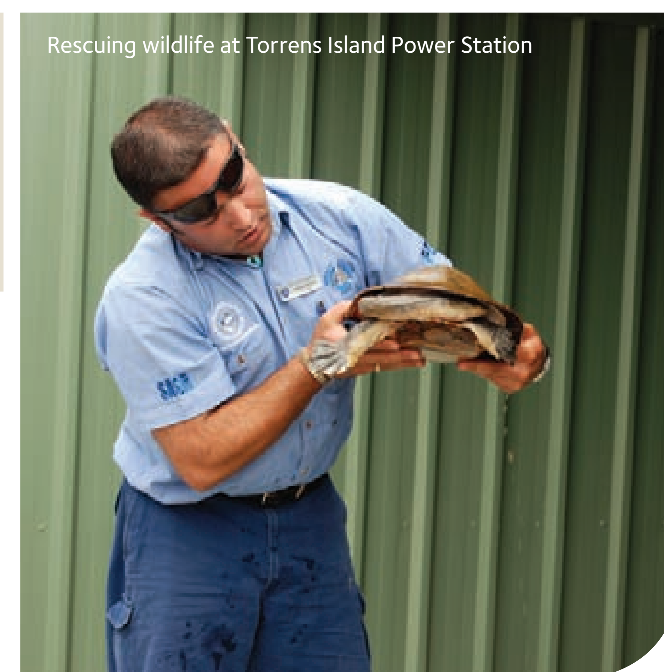
The Project has been producing gas for the Sydney region since 2001, and currently supplies up to 6% of the New South Wales gas market. New South Wales traditionally relies heavily on Victoria and South Australia for its upstream gas, making this an important project for the New South Wales economy and the Macarthur region's growing population.

While the results are expected to be impressive, the footprint required to achieve them is modest. The surface location of each well typically fits within 20 square metres, and particular care has been taken to ensure the preservation of four sites of archeological significance within the Project boundaries.

AGL Torrens Island Power Station is the largest power station in South Australia and the largest natural gas fired power station in Australia. Its maximum output of 1,280 MW represents about 40% of South Australia's total generation capacity.

Acquired by AGL in July 2007, Torrens Island is a highly flexible generator that delivers electricity to the National Electricity Market. The station takes gas from two separate sources located in the Otways region of Victoria, giving protection against the loss of one supply should this occur. Torrens Island was vital in meeting the increased demand that coincided with the unusually hot summer of 2007/2008, when temperatures above 35 degrees were recorded on 32 occasions.

Located in a sensitive marine environment within 20km of Adelaide's CBD, the power station is a key community partner of volunteer organisations dedicated to protecting the local dolphin and seabird populations, and supports a seabird rehabilitation facility at the power station site.


Rescuing wildlife at Torrens Island Power Station

Members of AGL's Carbon Solutions team
Andrew Dudgeon, Timothy Nelson and Marc Barrington

Energy in trading in the new economy

Carbon Pollution Reduction Scheme

The subject of climate change has been attracting a lot of attention. Australia, and much of the rest of the world, is grappling with the impact of higher global average temperatures widely predicted to occur during the 21st century.

The Federal Government has announced measures aimed at reducing Australia's emissions of greenhouse gases to curtail any increases in average temperatures and reduce the potentially harmful consequences for Australia's environmental resources.

What are the proposed changes announced by the Government?
The Government has announced two major initiatives aimed at combating some of the effects of climate change:

> An emissions trading scheme, to be known as the Carbon Pollution Reduction Scheme (CPRS), is proposed to start from 1 July 2010. The CPRS will set an annual limit – which will progressively reduce over time – on the total amount of greenhouse gases that energy producers can emit. Energy producers will be required to purchase permits to emit the greenhouse gases associated with energy production; and

> A requirement that, by 2020, 20% of Australia's energy needs come from renewable energy sources. This scheme is known as the Mandatory Renewable Energy Target (MRET).

It is important to note that both of these initiatives are only proposals. The full detail of how they will operate is yet to be finalised.

What does climate change mean for AGL?

> Although we have many renewable energy generation assets which emit no greenhouse gases, we also have some generation assets which do emit greenhouse gases. Therefore, we will be required to acquire permits under the CPRS. We also buy electricity from a number of electricity generators which emit greenhouse gases. The cost of that electricity to AGL will increase because generators will seek to recover the cost of acquiring permits.

> The renewable energy target will require AGL, and many other companies, to make substantial investments in new renewable energy assets over the next 12 years.

> We are already Australia's largest private owner and operator of renewable energy assets. And we have already identified a number of opportunities to develop more renewable energy assets. We anticipate that our investment in all of these assets will create value for AGL and its shareholders.

What are we doing to help our customers manage climate change?
We have formed the AGL Carbon Management Services and Carbon Solutions teams to:

> Provide advice to our large commercial customers to help them control their energy needs and costs;

> Consult with Governments to ensure the transition to the CPRS, and the introduction of the renewable energy targets, is managed with minimal disruption to the economy; and

> Help to establish a market for carbon permits. We have already made the first carbon trades, which will help Australian businesses forecast the price impacts of the Carbon Pollution Reduction Scheme. AGL is also the only energy company outside the USA to join the Chicago Climate Exchange, the world's first voluntary and legally binding greenhouse gas emissions reduction, registry and trading program.

We are also continuing to develop new green energy products to help our residential and small business customers manage their own carbon footprints.

Retail Energy

The Retail Energy group is responsible for the sale and marketing of gas, electricity and related customer services to AGL's customer base.

The past year has seen change unfold in every area of the Australian market. New markets have opened and existing markets have evolved in a climate of volatile wholesale energy costs. In response to these market forces, a number of Australian State markets have once again featured among the most competitive energy markets in the world.

AGL measurably increased its sales and marketing activity during the year, lifting customer gains in the process and finishing the year ahead of its opening position. Efforts were concentrated on delivering real growth in margin per business customer while achieving an overall increase in gas and electricity customer accounts and sales volumes. Total billable customer accounts were up by approximately 34,000 compared with the previous year.

Retail Energy contributed Operating Earnings Before Interest and Tax (EBIT) of $271.7 million, up 41.2% on the previous year. This included a $72.9 million increase in contribution from the acquired businesses Powerdirect and SunGas.

The Queensland market became contestable to household level in July 2007 and, a full year later, has experienced levels of competitor activity rarely seen before in the National Electricity Market (NEM). Unprecedented levels of customer interest and market activity were generated in the first period after market start, partly due to a mandated three-month 'pre-opening' sales period and relatively stable early wholesale prices. Since then, changes to wholesale market dynamics and regulatory decisions have significantly dampened competition.

The integration of the Powerdirect and SunGas businesses, purchased in the previous year, has now been completed. AGL continues to use the Powerdirect brand as a differentiator in the small/medium enterprise (SME) market and that sales team is now part of Retail Energy's Business Customer group.

Energy in better customer experiences

Image from *Energy in Action* television commercial

In early 2008, AGL launched its new retail brand campaign, "Energy in Action", across a variety of media. This re-positioning highlights the actions AGL has taken in recent years in its renewable energy portfolio and positions AGL with its new brand and staff promise of "Actions, not words". Early market research indicates that the re-positioning activity is meeting all of its initial objectives.

Operations transformed

Our major internal focus has been the rollout of Project Phoenix, a transformed customer service and billing system that utilises SAP technology to enhance our ability to improve services for our customers. Having successfully deployed the first two phases of the program this year, AGL now services around half its national customer base from the new system and is on track to transfer the remaining customers by December 2008.

We have strived to maintain a high level of responsiveness to customer enquiries through our contact centres as part of our operational focus during the rollouts. This presented a challenge for our first release in December 2007, following which we experienced an acute, but short-lived, decline in customer service levels. Our second release in March was completed with no perceptible impact on service to customers transferring to the new system.

As part of AGL's revised business customer engagement model, a new Business Customers group has been formed. This dedicated business unit will align the AGL business model and capabilities with the needs of high value business customers, including small business and industrial and commercial customers.

The Business Customers group is delivering targeted business products and services by leveraging both the AGL and Powerdirect brands to identify opportunities for growth in multiple business market segments.

Retail regulation

Energy market deregulation continued in 2007/2008 with the removal of price controls in Victoria for small business customers, a change that saw a smooth transition for this important segment. The Council of Australian Governments' policy support for further removal of price caps across NEM States is anticipated to lead to further deregulation for those States and segments where price caps remain.

Action ahead

Our Customer Operations business is preparing for the final customer migration to the new customer service and billing system under Project Phoenix, which will see a further 1.6 million customer accounts transfer to the new system by December 2008. Improvements to customer services will remain a priority.

Media and brand activity will be maintained as we continue to focus on AGL's "Energy in Action".

We will also continue to work with regulators to ensure regulated tariffs are determined in accordance with a robust and equitable process.

Merchant Energy

The Merchant Energy businesses are responsible for operating and maintaining AGL's power generation portfolio of assets, developing AGL's carbon strategy, and managing the risks associated with the procurement and delivery of gas and electricity for AGL's wholesale and retail portfolios. The business actively uses financial hedges, bilateral contracts and physical generation to ensure adequacy of competitively priced supply.

The Merchant Energy businesses delivered an operating EBIT result of $300.8 million, up 7.4% on the previous corresponding period. This result reflected AGL's growing diverse physical generation portfolio, including the Torrens Island Power Station and despatch rights from the Oakey Power Station in south east Queensland, along with AGL's existing hydro and gas assets. This strong result was offset by a lower contribution from Loy Yang Power compared to the prior year.

The Merchant Energy businesses comprise four business units: Energy Portfolio Management, Merchant Operations, Carbon Solutions and Energy Services.

Energy portfolio management

Energy Portfolio Management is accountable for managing the risks associated with the procurement of gas and electricity. The past year has seen outstanding progress in AGL's integrated energy strategy of having 60-70% of its average peak demand covered by owned or controlled physical generation.

The 1,280 MW Torrens Island Power Station (TIPS) was acquired by AGL in July 2007 and was quickly integrated into AGL's generation portfolio. This asset provides energy portfolio flexibility through the ability to mitigate against electricity pool price exposures from AGL's large retail electricity loads in South Australia and Victoria. Additionally the power station proved to be a solid earnings contributor during the unusually hot summer where temperatures above 35 degrees were recorded on 32 occasions.

The privatisation process in Queensland also provided AGL with opportunities to extend its generation strategy through the procurement of power purchase agreements (PPA) from Enertrade, located in south east Queensland, previously owned by the State Government. The Oakey PPA was purchased in August and provides AGL full despatch rights for 280 MW of peaking generation which can operate on gas or diesel.

The Hallett Stage 1 wind farm was commissioned in June 2008. The project provides up to 95 MW of renewable generation in the relatively high marginal cost South Australian electricity market; in addition, it provides Renewable Energy Certificates. Construction of the Hallett Stage 2 wind farm is well progressed and is scheduled for completion during the second half of calendar year 2009.

AGL anticipates that the establishment of the Carbon Pollution Reduction Scheme (CPRS) will create additional value in its renewable generation portfolio, as these assets will benefit from the expected uplift in electricity prices without the need to purchase emissions certificates.

The gas portfolio has experienced elevated gas costs during 2007/2008 as a result of increased demand. While AGL's gas costs increased at a rate higher than the CPI, the majority of the increased gas cost was offset by an allowed increase in regulated tariffs from the New South Wales Independent Pricing and Regulatory Tribunal (IPART). The construction of the 'QSN link' between Queensland and Moomba, and an augmentation of the gas pipeline between Victoria and New South Wales, are expected to help alleviate some capacity constraints into New South Wales in the coming year.

AGL's annual gas supply requirements are substantially covered for forecast demand until 2017.

The ongoing operation of the gas portfolio is focused on incremental contracting of gas supply, haulage, and capacity as required, and optimisation of the integrated gas and generation portfolios.

Merchant operations

The business unit is responsible for the physical operation and maintenance of AGL's growing portfolio of wind, water and gas-fired generation plants. Key activities ensure that generating plants are available when required to generate, are well maintained, and deliver operating efficiencies across the growing asset portfolio.

Since its acquisition TIPS has had availability levels of 86.95%. Health, safety and environmental performance have also been outstanding. A significant milestone achievement of eight years without an employee Lost Time Injury was celebrated through an onsite ceremony attended by the AGL Board.

The Somerton Power Station (150 MW gas-fired peaking plant) continued to experience high levels of commercial start reliability of 97.5%. This high level of performance exceeds international benchmarks for similar plant and will remain a key focus area for the business. Additionally, following consultation with EPA Victoria, the discharge licence for the power station was amended to remove the calendar year operating limit of 876 hours. Whilst the licence amendment does not change the operating regime of the plant it does provide AGL with increased flexibility.

The AGL hydro assets continued to fulfil their role in providing a reliable, fast-start generating capacity. In order to ensure the ongoing safe, reliable and cost effective performance of these assets, AGL operates to a comprehensive 'whole of life' asset management plan. In delivering that plan, a four year generator refurbishment program for the West Kiewa Power Station (61.6 MW and commissioned in 1956) was signed with Transfield Services in December 2007.

Whilst much of eastern Australia was affected by drought, the West Kiewa scheme, which has the most generation capacity and full discretion regarding water releases, was not significantly impacted with storage levels at year end at 45%. Dartmouth and Eildon experienced a reduction in storage levels compared with the prior year and were 18% and 14% full at year end. It is expected that it will take a few years for water levels at these schemes to recover to their long-term averages.

Carbon solutions

The paradigm shift to a low-carbon environment from the introduction of the CPRS provides opportunities for AGL to provide leadership in this market segment. The Carbon Solutions business team is leading this activity. The team is working with various State and Federal Government departments to achieve legislative outcomes that deliver a smooth transition to a carbon constrained energy economy. Carbon Solutions is shaping AGL's carbon management strategy and has already been responsible for Australia's very first carbon trade.

Carbon credits will be a valuable currency to be traded on a global stage. AGL has signalled its intention to take the lead in Australia in creating and trading this commodity. During 2007/2008, the Carbon Solutions team posted its first Australian Emissions Trading Unit (AETU) transaction, trading 10,000 tonnes of CO_2 units. By making this trade, AGL has established a market price for AETUs that will help many of our larger customers start planning for energy supply post 2010, when the CPRS is scheduled to commence.

Carbon Solutions are instrumental in shaping and forming AGL's strategies in this area, and continue to show leadership in the development of Australia's carbon trading market.

Energy services

The Energy Services business delivers small scale, low carbon emission generation projects, in addition to providing a range of consulting services that relate to managing carbon emissions and energy efficiency.

Significant developments during the year:

> Installed 1 MW plants at Gosford and Kincumber landfill projects for the Gosford City Council in New South Wales;

> Signed an agreement with the Brisbane City Council to provide a compressed natural gas (CNG) refuelling facility at the Willawong bus depot;

> Awarded the State Transit Authority contract to expand the Leichardt CNG refuelling facility in New South Wales to cater for growth of approximately 130 buses over the next few years; and

> Established a Carbon Management Services team to promote energy efficiency opportunities for large industrial and commercial customers to manage their carbon emissions and improve their energy efficiency.

Energy Services is well positioned to assist customers in managing their energy needs as Australia moves towards commencement of the CPRS. The business will continue to grow as a number of small-scale renewable energy projects progress and opportunities to assist customers to improve their own energy efficiency are developed.

Torrens Island Power Station – photography by AGL employee Gabriella Szondy

Hallett Stage 1 wind farm

Energy in better power

Gas and Power Development

The Gas and Power Development (GPD) group was formed during the year as a specialised business group dedicated to enhancing AGL's fast-growing gas and power development functions.

GPD is focused on growing AGL's upstream gas and generation portfolios to ensure long-term, sustainable and market competitive energy supplies for AGL and its customers. Business units in GPD include Exploration, Field Development, Production, Land and Approvals, Power Development, PNG Gas Development, and Commercial and Finance.

GPD delivered an operating EBIT of $155.1 million, up 18.8% on the comparable activities in the prior year.

Renewable energy
AGL will have significant long-term obligations under the Mandatory Renewable Energy Target (MRET) scheme. The Federal Government has announced its intention to expand the MRET scheme which will require that by 2020, 20% of Australian energy needs are met from renewable energy sources. This will have significant long-term implications for AGL.

AGL is already Australia's largest private owner and operator of renewable energy generation assets and is looking to further expand this position by exploring a number of low-emission and renewable energy generation development opportunities. Our investments in low-emission generation and renewable energy help to reduce the greenhouse intensity of our generation portfolio.

Wind energy
During the year, GPD delivered the first stage of the Hallett wind farm in mid-north South Australia. The Hallett Stage 1 wind farm, comprising 45 wind turbines with a total installed capacity of 95 MW, was officially opened by the Premier of South Australia, the Hon Mike Rann MP, in June 2008. It is one of the largest wind farms in Australia and will generate enough green electricity to power approximately 54,000 average Australian households annually.

Stage 1 was completed on time and under budget. The underlying asset was sold to a financial investor, with AGL retaining all power offtake and asset management rights.

The Hallett group of wind farms is proceeding in line with AGL's strategy to implement scale projects in high-quality wind resource areas. Hallett Stage 2 at Hallett Hill – designed with 72 MW capacity – commenced construction in 2007/2008 with completion expected during the second half of 2009. Hallett Stage 3 at Mt Bryan (117 MW capacity) and Hallett Stage 4 at North Brown Hill (189 MW capacity) are being developed.

The Macarthur wind farm (330-450 MW) in western Victoria is also in development with 50/50 joint venture partner Meridian Energy, potentially adding geographic diversity to AGL's wind power portfolio.

Hydro
Construction of the largest hydro-electric scheme developed in mainland Australia in the past 20 years continues ahead of time and on budget in the Victorian Alps at Bogong, 300km north-east of Melbourne. Scheduled for completion in the second half of 2009, the 140 MW Bogong power development project will generate enough renewable energy to power approximately 120,000 homes.

Bogong is a large-scale, fast-start, fully discretionary hydro-peaking generation plant which creates additional new renewable generation from an existing water resource with minimal impact on the local environment. The Bogong project addresses Victoria's need for peaking and renewable generation without having to construct any new dams.

Gas development
AGL believes that new gas-fired generation has the potential to lower Australia's greenhouse gas emissions significantly. Combined cycle gas generators emit around half the greenhouse gases of coal-fired generators. Security of gas supply is important to the development of gas-fired electricity generation.

AGL continued to diversify its gas portfolio in Queensland and New South Wales during 2007/2008.

In a 50/50 joint venture with Arrow Energy, AGL acquired the gas merchant and pipeline businesses of the Queensland Power Trading Corporation (Enertrade). AGL subsequently sold its share of the non-core pipeline asset while retaining the gas merchant business and integrating it into the Moranbah Gas Project joint venture in June 2008.

AGL also announced a 50/50 partnership with Queensland Gas Company Limited to acquire the rights to develop and build the $70 million 115km Berwyndale to Wallumbilla gas pipeline in south-east Queensland, scheduled for completion in January 2009.

AGL maintained its 50% stake in the Camden Gas project in Sydney's south-west, the project produces about 5.4 PJ annually. Production is expected to double in the next two years through the establishment of wells at 16 surface locations in the Spring Farm and Menangle Park areas.

Following a decision by the Papua New Guinea LNG joint venture partners to enter the front-end engineering and design phase of the project, AGL announced its intention to sell its assets in PNG to keep in line with the Company's capital management strategies.

Energy in wider investments

Image from ActewAGL's 2008 brand campaign *Let's power ahead*

Energy Investments

AGL undertook a critical review of its Energy Investments portfolio in 2006/2007 to determine which investments best supported our strategic goal of being Australia's leading integrated energy company.

The purpose of the review was to put a renewed focus on rigorous capital management and discipline, with a plan to divest non-core assets to provide balance sheet flexibility to participate in new opportunities in Australian energy markets.

Following the review, AlintaAGL and GasValpo were sold prior to the year end for a combined gain on sale of $76.8 million.

AGL re-classified its investment in Elgas as held for sale from 1 May 2008. AGL's equity share of profit from Elgas for the financial year up until that date was $10.0 million. AGL also received a dividend of $5.6 million from Elgas in June 2008.

The sale of these Energy Investments will assist in reducing debt and also allow for investments in assets that better fit with AGL's integrated strategy.

ActewAGL continues to be an important contributor to AGL's integrated strategy.

ActewAGL is a 50/50 joint venture between AGL and Actew Corporation, an Australian Capital Territory 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.

It is the leading energy retailer in the Australian Capital Territory and has an established brand supplying 8 PJ to gas customers and 2,707 GWh to electricity customers.

AGL's share of the joint venture EBIT was $26.0 million. This compared favourably to the 2006/2007 result of $18.5 million.

ActewAGL had a solid year in both the gas and electricity markets. Increased gas volumes were driven by colder weather and an increase in the number of gas customers. Improved electricity margins resulted from both a modest tariff increase and higher volumes from an increase in the number of electricity customers.

It was pleasing to note increased EBIT contributions from connections and disconnections revenues, maintenance revenues, and more customers bundling their domestic utilities with ActewAGL.

Against a background of continued competitive pressures and increasing wholesale energy costs, the joint venture has delivered a sound financial performance for the year while ensuring that the number of gas and electricity customers has at least been retained.

Corporate Governance

AGL's approach to Corporate Governance

Compliance with the ASX Principles

The AGL Board (the Board) is committed to best practice standards of governance underpinning how AGL conducts its business.

AGL has chosen early adoption of the ASX 'Corporate Governance Council, Corporate Governance Principles and Recommendations – 2nd Edition' (ASX Principles) issued in August 2007. The Board considers that AGL complies with the ASX Principles and this statement provides details as to how the Company addresses each principle and describes AGL's response.

ASX Principles are derived from:

- Principle 1: Lay solid foundations for management and oversight
- Principle 2: Structure the Board to add value
- Principle 3: Promote ethical and responsible decision making
- Principle 4: Safeguard integrity in financial reporting
- Principle 5: Make timely and balanced disclosure
- Principle 6: Respect the rights of shareholders
- Principle 7: Recognise and manage risk
- Principle 8: Remunerate fairly and responsibly

The Board's philosophy is to adopt principles, practices and recommendations that are in the best interests of AGL's stakeholders. Consistent with the ASX Principles, AGL's corporate governance practices are regularly reviewed and are available on AGL's website.

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 Board and management

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

The major powers the Board has reserved to itself are:

> Reviewing and approving AGL's strategic plans and performance objectives and reviewing the underlying assumptions and rationale;

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

> 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;

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

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

> Reviewing senior management succession planning and development;

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

> Monitoring the timeliness and effectiveness of reporting to shareholders.

To assist it in carrying out its responsibilities the Board has established three standing committees of its members. They are:

> People and Performance Committee (see Principle 2);

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

> Safety, Sustainability and Corporate Responsibility Committee (see Principle 7).

The timetables for Board and Committee meetings are agreed annually to ensure that the Board and individual Directors 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:

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

> The rights, duties and responsibilities of Directors;

> The roles and responsibilities of the Executive Team; and

> The role of Board Committees.

Delegation to the CEO

The Board delegates to the CEO responsibility for implementing AGL's strategic direction and for managing AGL's day-to-day operations. Clear lines of communication have been established between the Chairman and the CEO to ensure that the responsibilities and accountabilities of each are clearly understood.

Specific limits on the authority delegated to the CEO are set out in the Delegated Authorities Manual approved by the Board.

Recommendation 1.2 – *Companies should disclose the process for evaluating the performance of the Executive Team*

Performance evaluation
All Executive Team members have formal position descriptions and each year key performance measures are established in line with their roles and responsibilities.

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 2008. Details of the evaluation process and the linkages between the result of performance evaluations and remuneration are disclosed in the Remuneration Report on page 40 of this Annual Report.

Newly Appointed Executives
All newly appointed Executives receive formal letters of appointment describing their terms of appointment, duties, rights and responsibilities and entitlements on termination. 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

Membership and Expertise of the Board
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 ten. 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 page 34–36 of this Annual Report.

The Board met nine times during the financial year. Director's 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 non-executive Director.

In addition, the Board has access to other relevant senior management to seek explanations and information. Subject only to obtaining approval of the Chairman, which may not be unreasonably withheld, each Director has the added right to seek independent professional advice at AGL's expense.

Part of each scheduled Board meeting is taken up in private session (with only the non-executive Board members present) to discuss management issues or matters of a particularly sensitive nature.

Independent Directors
AGL considers an independent Director to be a Director who does not have any material relationship with AGL that a reasonable person would consider may influence the Director's ability to:

> Objectively make decisions on matters that come before the Board;

> Carry out their duties as a Director acting in the best interest of the Company; or

> Be free of real or reasonably perceived conflict of interests.

An individual who has held an Executive Team role within AGL, including that of Managing Director, may not become Chairman or a non-executive Director for a period of at least three years from the date the individual ceased to be employed by AGL.

A principal of a material professional adviser or consultant to AGL, or an employee materially associated with the provision of such services, may not become Chairman or a non-executive Director of the Company for a period of at least three years from the date those services were last provided.

In assessing independence, the Board reviews the relationship that the Director and their immediate family have with the Company. In particular, the Board applies the following criteria in determining independence:

> The extent of any relationship that exists with a substantial shareholder or officer of an organisation holding more than 5% of the shares in AGL;

> The extent of any relationship that exists either as a principal, an employee or a major shareholder of a supplier of goods or services to AGL; and

> The extent of any relationship that exists either as a principal, an employee or a major shareholder of a customer of AGL.

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

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

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

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

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

The Board selects the Chairman. An individual who has held an Executive Team role within AGL, including that of Managing Director, may not become Chairman or a non-executive Director of the Company for a period of at least three years from the date the individual ceased to be employed by the Company.

The Chairman is a non-executive and independent Director.

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

The Chairman presides over Board and General Meetings of AGL. The Chairman has the task of ensuring that the Board is well informed and effective, and that the Directors, individually and as a group, have the opportunity to air differences, explore ideas and generate the collective views and wisdom necessary for the proper operation of the Board and AGL. 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.

The roles of Chairman and Chief Executive Officer are not exercised by the same individual.

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 four non-executive and independent Directors, Max Ould (Chair), Mark Johnson, Sandra McPhee and Graham Reaney. The Committee has a formal Charter that is reviewed regularly. A copy of that Charter is available on AGL's website.

The purpose of the Committee is to review and ratify remuneration and people policies, procedures and programs designed to:

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

> Achieve clear alignment between the needs and requirements of key stakeholder groups (i.e. customers, shareholders and communities) and the objectives and values of AGL people;

> Promoting excellent performance by implementing appropriate remuneration and other policies to keep employees committed and motivated;

> Promote AGL as an employer of choice;

> Achieve compliance 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:

Recommendations to the Board relating to Board matters

> Reviewing strategic issues and commercial changes that impact AGL and the energy sector to determine the most appropriate structure, size, composition and tenure of the Board;

> Maintaining a healthy balance of skills, knowledge and experience across the Board by recommending new appointments and ongoing development for Directors;

> Determining Board performance assessment criteria and assessing performance;

> Rewarding Directors responsibly and fairly for their contributions to enhancing AGL's performance;

> Recommending to the Board appointment and removal of Directors for the consideration of a General Meeting of shareholders; and

> Recommending in relation to Board succession, planning and Director remuneration policy.

Recommendations to the Board relating to the CEO

> The recruitment, retention and termination policies and procedures for the CEO;

> Setting and reviewing performance objectives for the CEO and evaluating the contribution and effectiveness of the CEO against those objectives; and

> Rewarding the CEO responsibly and fairly for his/her contribution to enhancing AGL's performance.

Recommendations to the Board relating to the Executive Team

> Reviewing the CEO's recommendations on remuneration and reward 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, through reviewing recommended structures, new appointments and assessing ongoing leadership development; and

> The recruitment, retention and termination policies and procedures for members of the Executive Team.

Recommendations to the Board on AGL philosophy and policy issues

> Providing counsel and guidance to the business in relation to talent, succession planning and performance management; and

> Monitoring remuneration policies and practices to ensure they enable AGL to attract and retain people who create value for shareholders and who uphold and develop the culture of AGL.

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 three times during the year. 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*

The Board undertakes ongoing self assessment and review of its performance and of the performance of the Chairman, individual Directors and Board Committees.

The performance review process conducted in 2008 was facilitated externally and included interviews with Directors, Group Executives and the Company Secretary. These reviews were wide ranging and included each Director's contribution to Board discussions.

Principle 3: Promote ethical and responsible decision making

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

Code of Conduct

AGL has a Code of Conduct that applies to Directors as well as AGL employees. It is part of the induction pack for new Directors. As part of their induction new AGL employees are required to confirm they have reviewed and are aware of AGL's Code of Conduct. The Code applies equally to all consultants and contractors to AGL.

The Code provides a mechanism to enable employees to report breaches of the Code without any fear of retribution. AGL has an internal Ethics Panel that oversees the application of the Code of Conduct in AGL, including dealing with breaches of the Code, monitoring compliance and recommending amendments to the Board.

During the year AGL reviewed its Corporate Values. The revised Corporate Values of One Team, Delivery, Authentic, Safe and Sustainable, and Vitality have been rolled out across the business and are key criteria in assessing the performance of employees through the annual performance review cycle.

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.

Legislative Compliance Policy

AGL's Legislative Compliance Policy and the governance structures, responsibilities and processes that have been established to give effect to the Policy are published on AGL's website.

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. Any person who intentionally breaches the law will not receive support from AGL.

Recommendation 3.2 – *Companies should establish a policy concerning trading in securities by Directors, Executive Team and employees*

AGL has policies on share trading by Directors and senior managers, as well as conflicts of interest.

The AGL Board and its employees are prohibited from dealing in, or influencing others to deal in, securities of AGL or any related companies where:

> They possess information that is not generally available to the market; and

> The information is potentially 'price sensitive' and if it were known to the market may reasonably be expected to have a material effect on the share price of the company.

Additionally, Directors and senior managers may only deal in Company shares during the four-week periods immediately following the release of the half-year results, the full-year results and the Annual General Meeting.

AGL's Share Dealing Policy is available on the AGL's website.

Principle 4: Safeguard integrity in financial reporting

Recommendation 4.1 – *The Board should establish an audit committee*

To assist it in carrying out its responsibilities the Board has established an Audit and Risk Management Committee. The primary function of the Committee is to assist the Board in fulfilling its responsibilities to provide shareholders with timely and reliable financial reports. This includes protecting 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*

The Audit and Risk Management Committee comprises four non-executive Directors, all with appropriate and relevant financial experience. They are Graham Reaney (Chair), Carolyn Hewson, Jerry Maycock and Bruce Phillips, Their qualifications are disclosed on pages 35–36 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 the 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 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 reviewed annually to determine whether any changes are necessary.

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.

Non-audit services

The Board has a formal policy on the provision of auditing and related services.

Under the Policy 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 Board through 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.

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 their independence. No officers of AGL were partners or directors of Deloitte Touche Tohmatsu during this reporting period.

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

Principle 5: Make timely and balanced disclosure

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

Market Disclosure

A continuous disclosure regime operates throughout AGL and is documented in AGL's Market Disclosure Policy. The Policy is in place to ensure matters that a person could reasonably expect to have a material effect on the share price are announced to the ASX in a timely manner.

The 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.

As part of the Market Disclosure Plan, a Market Disclosure Committee has been established. This is a senior management committee, and comprises the CEO, Company Secretary (the nominated Continuous Disclosure Officer), CFO and Head of Investor Relations. The Continuous Disclosure Officer is the Convenor. AGL Directors are invited to attend quarterly meetings of the Market Disclosure 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 as well as being 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.

Direct reports to the CEO 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, Head of Brand and External Affairs and the Head of Media. The Market Disclosure Policy covers briefings to institutional investors and stockbroking analysts, general briefings, one-on-one briefings, blackout periods, compliance and review as well as media briefings. The Market Disclosure Plan provides further guidance on how to give effect to the Market Disclosure Policy.

Principle 6: Make timely and balanced disclosure

Recommendation 6.1 – *Companies should establish a shareholder communication policy*

Shareholder Communication
AGL communicates with shareholders in accordance with the Corporations Act and Listing Rules of the ASX. All ASX announcements, press releases and pertinent shareholder information is maintained on the AGL website for a minimum of three 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.

Meetings
At the AGM, the Chairman encourages questions and comments from shareholders and seeks to ensure the Meeting is managed to give shareholders an opportunity to participate. Shareholders can ask questions about or comment on the operations of the Company and the performance of the Board and management of AGL. 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.

The external auditor attends AGL's AGM. Shareholders may submit written questions to the auditor to be considered at the AGM 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 AGM. Shareholders are also given a reasonable opportunity at the AGM 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.

The Chairman will provide reasonable time following the consideration of reports for questions and comments.

Principle 7: Recognise and manage risk

Recommendation 7.1 – *Companies should establish risk management policies*

Risk Management Policies
AGL faces a wide variety of risks due to the nature of its operations and the regions in which it operates. AGL has a formal holistic 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, which has been endorsed by the Board on the recommendation of the CEO and the Audit and Risk Management Committee.

In addition to the Risk Management Policy itself, the Company has established a number of other policies that directly or indirectly serve to reduce and/or manage risk. These include but are not limited to:

> Legislative 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.

Risk management roles and responsibilities
AGL's Executive Team monitor and oversee the continuous improvement of risk identification, assessment, treatment and reporting, including legislative compliance. AGL's Risk and Compliance department supports AGL's business units in the implementation of the AGL-wide risk management framework.

Recommendation 7.2 – *Companies should establish risk management and internal control systems to manage material business risk*

AGL performs regular audits of the internal control systems and risk management compliance across the Group. These audits take account of both the nature and materiality of risk. The Audit and Risk Management Committee review quarterly reports the activities and findings of the Risk and Compliance group and Group Audit.

All outstanding audit issues are monitored through to satisfactory completion.

The external auditor also reports findings on relevant risk and control issues to the Audit and Risk Management Committee and to the Board on a six-monthly basis.

Audit and Risk Management Committee
To assist it in carrying out its responsibilities the Board has established an Audit and Risk Management Committee – see 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.

Safety, Sustainability and Corporate Responsibility Committee
To assist it in carrying out its responsibilities the Board has also established a Safety, Sustainability and Corporate Responsibility Committee comprising four non-executive and independent Directors, Carolyn Hewson (Chair), Mark Johnson, Sandra McPhee and Bruce Phillips. This Committee replaced the Health, Safety and Environment Committee which comprised all Directors. The Committee has a formal Charter that is reviewed regularly. 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.

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 two times during the year. One of these meetings was held at the gas production site which AGL operates at Camden near Sydney. The former HSE Committee met twice during the year. Directors' attendances at each Committee are set out on page 37 of this Annual Report.

Sustainability Report
AGL recognises that the appropriate identification and management of environmental and social risks and opportunities is important to our shareholders, customers, employees and the community, and is an essential part of our business strategy.

AGL has established a framework for ongoing public reporting to provide an accurate, transparent, responsive and timely account of our performance and commitment in relation to sustainability risks and opportunities.

AGL has:

> Been selected as an index component in the 2007 Dow Jones Sustainability World Index (DJSI World); and

> Met FTSE's corporate responsibility criteria and is a constituent company in the FTSE 4 Good Index Series. This Index is designed to identify and facilitate investment in companies that meet globally recognised corporate responsibility standards.

Wholesale Energy Risk Management
AGL's key risks include managing the availability and cost of gas and electricity. A Wholesale Energy Risk Management Committee (RMC) operates as a management committee to oversee the risk management operations of any AGL entity with wholesale energy market exposures.

The RMC comprises the following core members: the CFO (Chair), Head of Wholesale Energy Risk Management (Secretary), Company Secretary (or his delegate), Group General Manager Merchant Energy, General Manager Merchant Power, General Manager Gas Development and Head of Major Customers.

The RMC operates under a Board approved Wholesale Energy Risk Management Policy, which is summarised on the AGL website. The Policy is reviewed annually. Amongst other things, the Policy requires that all breaches are immediately reported to the Chair of the Audit and Risk Management Committee.

Recommendation 7.3 – *CEO and CFO assurance*

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 remunerations committee) comprising four non-executive and independent Directors, Max Ould (Chairman), Mark Johnson, Sandra McPhee and Graham Reaney. The Committee has a formal Charter that is reviewed regularly. A copy of that Charter is available on AGL's website. The Committee's responsibility among other things is to consider and report on remuneration policies and packages applicable to Board members and to senior AGL management.

The CEO attends meetings of the Committee by invitation when required to report on and discuss senior management performance, remuneration and related matters.

The Committee's full terms of reference are detailed in Principle 2.4.

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 34 to 49 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;
- Share Dealing Policy;
- Legislative 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).

Part 2: Reporting

Directors' Report **page 34**
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AGL employee Terri Reeves

Directors' Report

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 2008 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

Charles Allen AO
(retired 28 February 2008)

Carolyn Hewson

Jeremy Maycock

Sandra McPhee

Max Ould

Bruce Phillips
(appointed 23 August 2007)

Graham Reaney

Executive Directors

Michael Fraser
(appointed 22 October 2007)

Paul Anthony
(resigned 21 October 2007)

Directors' qualifications, experience, other directorships and special responsibilities

Mark Johnson LLB MBA – Chairman Age 67
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: Chairman of Macquarie Infrastructure Group (commenced as a Director in 1996). He is also Chairman of the Australian Strategic Policy Institute and Co-Chairman of the APEC Business Advisory Council for 2008.
Experience: Previously Deputy Chairman of Macquarie Bank Limited (commenced as a Director in 1987 and retired in July 2007), a 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 51
Term: Managing Director and Chief Executive Officer since 22 October 2007.
Independent: No.
Committees: Nil.
Directorships: Chairman of Elgas Limited, Director of Queensland Gas Company Limited (commenced in March 2007) and a Director on the UnitingCare Ageing Board.
Experience: More than 20 years' energy industry experience including having established AGL as the country's largest energy retailer and headed up its national sales, marketing and trading activities. He also has extensive experience in customer service, regulatory management, energy distribution and corporate services. Prior to joining AGL, his background was in taxation having worked for a Chartered Accounting firm and the Australian Taxation Office.

Carolyn Hewson BEc (Hons) MA Age 53
Term: Non-executive Director since February 2006.
Independent: Yes.
Committees: Chair of the Safety, Sustainability and Corporate Responsibility Committee and a member of the Audit and Risk Management Committee.
Directorships: Director of Westpac Banking Corporation (commenced in 2003) and BT Investment Management (commenced in December 2007). She is also on the advisory Board of Nanosonics Limited.
Experience: Community involvement includes board or advisory roles with the Neurosurgical Research Foundation, the Royal Humane Society of New South Wales and The Australian Charities Fund. Previously she was a Director of CSR Limited (commenced in 1995 and retired in July 2005), The Australian Gas Light Company (commenced in 1996 and retired in October 2006) and also a member of the Economic Development Board (South Australia).

Jeremy Maycock BEng (Mech) (Hons), FAICD, FIPENZ Age 56
Term: Non-executive Director since October 2006.
Independent: Yes.
Committees: Member of the Audit and Risk Management Committee.
Directorships: Managing Director of CSR Limited (commenced on 1 April 2007).
Experience: Previously Managing Director of Hastie Group Limited (commenced in 2003 and retired in 2007), inaugural Chairman of Cement Australia Pty Limited and CEO of Swiss-based Holcim Ltd in New Zealand and Australia. His commercial experience spans 34 years, with his early career being with Shell Oil in the UK and in New Zealand.

Left to right: Mark Johnson, Carolyn Hewson, Michael Fraser, Graham Reaney

Sandra McPhee, Max Ould, Bruce Phillips, Jerry Maycock

Sandra McPhee Dip Ed, FAICD Age 62

Term: Non-executive Director since October 2006.
Independent: Yes.
Committees: Member of the People and Performance Committee, and the Safety, Sustainability and Corporate Responsibility Committee.
Directorships: Director of Australia Post (commenced in 2001), St Vincent's & Mater Health Sydney Limited (commenced in 2003) and Vice President of The Art Gallery of New South Wales (commenced in 2003).
Experience: Previous appointments include Director of 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), CARE Australia and Tourism Council Australia Limited. She held a number of Group General Manager positions in Qantas Airways Limited before retiring in 2004.

Max Ould BEc Age 61

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

Bruce Phillips BSc (Hons) PESA, ASEG Age 53

Term: Non-executive Director since 23 August 2007.
Independent: Yes.
Committees: Member of the Audit and Risk Management Committee, and the Safety, Sustainability and Corporate Responsibility Committee.
Directorships: Director of Sunshine Gas Limited (commenced in October 2007).
Experience: He has more than 30 years of technical, financial and managerial experience in the upstream energy sector. He founded and was Managing Director of Australian Worldwide Exploration Limited. He also held prior positions of 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.

Graham Reaney BCom CPA Age 65

Term: Non-executive Director since July 2006.
Independent: Yes.
Committees: Chairman of the Audit and Risk Management Committee and a member of the People and Performance Committee.
Directorships: Chairman of PMP Limited (commenced as a Director in 2002) and a Director of St George Bank Limited (commenced in 1996).
Experience: Previous appointments include as a Director of So Natural Foods Australia Limited (commenced in 2001 and retired in October 2006) and a Director of The Australian Gas Light Company (commenced in 1988 and retired in October 2006). He retired as Managing Director of National Foods Limited in 1996, prior to which he was Managing Director of IEL.

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	239,446
Michael Fraser	264,868
Carolyn Hewson	52,899
Jeremy Maycock	34,466
Sandra McPhee	3,200
Max Ould	22,115
Bruce Phillips	29,000
Graham Reaney	97,211

Company Secretary

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

Reconciliation of Underlying Net Profit After Tax

	30 June 2008 $m	30 June 2007 $m
Profit after tax from continuing operations	**316.3**	354.2
(Loss)/profit after tax from discontinued operations	**(87.3)**	56.3
Profit after tax attributable to shareholders	**229.0**	410.5
Adjust for the following after tax items:		
Assume demerger occurred on 1 July 2006	–	116.9
Significant items	**(62.6)**	85.9
Changes in fair value of financial instruments	**184.6**	(287.7)
Pro-forma adjustments	**4.5**	4.8
Underlying net profit after tax	**355.5**	330.4
Increase in underlying net profit after tax	**7.6%**	N/A

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		Health, Safety and Environment Committee		Safety, Sustainability and Corporate Responsibility Committee	
Director's Name	**A**	**B**	**A**	**B**	**A**	**B**	**A**	**B**	**A**	**B**	**A**	**B**
Mark Johnson	9	9	11	13			2	3	2	2	1	2
Charles Allen AO (to 28 February 2008)	6	6	6	10	3	3			2	2		
Michael Fraser (from 22 October 2007)	6	6	9	9					2	2		
Carolyn Hewson	9	9	12	13	4	5			2	2	2	2
Jeremy Maycock	9	9	10	13	5	5			2	2		
Sandra McPhee	8	9	11	13			3	3	2	2	2	2
Max Ould	9	9	11	13			2	3	2	2		
Bruce Phillips (from 23 August 2007)	6	7	8	12	1	1			1	2	1	2
Graham Reaney	8	9	11	13	5	5	2	3	2	2		
Paul Anthony (to 21 October 2007)	3	3	3	3								

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

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

Since February 2008 the Health, Safety and Environment Committee has been replaced by the Safety, Sustainability and Corporate Responsibility Committee.

Review and Results of Operations

The consolidated profit after income tax* attributable to shareholders was $229.0 million (2006/2007 $410.5 million). The underlying net profit after tax was $355.5 million (2006/2007 $330.4 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 18 to 24 of this Annual Report.

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.

* See table on previous page.

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;

> Exploration, extraction, production and sale of coal seam gas;

> Extraction and sale of liquid petroleum gas (LPG); and

> Extraction and sale of crude oil.

There were no significant changes to the nature of AGL's activities during the year.

Dividends

The following dividends have been paid or declared by the Directors since 30 June 2007:

Final dividend of 26.0 cents per share (100% franked) referred to in the previous Directors' Report and paid on 28 September 2007.

$112.7 million

Interim dividend of 26.0 cents per share (100% franked) for the six months ended 31 December 2007 paid on 16 April 2008.

$112.9 million

Final dividend of 27.0 cents per share (100% franked) for the year ended 30 June 2008 payable on 26 September 2008.

$119.7 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 2008 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

The consolidated entity's operations are subject to various Commonwealth, State and Territory environmental laws in relation to energy. This includes exploration, extraction and production of coal seam gas, LPG production and storage, power generation (natural gas, hydro electricity, biogas, landfill gas, bagasse and agricultural waste). In addition, during 2007/2008, the entity began the planning, consultation and approvals phase of the construction of the Berwyndale to Wallumbilla pipeline and the Wallumbilla compression station in Queensland.

During 2007/2008, the AGL Board created the Safety, Sustainability and Corporate Responsibility Committee. This Committee meets quarterly to review the effectiveness of AGL's health, safety and environmental management program, Lifeguard, and replaces the Board Health, Safety and Environment Committee. Environmental management performance is monitored on an ongoing basis by way of system audits conducted using internal and external auditors. In addition, the AGL consolidated entity has two Health, Safety and Environment Management groups that meet regularly to review AGL's health, safety and environmental performance.

Power Generation

AGL's generation assets are managed having due regard to environmental licence and planning conditions in New South Wales, Victoria, South Australia and Queensland.

Operational and maintenance activities were undertaken throughout Australia during the financial year and no formal environmental infringements were reported and no fines were levied on this part of the business during the period.

Wattle Point Wind Farm, South Australia

Under the wind farm's Development Approval No. 544/1318/2002, there is an obligation to perform a noise level survey, to confirm predictions and representations made as part of the development application submission. The survey is required to be completed by a specialist noise consultant under the terms of the Development Approval and submitted to the EPA South Australia and local council within two months of commissioning of the wind turbine installation. Noise testing was completed during the reporting period with the results indicating that the noise modelling by the developer of the wind farm was incorrect. The noise performance of the wind farm falls outside its Development Approval conditions. To meet the Development Approval conditions, the wind farm may need to curtail its output under certain conditions, potentially reducing the average annual energy yield of the wind farm by approximately 10%. Discussions between AGL, EPA South Australia and the local council are continuing to consider a possible amendment to the Development Approval conditions. It is anticipated that a recommendation will shortly be made to the council for them to endorse amendments to the Development Approval conditions.

Somerton Power Station, Victoria

The EPA Victoria has removed the operating hours limit condition for the Somerton power station contained in Waste Discharge Licence No. EA 51148. This followed a number of temporary waivers of the condition previously issued by the EPA Victoria to ensure that the power station was capable of supporting security of supply requirements. AGL's submission for removal of the operating limit was supported by analysis that demonstrated the performance of the gas-fired Somerton power station would have a very low environmental impact if operated for extended periods of time and that the air emissions of the power station were within acceptable limits.

As a user of greater than 10 ML of water per annum, Somerton power station was required to develop and submit a Water Management Action Plan (WaterMAP) to Yarra Valley Water. The WaterMAP requirements are outlined in the Victorian Water Corporation's Permanent Water Savings Plans, created under the Water Act 1989 and the Water Industry Act 1994. Annual reporting of the implementation of the WaterMAP is required and Somerton power station will submit its annual report in December 2008.

The Somerton power station is subject to the Environment Protection (Environment and Resource Efficiency Plans) Regulations 2007 (EREP). The EREP requires large consumers of energy (>100 TJ per year) and water (>120 ML per year) to register with the EPA Victoria by 31 March 2008 and submit resource efficiency plans by December 2008. The EREP also requires annual reporting of actions taken to reduce energy, water and waste. The power station has been registered and a resource efficiency plan is being developed for submission to the EPA by 31 December 2008.

Torrens Island Power Station (TIPS), South Australia

During the reporting period TIPS was fully compliant with the EPA South Australia licence and exemption conditions.

TIPS operates in accordance with EPA Licence 12849 and EPA Dark Smoke exemption 14179. During the reporting period, the Dark Smoke exemption was renewed for a period of five years to 31 March 2013. The exemption applies to certain circumstances that have the potential to cause dark smoke from the power station air emissions stacks. These circumstances include where there is a changeover from the normal gas fuel to back-up oil firing and particularly for testing the reliability of the back-up oil firing system.

The EPA conducted a periodic review of the EPA licence for the power station. Some minor changes were made to ensure relevance and for clarification. In addition, the prescribed activity of producing listed waste, conditions for the storage, handling and disposal of such waste and carrying out open air abrasive blasting were added to the licence following application by AGL.

AGL Hydro Power Generation

During the 2007/2008 financial year, AGL Hydro operations located in New South Wales and Victoria complied with all environmental licence conditions.

Major Customers Power Generation

The Major Customers part of AGL's business owns and operates generating facilities located in South Australia, Victoria, New South Wales, Tasmania and Queensland. AGL complied with the terms of its environmental licence during the operating period.

The Symex co-generation plant in Port Melbourne, Victoria is subject to EREP. This legislation requires large consumers of energy (>100 TJ per year) and water (>120 ML per year) to register with the EPA Victoria by 31 March 2008 and submit resource efficiency plans by December 2008. The EREP also requires annual reporting of actions taken to reduce energy, water and waste. The power plant has been registered and a resource efficiency plan is being developed for submission to the EPA by 31 December 2008.

Hydrocarbon Extractions (HCE)

HCE is licensed under the New South Wales Protection of the Environment Operations Act 1997. The HCE facility has exceeded its load-based licence limits. However, during the latest reporting period, AGL presented a case to the EPA New South Wales for amendment of licence conditions, based on a program of monitoring, testing and approval of site specific emission factors. In June 2008, the EPA approved an amendment to the licence. The HCE facility is now fully compliant with revised EPA licence conditions.

Coal Seam Gas Operations

AGL continues to expand its coal seam gas exploration and production operations in New South Wales and is also involved in joint ventures with exploration and production in Queensland. AGL is not the operator of the Queensland joint ventures.

The AGL operated New South Wales operations are licensed under the Protection of the Environment Operations Act 1997. AGL continues to work closely with the EPA New South Wales and the New South Wales Department of Planning on resolving both historical inconsistencies between regulatory approvals and compliance monitoring and testing procedures, resulting in sporadic exceedance of emissions concentrations at the Rosalind Park Gas Plant. This has resulted in the requirement to report minor non-compliances, however, no fines or penalties have been incurred. AGL fully expects that licence inconsistencies will be resolved during 2008/2009.

In addition, the environmental protection licence for the Camden Gas Project has been reviewed and updated during this period by the EPA New South Wales. The Ray Beddoe Gas Treatment Plant is now decommissioned and site rehabilitation will be undertaken.

Petroleum production licence (PPL) 6 was granted by the New South Wales Department of Primary Industries and the joint venture now holds five of the six Petroleum Production Leases (PPLs) granted in New South Wales under the Petroleum (Onshore) Act 1991.

Construction Activities

Construction activities relating to new power generation assets were undertaken at sites in Victoria and South Australia during the financial year. No environmental infringements were reported and no fines were levied on this part of the business during the period.

During 2007/2008 planning and environmental approvals were prepared and submitted to the State and Commonwealth regulatory authorities for the Berwyndale to Wallumbilla pipeline and the Wallumbilla compression station to be built at EPIC Energy premises in Wallumbilla in Queensland. Subject to receiving the appropriate approvals, it is expected that construction works will commence during 2008/2009.

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 99.

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 $245,000 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.

AGL also paid a premium in respect of a contract insuring the directors of Empresa de Gas de la V Region S.A. (GasValpo) and associated companies, which were sold on 30 April 2008. The policy insures all AGL directors and officers of GasValpo and associated companies as at 30 April 2008 against liabilities incurred in their capacity as directors and officers of those companies for which a claim may be made over the next seven years.

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 138 of this Annual Report.

Rounding

The Company is an entity to which ASIC Class Order 98/100 applies and in accordance with that Class Order, amounts in the Financial Report and 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 2008.

A detailed report covering the relevant requirements of the Corporations Act 2001 follows.

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 2001.

Remuneration policy

The People and Performance Committee of the Board is responsible for reviewing the remuneration strategy and remuneration arrangements for key management personnel (KMP). It makes recommendations to the Board on these matters. The Committee has access to independent external advisers as required.

The purpose of the People and Performance Committee, in relation to remuneration, is to ensure that appropriate remuneration procedures and programs are in place to:

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

> Achieve clear alignment between the needs and requirements of key stakeholder groups (ie. customers, shareholders and communities) and the objectives and values of AGL's employees;

> Promote excellent performance by implementing appropriate remuneration policies, and other policies to keep employees committed and motivated;

> Promote AGL as an employer of choice;

> Comply with relevant legislation and corporate governance principles on remuneration practices and employment policies; and

> Provide fair remuneration and other benefits to all employees.

Non-executive Directors

Non-executive Directors are entitled to receive a base fee plus, where applicable, a Committee fee for participation as a member of a Board Committee. Chairing a Committee attracts a higher fee rate. This structure ensures the remuneration reflects the general responsibilities of individual non-executive Directors as well as the extra responsibilities and workload involved in participating in a Committee. 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 $1.5 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 of other companies in comparator groups across 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 2008, is as follows:

	Base Fee ($)	Audit and Risk Management Committee Fees ($)	Other Committee Fees ($)
Chairman of Board	315,000		
Chairman of Committee	126,000	37,800	18,900
Director	126,000	25,200	12,600

The table on page 47 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 windows. Details of the trading windows are included in AGL's Share 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.

The Board has a process of reviewing the performance of individual Board members and Board Committees, consistent with the ASX Corporate Governance Principles. This process is also part of the strategic overview of non-executive Directors addressed under the Charter of the People and Performance Committee.

CEO and senior executive team

The remuneration of the CEO and senior executives is delivered through a combination of fixed remuneration and short and long-term incentives. The target level of these components for individual roles is determined by comparison with market remuneration practice, enabling AGL to attract and retain key people in critical roles.

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 and experience. Fixed remuneration represents pay for 'doing the job' reflecting AGL's strategy in terms of desired market position;

> 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 are aimed at focusing senior executives on achieving AGL's tactical objectives as well as reaching divisional performance targets and objectives linked to the executive's role. They therefore align individual performance and business outcomes, and provide 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 either as AGL shares or as a contribution to the complying superannuation fund of which the executive is a member.

During the year, after obtaining external advice, AGL modified the STI by introducing a 12 month deferral for a portion of STI payments made to selected senior executives. The deferred amount will be used to purchase shares in AGL (under the AGL Share Purchase Plan) which will be withheld from the executive for a period of one year. Generally the executive will have to remain employed by AGL throughout the deferral period to receive the deferred portion; and

> Share performance rights granted in accordance with the terms of the Long-Term Incentive Plan (LTIP), details of which are provided on page 48. The LTIP is designed to align the interests of shareholders and senior executives. The focus of the LTIP performance metric is the creation of long-term shareholder value.

The balance between fixed and variable remuneration is kept under review for market relevance and competitiveness.

The incentive elements may be made to reward performance achieved or to encourage better future performance or for retention purposes.

During the year, after obtaining external advice, AGL modified the variable remuneration structure to differentiate the mix of fixed and variable remuneration levels based on the executive's capacity in their role to influence financial results.

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 2007/2008 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	36.4%	27.2% [1]	36.4% [1]
Group General Manager Retail Energy [2]	50%	50%	0%
Group General Managers and Chief Financial Officer	50% to 55%	30% to 35%	10% to 20%
Other Senior Executives	55% to 65%	25% to 30%	10% to 15%

Notes:

[1] Percentages are based on stretch outcomes.

[2] Group General Manager Retail Energy mix of remuneration due to pending retirement in September 2008.

The weighting for variable pay is utilised to drive requirements for increased opportunities as well as AGL's 'pay for performance' approach to remuneration.

Performance Linkage

(a) Short-Term Incentive

Executives are not eligible to be considered for an STI payment unless they have performed satisfactorily in their role, and demonstrated AGL's values, throughout the year. This is assessed annually using the AGL Performance Planning and Review Process.

STI are payable:

> To executives employed at the end of the financial year;

> To executives whose employment terminated during the financial year due to death or retirement on grounds of age or invalidity, on a pro-rata basis; and

> At the discretion of the Board in other circumstances.

The actual level of STI paid for each executive is determined at the end of the financial year by assessment of the executive's performance against specified financial, strategic, customer service and people management objectives. These performance objectives are identified and agreed at the beginning of the financial year and included on a dashboard for each executive. The weighting given to each objective varies depending on the executive's role within AGL. The dashboard is used to set 'threshold', 'target' and 'stretch' performance hurdles for each objective, and to measure at the end of the financial year the actual level of achievement of each objective. No STI is payable for any objective where the threshold level of performance has not been reached.

The use of the dashboard assists in focusing executives on achieving AGL's tactical objectives as well as reaching divisional targets and objectives linked to the individual's role. This performance management process provides a robust link between AGL and individual performance and STI payments.

The maximum STI payment varies between 35% and 100% of TFR for senior executives including the CEO, Mr Fraser. The weighting given to each performance objective will vary for each executive depending on the executive's role at AGL. Typically the weightings may be: financial 40%, strategy/customer 40%, and people management 20%.

(b) Long-Term Incentive

The AGL LTIP is designed to align the interests of AGL executives and the strategic goals of AGL with those of AGL shareholders. The LTIP forms an integral component of AGL's remuneration strategy.

Under the LTIP, executives are granted Share Performance Rights (SPRs) that vest in the executive after three years, providing (and to the extent that) performance conditions applicable to the SPRs are met. A SPR is an entitlement to one fully-paid ordinary share in AGL. SPRs do not carry dividend or voting rights. However, SPRs will participate in bonus issues, rights issues, and reconstructions and reorganisations of the capital of AGL in the same manner as AGL shares. On vesting, SPRs are exercised and converted to fully-paid AGL shares.

AGL has made two grants of SPRs to executives under the LTIP. The first was in April 2007 and the second in January 2008.

The first grant in April 2007 comprised two tranches. Vesting of one tranche, representing 50% of the total, is based on measurement of the performance hurdle at 30 June 2008. The second tranche, also representing 50% of the total, will vest based on measurement of the performance hurdle at 30 June 2009.

Vesting of the second grant in January 2008 will be based on measurement of the performance hurdle as at 30 June 2010.

AGL has also made a grant of SPRs to the Chief Financial Officer (CFO), in accordance with his service agreement, in November 2006, which will vest based on measurement of the performance hurdle as at 30 June 2009. Following this allocation the CFO did not participate in the April 2007 offer.

The applicable performance condition for all grants of SPRs (including the CFO) is based on relative Total Shareholder Return (TSR) over a specified period 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%

The level of vesting is dependent upon AGL's relative TSR performance measured against the ASX100 companies at specific dates as follows:

Grant	AGL's TSR performance measured against the ASX100 companies as at:
April 2007	26 October 2006
CFO	8 November 2006
January 2008	26 October 2007

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

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

TSR was chosen as the measure for vesting of the LTI as it takes into account dividends, changes in share price and return of capital and provides a further link between AGL and individual performance and remuneration, as well as an indication of shareholder wealth creation.

The performance conditions applicable to future SPRs granted under the LTIP will be determined by the AGL Board at the time of each grant. The Board has the discretion to vary the terms of the vesting period applying to SPRs.

LTIP allocations to executives are determined based on market practice to give AGL comparability in remuneration against other energy industry companies.

The Board is continuing to review the terms on which future grants of SPRs will be made under the LTIP. The Board has sought external advice regarding market practice in Australia and overseas to assist with this process.

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. Participants are requested annually to confirm that they have not entered into any derivative or other financial product in relation to their SPRs.

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.

Any SPRs that do not vest when performance conditions are applied to them will automatically lapse.

AGL financial performance

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

Year ended 30 June	2008	2007
EPS (cents)[1]	80.6	75.5
Dividends (cents)[2]	53.0	35.5
Increase/decrease in adjusted share price (%)	(5.7%)	n/a

Notes:

[1] EPS excludes significant items and changes in fair value of financial instruments.

[2] Dividends relate to financial years, not when they were paid.

[3] Only two 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 incentive arrangements 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 44.

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
Phil James	Group General Manager Retail Energy	No fixed term	3 months	3 months	Up to 73 weeks TFR
Paul McWilliams	Head of Corporate Support Services and Company Secretary	No fixed term	6 months	4 months	6 months TFR
Stephen Mikkelsen	Chief Financial Officer	No fixed term	6 months	4 months	
Mike Moraza	Group General Manager Gas and Power Development	No fixed term	3 months	3 months	9 months TFR

Retention provisions

The service agreement of the CFO includes a provision for the payment of retention fees if he is employed by AGL on 28 August 2008 and 28 August 2009.

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 and his appointment as Managing Director and CEO will continue until his appointment is terminated.

AGL may terminate Mr Fraser's appointment:

(a) By giving Mr Fraser 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 foregone.

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 for 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. Currently the performance criterion is relative Total Shareholder Return against the ASX100.

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 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 2008, $1.55 million per annum. During each year of the term of his appointment, the Board will review Mr Fraser's TFR for the next year and determine 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 either has been, or will be, 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) If Mr Fraser is employed by AGL on the first anniversary of this appointment (22 October 2008), AGL shares with a face value of $400,000; and

c) If Mr Fraser is employed by AGL as at 31 August 2009, AGL shares with a face value of $400,000.

These shares will be allocated under the AGL Share Purchase Plan.

Short-Term Incentive: Mr Fraser participates in the AGL STIP.

Mr Fraser is eligible to receive a short-term incentive for the year ending 30 June 2009 as follows:

a) $775,000 for on target performance; or

b) $1,550,000 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 dashboard. Typically these include financial, strategy, customer and people management objectives.

One half of a short-term incentive will be paid in cash. The balance of the incentive will be deferred for 12 months, by providing an allocation of shares under the AGL Share Purchase Plan.

Mr Fraser's performance for the year ending 30 June 2008 has been assessed at a 'stretch' outcome by the Board.

Long-Term Incentive: Mr Fraser participates in the AGL LTIP the terms of which are summarised above under the heading Long-Term Incentive on pages 42 and 43.

On appointment Mr Fraser was granted SPRs with a face value of $1,050,000, subject to AGL's LTIP. This grant was made after receiving a waiver from the Australian Securities Exchange requirements under the applicable Listing Rules.

Mr Fraser is entitled to a grant of SPRs annually from 1 September 2008 with a face value equivalent to up to 100% of his TFR as determined in the absolute discretion of the Board, subject to any applicable approval requirements.

The SPRs granted to Mr Fraser under AGL's LTIP, which are referred to above, will vest at no cost to Mr Fraser and are issued on the terms and conditions specified in AGL's LTIP.

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 after three years, providing (and to the extent that) performance conditions applicable to the SPRs are met. Participants in the Share Reward Plan are not eligible to participate in the LTIP;

> AGL Share Reward Plan, whereby AGL in any year grants eligible employees up to a maximum of $1,000 worth of AGL shares. Participants in the AGL LTIP are not eligible to participate in the Share Reward Plan; and

> AGL Share Purchase Plan, whereby the Plan trustee acquires AGL shares on-market at market price during permitted trading windows 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 the Share Purchase Plan is 1,080 out of 1,947 employees and the total number of AGL shares held is 202,428.

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;

> Senior leadership executives; and

> The five highest remunerated executives in AGL.

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	
Charles Allen AO	Non-executive Director	Retired 28 February 2008
Carolyn Hewson	Non-executive Director	
Jeremy Maycock	Non-executive Director	
Sandra McPhee	Non-executive Director	
Max Ould	Non-executive Director	
Bruce Phillips	Non-executive Director	Appointed 23 August 2007
Graham Reaney	Non-executive Director	
Managing Director and Chief Executive Officer		
Paul Anthony	Managing Director and Chief Executive Officer	Resigned 21 October 2007
Michael Fraser	Managing Director and Chief Executive Officer	Appointed 22 October 2007
Executives		
Greg Conway	Group General Manager Retail Energy	Appointed 11 October 2007 Resigned 7 December 2007
Jeff Dimery	Group General Manager Merchant Energy	Appointed 29 January 2008
Phil James	Group General Manager Retail Energy	
Paul McWilliams	Head of Corporate Support Services and Company Secretary	
Stephen Mikkelsen	Chief Financial Officer	
Mike Moraza	Group General Manager Gas and Power Development	Appointed 29 January 2008

Remuneration of Key Management Personnel

for year ended 30 June 2008

Senior Executives	Short-Term Benefits				Post-Employment Benefits		Other Long-Term Benefits	Termination Benefits	Share-Based Payments			
Name	Cash Salary & Fees $	Short-Term Incentives (a) $	Non-Monetary Benefits (b) $	Other Short-Term Benefits $	Superannuation $	Retirement Benefits $	$	$	Rights (c) $	Other Share Plans $	Total $	Value of Equity as a % of Total
Paul Anthony (d)	526,411	0	214,607	0	3,996	0	0	5,118,840	325,946	0	6,189,800	5.3%
Greg Conway (e)	99,733	0	27,676	0	2,449	0	0	1,050,000	0	200,000 (f)	1,379,858	14.5%
Jeff Dimery (g)	518,164	317,500	36,675	0	58,813	0	0	0	43,702	7,216 (h)	982,070	5.2%
Michael Fraser	1,060,001	1,050,000	0	0	176,653	0	0	0	155,409	1,023,639 (i)	3,465,702	34.0%
Phil James	732,044	600,000	24,921	0	194,838 (j)	0	0	0	36,869	0	1,588,672	2.3%
Paul McWilliams	462,548	127,750	27,831	0	42,206 (j)	0	0	0	21,802	0	682,137	3.2%
Stephen Mikkelsen	623,611	281,500	0	0	13,129	0	0	0	70,377	0	988,617	7.1%
Mike Moraza (g)	426,743	245,500	25,235	0	59,357	0	0	0	18,481	0	775,316	2.4%
Total	4,449,255	2,622,250	356,945	0	551,441	0	0	6,168,840	672,586	1,230,855	16,052,172	

(a) Earned in respect of 2007/2008 financial year and paid in September 2008.
(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) Ceased employment in October 2007.
(e) Commenced employment in October 2007 ceased employment in December 2007.
(f) Mr Conway received a sign-on allocation of AGL shares under the AGL Share Purchase Plan.
(g) Includes remuneration received in the financial year prior to appointment as KMP in January 2008.
(h) Value of shares acquired under the AGL Share Purchase Plan.
(i) Under Mr Fraser's prior service agreement he was entitled to certain retention payments .Upon appointment as Managing Director and CEO, AGL shares were allocated and acquired under the AGL Share Purchase Plan.
(j) Includes salary sacrifice contributions.
All executives are entitled to four weeks annual leave and long service leave based on statutory entitlements.

Remuneration of Key Management Personnel

for year ended 30 June 2007

Senior Executives	Short-Term Benefits				Post-Employment Benefits		Other Long-Term Benefits	Termination Benefits	Share-Based Payments			
Name	Cash Salary & Fees $	Short-Term Incentives (a) $	Non-Monetary Benefits (b) $	Other Short-Term Benefits $	Superannuation $	Retirement Benefits $	$	$	Rights (c) $	Other Share Plans (d) $	Total $	Value of Equity as a % of Total
Paul Anthony	2,927,313	1,560,000	398,597	0	12,686	0	0	0	0	6,364,046 (k)	11,262,642	56.5%
Greg Hayes (e)	144,924	0	18,734	0	41,882 (i)	0	0	2,000,000	640,844 (j)	0	2,846,384	22.5%
Michael Fraser	1,220,951	406,450	0	0	135,237	0	0	0	459,939 (j)	11,291	2,233,868	21.1%
Phil James	368,436	307,200	18,707	0	194,922 (i)	0	0	0	316,400 (j)	9,167	1,214,832	26.8%
Jane McAloon (e)	108,734	0	13,382	0	6,565 (i)	0	0	458,000	266,498 (j)	0	853,179	31.2%
Robert Casamento (f)	411,172	0	0	0	9,137	0	0	657,101	83,592 (j)	0	1,161,002	7.2%
Stephen Mikkelsen (g)	581,563	168,413	0	0	10,756	0	0	0	0	24,570	785,302	3.1%
Paul McWilliams	302,643	80,234	24,200	0	30,178	0	0	0	46,950 (j)	2,926	487,131	10.2%
Ross Gersbach (h)	520,627	0	11,629	0	21,073	0	0	467,635	244,488 (j)	0	1,265,452	19.3%
Total	6,586,363	2,522,297	485,249	0	462,436	0	0	3,582,736	2,058,711	6,412,000	22,109,792	

(a) Earned in respect of 2006/2007 financial year and paid in September 2007.
(b) Includes the value of benefits such as cars, representational spouse travel and entertainment and Fringe Benefits Tax.
(c) The amortisation of share rights issued under the LTIP recognising that they vest generally over a three-year period.
(d) The fair value of LTI SPRs has been calculated using a Monte-Carlo simulation method.
(e) Ceased employment in September 2006.
(f) Ceased employment in October 2006.
(g) Commenced employment in August 2006.
(h) Ceased employment in November 2006.
(i) Includes salary sacrifice contributions.
(j) Includes the value of vested shares issued under the LTIP on cessation of the Plan following completion of the Alinta transaction.
(k) Includes value of shares acquired under the AGL Share Purchase Plan.
A portion of compensation was paid by and relates to The Australian Gas Light Company up to completion of the Alinta transaction.
All executives are entitled to four weeks annual leave and long service leave based on statutory entitlements.

Remuneration of Key Management Personnel

for year ended 30 June 2008

Non-executive Directors	Short-Term Benefits			Post-Employment Benefits		Share-Based Payments			
Name	Cash Salary & Fees $	Short-Term Incentives $	Non-Monetary Benefits (a) $	Superannuation $	Retirement Benefits $	Rights $	Other Share Plans (b) $	Total (a) $	Value of Equity as a % of Total
Mark Johnson	14,718	0	0	13,129	0	0	279,652	307,499	90.9%
Charles Allen AO (c)	97,200	0	0	0	0	0	0	97,200	0.0%
Carolyn Hewson	70,385	0	0	83,514 (e)	0	0	0	153,899	0.0%
Jeremy Maycock	8,609	0	0	12,187	0	0	126,804	147,600	85.9%
Sandra McPhee	126,371	0	0	13,129	0	0	0	139,500	0.0%
Max Ould	69,311	0	0	13,129	0	0	54,960	137,400	40.0%
Bruce Phillips (d)	98,969	0	0	11,274	0	0	0	110,243	0.0%
Graham Reaney	87,200	0	0	25,000 (e)	0	0	60,000	172,200	34.8%
Total	572,763	0	0	171,362	0	0	521,416	1,265,541	

(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 2008.
(d) Commenced as an AGL Director in August 2007.
(e) Includes salary sacrifice contributions.

Remuneration of Key Management Personnel

for year ended 30 June 2007

Non-executive Directors	Short-Term Benefits			Post-Employment Benefits		Share-Based Payments			
Name	Cash Salary & Fees $	Short-Term Incentives $	Non-Monetary Benefits (a) $	Superannuation $	Retirement Benefits $	Rights $	Other Share Plans (b) $	Total (a) $	Value of Equity as a % of Total
Mark Johnson	56,529	0	0	12,686	0	0	217,660	286,875	75.9%
Charles Allen AO	144,114	0	0	0	0	0	0	144,114	0.0%
Carolyn Hewson	69,969	0	0	56,457 (c)	0	0	15,664	142,090	11.0%
Jeremy Maycock	2,836	0	0	78,545 (c)	0	0	16,800	98,181	17.1%
Sandra McPhee	0	0	0	90,000 (c)	0	0	0	90,000	0.0%
Max Ould	9,846	0	0	100,000 (c)	0	0	20,403	130,249	15.7%
Graham Reaney	27,772	0	0	100,000 (c)	0	0	38,000	165,772	22.9%
Total	311,066	0	0	437,688	0	0	308,527	1,057,281	

(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) Includes salary sacrifice contributions.
A portion of remuneration was paid by and relates to The Australian Gas Light Company up to completion of the Alinta transaction.

Details of Share Performance Rights granted to Key Management Personnel as part of remuneration

for the year ended 30 June 2008

Name	Balance at 1 July 2007		SPRs granted during the year		Grant date	Fair value per SPR at grant date (d)	Lapsed	Vested	Balance at 30 June 2008
Paul Anthony	140,851				8 Nov 06	4.88	(140,851)	–	–
Paul Anthony	46,950				8 Nov 06	6.02	–	(46,950)	–
Jeff Dimery	3,459	(a)			1 Apr 07	5.81	–	–	3,459
Jeff Dimery	3,459	(a)			1 Apr 07	6.71	–	–	3,459
Jeff Dimery			12,188	(b)	11 Jan 08	9.16	–	–	12,188
Michael Fraser	6,605	(a)			1 Apr 07	5.81	–	–	6,605
Michael Fraser	6,604	(a)			1 Apr 07	6.71	–	–	6,604
Michael Fraser			103,915	(c)	25 Feb 08	7.66	–	–	103,915
Phil James	5,363	(a)			1 Apr 07	5.81	–	–	5,363
Phil James	5,362	(a)			1 Apr 07	6.71	–	–	5,362
Stephen Mikkelsen	16,285	(a)			8 Nov 06	6.60	–	–	16,285
Stephen Mikkelsen			19,647	(b)	11 Jan 08	9.16	–	–	19,647
Paul McWilliams	1,712	(a)			1 Apr 07	5.81	–	–	1,712
Paul McWilliams	1,711	(a)			1 Apr 07	6.71	–	–	1,711
Paul McWilliams			6,140	(b)	11 Jan 08	9.16	–	–	6,140
Mike Moraza	1,430	(a)			1 Apr 07	5.81	–	–	1,430
Mike Moraza	1,429	(a)			1 Apr 07	6.71	–	–	1,429
Mike Moraza			5,294	(b)	11 Jan 08	9.16	–	–	5,294

(a) SPRs will vest at no cost to the recipient. Providing performance conditions are satisfied, 13,680 SPRs will vest on 1 September 2008 and 29,962 SPRs will vest on 1 September 2009.
(b) SPRs will vest at no cost to the recipient. Providing performance conditions are satisfied, 43,269 SPRs will vest on 1 September 2010.
(c) SPRs will vest at no cost to the recipient. Providing performance conditions are satisfied, 103,915 SPRs will vest on 1 September 2010.
(d) Fair value of SPRs granted is measured using the Monte-Carlo simulation method.

Details of Share Performance Rights granted to Key Management Personnel as part of remuneration

for the year ended 30 June 2007

Name	Balance at 30 June 2006	SPRs granted during the year		Grant date	Fair value per SPR at grant date (c)	Lapsed	Vested	Balance at 30 June 2007
Paul Anthony	–	140,851	(a)	8 Nov 06	4.88	–	–	140,851
Paul Anthony	–	46,950	(a)	8 Nov 06	6.02	–	–	46,950
Michael Fraser	–	6,605	(b)	1 Apr 07	5.81	–	–	6,605
Michael Fraser	–	6,604	(b)	1 Apr 07	6.71	–	–	6,604
Phil James	–	5,363	(b)	1 Apr 07	5.81	–	–	5,363
Phil James	–	5,362	(b)	1 Apr 07	6.71	–	–	5,362
Stephen Mikkelsen	–	16,285	(b)	8 Nov 06	6.60	–	–	16,285
Paul McWilliams	–	1,712	(b)	1 Apr 07	5.81	–	–	1,712
Paul McWilliams	–	1,711	(b)	1 Apr 07	6.71	–	–	1,711

(a) SPRs will vest at no cost to Mr Anthony. Providing performance conditions are satisfied, 140,851 SPRs will vest on 1 September 2007 and 46,950 SPRs will vest on 1 September 2008.
(b) SPRs will vest at no cost to the recipient. Providing performance conditions are satisfied, 18,569 SPRs will vest on 1 September 2008 and 34,850 SPRs will vest on 1 September 2009.
(c) Fair value of SPRs granted is measured using the Monte-Carlo simulation method.
(d) The above table only includes SPRs granted to KMP under the AGL LTIP. Details of movements in share rights held by KMP under the old AGL LTIP of The Australian Gas Light Company have not been included.

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 2nd day of September 2008.

Mark Johnson
Chairman

Income Statement

For the year ended 30 June 2008

		Consolidated		Parent Entity	
		2008	2007	2008	2007
	Note	$m	$m	$m	$m
Continuing operations					
Revenue	4	5,429.6	3,458.9	177.8	421.5
Other income	5	186.5	30.0	163.9	27.3
Expenses	6	(5,214.5)	(2,888.8)	(136.1)	(294.4)
Share of profits of associates and jointly controlled entities using the equity method	20	99.8	36.1	–	–
Profit before net financing costs, depreciation and amortisation		501.4	636.2	205.6	154.4
Depreciation and amortisation	8	(102.3)	(74.6)	(14.7)	(12.1)
Profit before net financing costs		**399.1**	**561.6**	**190.9**	**142.3**
Finance income		36.5	34.1	389.3	215.2
Finance costs		(187.6)	(130.9)	(287.5)	(145.2)
Net financing (costs)/income	7	**(151.1)**	**(96.8)**	**101.8**	**70.0**
Profit before tax from continuing operations		248.0	464.8	292.7	212.3
Income tax income/(expense)	9	68.3	(110.6)	(59.2)	(8.2)
Profit after tax from continuing operations		**316.3**	**354.2**	**233.5**	**204.1**
Discontinued operations					
(Loss)/profit after tax from discontinued operations	10	(87.3)	56.3	5.6	29.2
Profit after tax attributable to shareholders of the Parent Entity		**229.0**	**410.5**	**239.1**	**233.3**
Earnings per share					
From continuing and discontinued operations:					
Basic earnings per share (cents)	41	52.6	148.5		
Diluted earnings per share (cents)	41	52.6	148.5		
From continuing operations:					
Basic earnings per share (cents)	41	72.6	128.1		
Diluted earnings per share (cents)	41	72.6	128.1		

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

Balance Sheet

For the year ended 30 June 2008

		Consolidated		Parent Entity	
		2008	2007	2008	2007
	Note	$m	$m	$m	$m
Current assets					
Cash and cash equivalents	12	63.8	279.9	33.1	180.8
Trade and other receivables	13	1,171.0	1,702.3	18.3	40.2
Inventories	14	38.7	27.9	1.2	0.9
Current tax assets	9	47.9	30.6	47.9	30.6
Other financial assets	15	1,210.9	5,102.5	289.6	37.4
Other assets	16	97.6	98.7	1.7	–
		2,629.9	7,241.9	391.8	289.9
Non-current assets classified as held for sale	17	71.2	117.0	64.2	–
Assets of disposal groups classified as held for sale	18	459.3	–	–	–
Total current assets		**3,160.4**	**7,358.9**	**456.0**	**289.9**
Non-current assets					
Trade and other receivables	19	0.8	1.4	–	–
Investments accounted for using the equity method	20	585.0	534.4	–	–
Exploration and evaluation assets	21	25.9	66.2	10.6	11.8
Oil and gas assets	22	150.7	505.1	116.2	104.4
Property, plant and equipment	23	1,821.2	1,101.6	24.6	40.5
Intangible assets	24	3,154.9	3,121.5	61.7	–
Deferred tax assets	9	–	–	12.7	–
Other financial assets	25	464.1	1,392.2	7,380.8	7,159.4
Other assets	26	89.9	26.2	10.7	20.1
Total non-current assets		**6,292.5**	**6,748.6**	**7,617.3**	**7,336.2**
Total assets		**9,452.9**	**14,107.5**	**8,073.3**	**7,626.1**
Current liabilities					
Trade and other payables	27	852.0	1,482.3	40.0	45.4
Borrowings	28	–	406.3	–	389.7
Provisions	29	24.3	21.2	0.1	–
Current tax liabilities	9	23.4	10.3	–	–
Other financial liabilities	30	770.4	2,192.7	800.5	496.7
Other liabilities	31	1.9	1.5	1.8	–
		1,672.0	4,114.3	842.4	931.8
Liabilities of disposal groups classified as held for sale	32	53.0	–	–	–
Total current liabilities		**1,725.0**	**4,114.3**	**842.4**	**931.8**
Non-current liabilities					
Trade and other payables	33	38.2	–	–	–
Borrowings	34	2,101.7	2,041.4	2,078.1	1,990.1
Provisions	35	201.6	32.6	2.1	1.4
Deferred tax liabilities	9	379.2	1,340.3	–	0.1
Other financial liabilities	36	12.8	35.6	949.0	613.0
Other liabilities	37	14.5	25.7	–	18.2
Total non-current liabilities		**2,748.0**	**3,475.6**	**3,029.2**	**2,622.8**
Total liabilities		**4,473.0**	**7,589.9**	**3,871.6**	**3,554.6**
Net assets		**4,979.9**	**6,517.6**	**4,201.7**	**4,071.5**
Equity					
Issued capital	38	3,971.6	3,858.9	3,971.6	3,858.9
Reserves	39	501.3	2,137.5	14.8	3.9
Retained earnings	40	507.0	521.2	215.3	208.7
Total equity		**4,979.9**	**6,517.6**	**4,201.7**	**4,071.5**

The balance sheet is to be read in conjunction with the notes to the financial statements.

Cash Flow Statement

For the year ended 30 June 2008

	Note	Consolidated 2008 $m	Consolidated 2007 $m	Parent Entity 2008 $m	Parent Entity 2007 $m
Cash flows from operating activities					
Receipts from customers		6,651.4	4,737.9	111.6	156.1
Payments to suppliers and employees		(6,072.8)	(4,328.7)	(59.3)	(159.8)
Dividends received		39.1	26.4	123.6	279.2
Finance income received		30.8	20.2	409.2	217.4
Finance costs paid		(189.2)	(94.3)	(286.9)	(110.4)
Income taxes (paid)/refunded		(104.6)	(71.9)	(8.6)	10.3
Net cash provided by operating activities	54(a)	**354.7**	**289.6**	**289.6**	**392.8**
Cash flows from investing activities					
Payments for property, plant and equipment		(226.6)	(150.2)	(4.0)	(21.5)
Payments for exploration and evaluation assets		(8.8)	(20.3)	(3.6)	(11.8)
Payments for oil and gas assets		(56.8)	(147.3)	(21.3)	(100.8)
Payments for investments		–	(452.3)	–	(452.3)
Payments for other		(5.3)	–	–	–
Payments for businesses and subsidiaries, net of cash acquired	54(b)	(620.1)	(1,308.9)	(141.8)	–
Proceeds from sale of property, plant and equipment		117.3	48.4	–	46.1
Proceeds from sale of investment		244.3	–	244.3	–
Proceeds from sale of subsidiary, net of cash disposed	54(c)	57.5	–	70.4	–
Proceeds from return of share capital from subsidiary		–	–	33.3	–
Net cash (used in)/provided by investing activities		**(498.5)**	**(2,030.6)**	**177.3**	**(540.3)**
Cash flows from financing activities					
Proceeds from issue of shares, net of transaction costs		–	911.9	–	911.9
On market share purchases		(1.8)	–	(1.8)	–
Proceeds from borrowings		1,185.0	2,528.3	1,185.0	2,538.9
Repayment of borrowings		(1,418.6)	(142.4)	(1,420.0)	(142.3)
Loans advanced		(5.0)	(247.0)	(5.0)	(247.0)
Proceeds from loan repayments		277.1	9.6	277.1	9.5
Loans repaid to related parties		–	(1,043.5)	–	(2,706.3)
Net (increase)/decrease in loans to/from subsidiaries		–	–	(537.2)	–
Dividends paid	11	(112.7)	(35.8)	(112.7)	(35.8)
Net cash (used in)/provided by financing activities		**(76.0)**	**1,981.1**	**(614.6)**	**328.9**
Net (decrease)/increase in cash and cash equivalents		**(219.8)**	**240.1**	**(147.7)**	**181.4**
Cash and cash equivalents at the beginning of the financial year		279.2	52.8	180.8	(0.6)
Effect of exchange rate changes on the balance of cash held in foreign currencies		13.8	(13.7)	–	–
Cash and cash equivalents at the end of the financial year	54(d)	**73.2**	**279.2**	**33.1**	**180.8**

The cash flow statement is to be read in conjunction with the notes to the financial statements.

Statement of Recognised Income and Expense

For the year ended 30 June 2008

	Note	Consolidated 2008 $m	Consolidated 2007 $m	Parent Entity 2008 $m	Parent Entity 2007 $m
Cash flow hedges:					
(Loss)/gain taken to equity	39	(1,262.2)	3,481.4	18.3	3.8
Transferred to profit or loss for the period	39	(1,294.2)	(257.1)	(3.1)	0.9
Net (loss)/gain on hedge of net investment in foreign operations	39	(10.4)	70.8	–	–
Exchange differences arising on translation of foreign operations	39	14.8	(78.1)	–	–
Exchange differences transferred to profit or loss on disposal of foreign operation	39	(12.6)	–	–	–
Actuarial (loss)/gain on defined benefit plans		(13.9)	9.9	(9.8)	9.9
Share of actuarial (loss)/gain on defined benefit plans attributable to associates and jointly controlled entities		(10.4)	5.2	–	–
Share of net gain/(loss) in reserves attributable to associates and jointly controlled entities		163.5	(174.3)	–	–
Income tax on items taken directly to or transferred from equity		771.3	(994.7)	(1.6)	(4.4)
Net (expense)/income recognised directly in equity		**(1,654.1)**	**2,063.1**	**3.8**	**10.2**
Profit for the period		229.0	410.5	239.1	233.3
Total recognised income and expense for the period attributable to shareholders of the Parent Entity		**(1,425.1)**	**2,473.6**	**242.9**	**243.5**

Reconciliation of statement of recognised income and expense to equity movements

	Consolidated 2008 Reserves $m	Consolidated 2008 Retained earnings $m
Balance at beginning of financial year	2,137.5	521.2
Current period movements	(1,634.0)	(20.1)
Movement in reserves not reflected in statement of recognised income and expense above:		
Share-based payment transactions	0.3	–
Share of gain in reserves attributable to an associate transferred on disposal	(2.5)	2.5
Profit for the period	–	229.0
Dividends paid	–	(225.6)
Balance at end of financial year	**501.3**	**507.0**

The statement of recognised income and expense is to 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.

(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.

The financial report includes the separate financial statements of the Parent Entity and the consolidated financial statements of the Parent Entity and its subsidiaries.

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 Parent Entity and the consolidated entity comply with International Financial Reporting Standards (IFRS).

The financial report was authorised for issue by the Directors on 2 September 2008.

(b) Basis of preparation

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

The Parent Entity is a company of the kind referred to in ASIC Class Order 98/100, 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 carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and 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

In the current year, 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 annual reporting period.

The consolidated entity has adopted AASB 7 Financial Instruments: Disclosures and AASB 101 Presentation of Financial Statements (revised October 2006). The adoption of these standards has only affected the disclosures made in the financial statements. There has been no effect on profit and loss or the financial position of the consolidated entity.

(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 or up to the effective date of disposal, as appropriate.

The financial statements of subsidiaries have been prepared for the same reporting period as the Parent Entity, using consistent accounting policies. 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.

In preparing the consolidated financial statements, all intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

In the Parent Entity's financial statements, investments in subsidiaries are accounted for at cost.

(f) Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the purchase method. The cost of the business combination is measured as the aggregate of the fair values (at the date of exchange) of the assets given, liabilities incurred or assumed and shares issued in exchange for control of the acquiree, plus any costs directly attributable to the business combination.

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

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the consolidated entity's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the consolidated entity's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

(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 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 (refer to Note 1(p)).

The results of discontinued operations are presented separately on the face of the income statement. 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.

(h) Segment reporting

A segment is a distinguishable component of the consolidated entity that is engaged either in providing related products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and returns that are different from those of other segments. Segment information is presented in respect of the consolidated entity's business and geographical segments. The consolidated entity's primary format for segment reporting is based on business segments. The business segments are determined based on the consolidated entity's management and internal reporting structure.

(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 percent of the voting rights 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 balance sheet at cost plus 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 the 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.

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

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

(k) Foreign currency

Functional and presentation currency

The functional and presentation currency of AGL Energy Limited and its Australian subsidiaries is Australian dollars. The functional currency of a subsidiary with operations in Papua New Guinea is the United States dollar.

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 reporting date.

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 reporting date. 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 recognised in 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 money market deposits with an original maturity of less than three months that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Bank overdrafts and short-term money market borrowings are included as a component of cash and cash equivalents for the purpose of the cash flow statement.

For the purposes of the cash flow statement, cash and cash equivalents are net of bank overdrafts that are repayable on demand. Bank overdrafts are shown within borrowings in current liabilities in the balance sheet.

(m) Trade and other receivables

Trade and other receivables are recognised at amortised cost less an allowance for doubtful debts.

Collectibility of trade receivables is reviewed on an ongoing basis. An allowance for doubtful debts is established when there is objective evidence that the consolidated entity will not be able to collect all amounts due. 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 established gas and electricity services supplied to customers but unbilled at the reporting date.

(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

The consolidated entity classifies its financial assets as either 'financial assets at fair value through profit or loss' or as 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

When financial assets are recognised initially, they are measured at fair value, net of transaction costs except for those financial assets classified as at fair value through profit or loss which are initially measured at fair value.

Investments in subsidiaries are measured at cost in the Parent Entity financial statements. Investments in associates and jointly controlled entities are accounted for under the equity method in the consolidated financial statements. Further information regarding equity accounted investments is detailed in Note 1(i).

Recognition and derecognition

All regular way purchases and sales of financial assets are recognised on the trade date – the date that the consolidated entity commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets under contracts that require delivery of the assets within the timeframe established generally by regulation or convention in the market place. The consolidated entity derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the financial asset and substantially all the risks and rewards of ownership to another entity.

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'. The consolidated entity classifies derivatives 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 balance sheet.

Loans and receivables

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

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each reporting date. Financial assets are 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 impacted.

For financial assets measured at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Impairment of trade receivables is recognised in accordance with the accounting policy set out in Note 1(m).

(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 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 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 (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 classified as held for sale and the assets of a disposal group classified as held for sale are presented separately from the other assets in the balance sheet. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities in the balance sheet.

(q) Exploration and evaluation assets

Exploration and evaluation expenditure is accounted for in accordance with the area of interest method. 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 reporting date, 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.

The carrying amounts of the consolidated entity's exploration and evaluation assets are reviewed at each reporting date, 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 are stated at cost less accumulated depreciation and any 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 equity 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 net disposal 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 are 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

(t) Leased assets

Leases are classified as finance leases when the terms of the lease transfers substantially all the risks and rewards incidental to ownership of the leased asset to the lessee. All other leases are classified as operating leases.

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

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

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

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

(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 the useful life and tested for impairment whenever there is an indication that the intangible asset may be

impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at each reporting date.

Goodwill

Goodwill acquired in a business combination is initially measured at cost, being the excess of the cost of the business combination over the consolidated entity's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised at the date of the acquisition. Goodwill is subsequently measured at cost less any accumulated impairment losses.

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 business combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently if events or changes in circumstances indicate that goodwill might be impaired.

Impairment is determined by assessing the recoverable amount of the cash-generating unit, to which the goodwill relates.

When the recoverable amount of the cash-generating unit is less than the carrying amount of the cash-generating unit, an impairment loss is recognised. An impairment loss recognised for goodwill is recognised immediately in profit or loss and is not reversed in a subsequent period.

On disposal of an operation within a cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal of the operation.

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 each reporting date, 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 the asset does not generate cash flows that are independent from other assets, the consolidated entity estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Intangible assets with indefinite useful lives are tested for impairment annually and whenever there is an indication that the assets 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 (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 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 (cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (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 fair value, 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 financial year that are unpaid and arise when the consolidated entity becomes obliged to make future payments in respect of the purchase of these goods and services. 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.

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

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 reporting date.

(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 employee benefits expected to be settled within 12 months of reporting date, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Liabilities recognised in respect of employee benefits which are not expected to be settled within 12 months, 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 reporting date.

Defined contribution plans

Contributions to defined contributions superannuation plans are expensed when employees have rendered service entitling them to the contributions.

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

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

(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. Further information on share-based payment plans is detailed in Note 52 to the financial statements.

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 using the Monte Carlo simulation method.

At each reporting date, 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 the obligation will be required to be settled and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. 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, the 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 a provision. An onerous contract is considered to exist where the consolidated entity has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

Environmental restoration

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

The provision for future restoration costs is the best estimate of the present value of the expenditure required to settle the restoration obligation at the reporting date, based on current legal requirements 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 each reporting date.

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.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. 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 fair value hedges. Derivatives that do not qualify for hedge accounting are required to be accounted for as trading instruments. Further information on derivative financial instruments is detailed in Note 56 to the financial statements.

The fair value of a hedging derivative is classified 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; it is classified as a current asset or current liability when the remaining maturity of the instrument is less than 12 months. Trading derivatives are classified as a current asset or a current liability.

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 that is used in a hedging relationship is highly effective in offsetting changes in fair values or cash flows of the hedged item.

Fair value hedge

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

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

Cash flow hedge

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

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

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

Hedges of net investments in foreign operations

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

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 balance sheet 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. As at each reporting date, gas and electricity revenue includes an accrual for sales delivered to customers but not yet billed (unbilled revenue).

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

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

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

(af) Net financing costs

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

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 effect of discounting on provisions and gains and losses on certain hedging instruments that are recognised in the income statement.

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

(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 balance sheet.

Cash flows are included in the cash flow statement 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

Current tax

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognised as a liability (or assets) to the extent it is unpaid (or refundable).

Deferred tax

Deferred tax is accounted for using the balance sheet liability method. Temporary differences are differences between the tax base of an asset or liability and its carrying amount in the balance sheet. The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income nor accounting profit. Furthermore, a deferred tax liability is not recognised in relation to taxable temporary differences arising from the initial recognition of goodwill.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by reporting date.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Parent Entity/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 is recognised as an expense or income in the income statement, except where it relates to items credited or debited to equity, in which case the deferred tax is also recognised directly in equity, or where it arises from the initial accounting for a business combination, in which case it is taken into account in the determination of goodwill or excess.

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. 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 (EPS)

Basic EPS is calculated as profit after tax attributable to shareholders of the Parent Entity divided by the weighted average number of ordinary shares outstanding during the period.

Diluted EPS is calculated as profit after tax attributable to shareholders of the Parent Entity divided by the weighted average number of ordinary shares outstanding during the period and dilutive potential ordinary shares.

(aj) New standards and interpretations not yet adopted

Certain new standards, amendments to existing standards and interpretations have been issued, but are not yet effective. They are available for early adoption at 30 June 2008, but have not been applied in preparing this financial report. The

consolidated entity's and the Parent Entity's assessment of the impact of these standards and interpretations is set out below.

> Revised AASB 3: *Business Combinations* and revised AASB 127: *Consolidated and Separate Financial Statements* and AASB 2008-3 *Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127* are effective for annual reporting periods beginning on or after 1 July 2009. These standards amend the accounting for certain aspects of business combinations and changes in ownership interests in controlled entities. Consequential amendments are also made to other standards. Changes include:

  – transaction costs are recognised as an expense at the acquisition date, unless the cost relates to issuing debt or equity securities;

  – contingent consideration is measured at fair value at the acquisition date (allowing for a 12 month period post-acquisition to affirm fair values) and all subsequent changes in fair value are recognised in profit;

  – changes in control are considered significant economic events, thereby requiring ownership interests to be remeasured to their fair value (and the gain/loss recognised in profit) when control of a controlled entity is gained or lost;

  – changes in a parent's ownership interest in a controlled entity that do not result in a loss of control (eg. dilutionary gains) are recognised directly in equity.

  The potential effect of the revised standards on the consolidated entity's and the Parent Entity's financial report has not yet been determined.

> AASB 8 *Operating Segments* and AASB 2007-3 *Amendments to Australian Accounting Standards arising from AASB 8* are effective for annual reporting periods beginning on or after 1 January 2009. AASB 8 requires the adoption of a 'management approach' for disclosing information about reportable segments. The information being reported will be based on what the key decision makers use internally for evaluating segment performance and deciding how to allocate resources to operating segments. The potential effect of the standard on the consolidated entity's disclosures has not yet been determined.

> Revised AASB 101 *Presentation of Financial Statements* and AASB 2007-8 *Amendments to Australian Accounting Standards arising from AASB 101* were issued in September 2007 and are effective for annual reporting periods beginning on or after 1 January 2009. AASB 101 requires the presentation of a statement of comprehensive income and makes changes to the statement of changes in equity, but will not affect any of the amounts recognised in the financial statements. The potential effect of the revised standard on the consolidated entity's and the Parent Entity's disclosures has not yet been determined.

> Revised AASB 123 *Borrowing Costs* and AASB 2007-6 *Amendments to Australian Accounting Standards arising from AASB 123* are effective for annual reporting periods beginning on or after 1 January 2009. AASB 123 has removed the option to expense all borrowing costs and when adopted will require the capitalisation of all borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset. There will be no impact on the financial report of the consolidated entity, as borrowing costs relating to qualifying assets are already capitalised.

> AASB 2008-1 *Amendments to Australian Accounting Standard – Share-based Payment: Vesting Conditions and Cancellations* will be effective for annual reporting periods beginning on or after 1 January 2009. This amending standard changes the measurement of share-based payments that contain non-vesting conditions. The potential effect of the amending standard on the consolidated entity's and the Parent Entity's financial report has not yet been determined.

> AASB 2008-2 *Amendments to Australian Accounting Standards – Puttable Financial Instruments and Obligations arising on Liquidation* will be effective for annual reporting periods beginning on or after 1 January 2009. This amending standard introduces an exception to the definition of financial liability to classify as equity instruments certain puttable financial instruments and certain instruments that impose on an entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation of the entity. This amendment of AASB 132 necessitates consequential amendments to AASB 7, AASB 101, AASB 139 and Interpretation 2. The potential effect of the amending standard on the consolidated entity's and the Parent Entity's financial report has not yet been determined.

> AASB Interpretation 12 *Service Concession Arrangements* will be effective for annual reporting periods beginning on or after 1 January 2008. This interpretation addresses the appropriate accounting for service concession arrangements under which private sector entities participate in the development, financing, operation and maintenance of infrastructure for the provision of public services, such as transport, water and energy facilities. Initial application of the interpretation is not expected to have any material impact on the financial report of the consolidated entity and the Parent Entity.

> AASB Interpretation 13 *Customer Loyalty Programmes* will be effective for annual reporting periods beginning on or after 1 July 2008. This interpretation addresses the accounting by entities that operate or otherwise participate in customer loyalty programmes for their customers. It relates to customer loyalty programmes under which the customer can redeem credits for awards such as free or discounted goods or services. Initial application of the interpretation is not expected to have any material impact on the financial report of the consolidated entity and the Parent Entity.

> AASB Interpretation 14 AASB 119 – *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* will be effective for annual reporting periods beginning on or after 1 January 2008. This interpretation provides guidance on the maximum amount that may be recognised as an asset in relation to a defined benefit plan and the impact of minimum funding requirements on such an asset. The potential effect of the interpretation on the consolidated entity's and the Parent Entity's financial report has not yet been determined.

> AASB 2008-5 *Amendments to Australian Accounting Standards arising from the Annual Improvements Project* will be effective for annual reporting periods beginning on or after 1 January 2009 and AASB 2008-6 *Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project* will be effective for annual reporting periods beginning on or after 1 July 2009.These standards make two types of amendments to other standards. Firstly, those that result in accounting changes for presentation, recognition or measurement purposes, and secondly, those that are terminology or editorial changes only, which are expected to have no minimal effect on accounting. The potential effect of these amending standards on the consolidated entity's and the Parent Entity's financial report has not yet been determined.

> AASB 2008-7 *Amendments to Australian Accounting Standards – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate* will be effective for annual reporting periods beginning on or after 1 January 2009. This amending standard requires all dividends, regardless of whether they are pre-acquisition or post-acquisition, to be recognised in profit and loss when the entity's right to receive the dividend has been established. The potential effect of the amending standard on the consolidated entity's and the Parent Entity's financial report 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 24.

Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the purchase 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.

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 56 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 35.

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 51.

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 Monte Carlo simulation method, with the assumptions detailed in Note 52. 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

Segment information is presented in respect of the consolidated entity's business and geographical segments. The primary format, business segments, is based on the consolidated entity's management and internal reporting structure. The consolidated entity comprises the following four main business segments:

Retail Energy – Buying and selling of gas and electricity.

Merchant Energy – Buying and selling of gas and electricity; operating and maintaining of power generation infrastructure; and extraction and sale of liquid petroleum gas.

Gas and Power Development – Exploration, extraction, production and sale of coal seam methane gas; construction of power generation infrastructure; and extraction and sale of crude oil.

Energy Investments – Investments in energy entities.

The Gas and Power Development segment is now reported as a new segment. The businesses within this segment were previously included as part of the Merchant Energy segment. Accordingly, the June 2007 comparative segment information has been restated in accordance with the new reporting basis. The restatement has resulted in no adjustment to the consolidated entity's totals for the information reported in this note.

June 2007 comparative amounts have also been restated to present the discontinued operations separately from continuing operations. Refer Note 10 for a discussion of the discontinued operations.

Inter-segment pricing is determined on an arm's length basis. Inter-segment revenue is eliminated on consolidation.

	Continuing Operations							Discontinued Operations				
Business Segments	Retail Energy $m	Merchant Energy $m	Gas & Power Development $m	Energy Investments $m	Eliminations $m	Unallocated $m	Total continuing operations $m	Gas & Power Development – PNG oil & gas $m	Gas & Power Development – North Qld gas pipeline $m	Energy Investments – Chile $m	Total discontinued operations $m	Consolidated $m
2008												
Revenue	4,707.0	655.8	58.7	10.6	–	0.8	5,432.9	167.9	5.9	46.8	220.6	5,653.5
Inter-segment revenue	19.6	2,369.7	6.2	–	(2,398.8)	–	(3.3)	–	3.3	–	3.3	–
	4,726.6	3,025.5	64.9	10.6	(2,398.8)	0.8	5,429.6	167.9	9.2	46.8	223.9	5,653.5
Other income	–	–	63.3	123.7	–	(0.5)	186.5	33.5	–	3.7	37.2	223.7
Segment revenue	**4,726.6**	**3,025.5**	**128.2**	**134.3**	**(2,398.8)**	**0.3**	**5,616.1**	**201.4**	**9.2**	**50.5**	**261.1**	**5,877.2**
EBIT (before significant items and financial instruments)	269.5	290.7	61.9	48.5	–	(98.1)	572.5	85.9	7.3	13.5	106.7	679.2
Significant income/(expense) items	(33.2)	(3.5)	77.1	123.7	–	(67.0)	97.1	(154.7)	–	(40.0)	(194.7)	(97.6)
Changes in fair value of financial instruments	–	(258.9)	(11.6)	–	–	–	(270.5)	7.6	–	–	7.6	(262.9)
Segment EBIT result	**236.3**	**28.3**	**127.4**	**172.2**	**–**	**(165.1)**	**399.1**	**(61.2)**	**7.3**	**(26.5)**	**(80.4)**	**318.7**
Finance income	3.4	13.4	0.2	11.7	–	7.8	36.5	1.7	0.1	0.9	2.7	39.2
Finance costs	–	–	–	–	–	(187.6)	(187.6)	(1.6)	–	(1.9)	(3.5)	(191.1)
Profit/(loss) before tax	**239.7**	**41.7**	**127.6**	**183.9**	**–**	**(344.9)**	248.0	**(61.1)**	**7.4**	**(27.5)**	(81.2)	166.8
Income tax income/(expense)							68.3				(6.1)	62.2
Profit/(loss) after tax							**316.3**				**(87.3)**	**229.0**
Segment assets	**3,377.1**	**4,379.2**	**964.1**	**85.2**	**–**	**188.0**	**8,993.6**	**362.4**	**96.9**	**–**	**459.3**	**9,452.9**
Segment liabilities	**528.3**	**1,402.6**	**324.9**	**3.9**	**–**	**2,160.3**	**4,420.0**	**39.5**	**13.5**	**–**	**53.0**	**4,473.0**

	Continuing Operations							Discontinued Operations				
Business Segments	Retail Energy $m	Merchant Energy $m	Gas & Power Development $m	Energy Investments $m	Eliminations $m	Unallocated $m	Total continuing operations $m	Gas & Power Development – PNG oil & gas $m	Gas & Power Development – North Qld gas pipeline $m	Energy Investments – Chile $m	Total discontinued operations $m	Consolidated $m
2008												
Other segment information												
Share of profits of associates and jointly controlled entities using the equity method	–	(5.1)	66.9	38.0	–	–	99.8	–	–	–	–	99.8
Investments accounted for using the equity method	0.9	147.0	423.1	14.0	–	–	585.0	–	–	–	–	585.0
Acquisition of non-current assets	87.6	725.9	226.8	–	–	33.2	1,073.5	31.1	89.7	1.8	122.6	1,196.1
Depreciation and amortisation	23.3	51.2	16.5	–	–	11.3	102.3	61.5	–	4.8	66.3	168.6
Impairment losses	0.7	3.3	5.4	–	–	54.4	63.8	–	–	37.0	37.0	100.8
Other non-cash expenses	50.1	6.1	1.0	–	–	8.9	66.1	–	–	0.8	0.8	66.9
2007												
Revenue	3,174.8	257.7	17.0	3.7	–	5.7	3,458.9	234.9	–	71.5	306.4	3,765.3
Inter-segment revenue	7.6	1,472.2	7.6	–	(1,487.4)	–	–	–	–	–	–	–
	3,182.4	1,729.9	24.6	3.7	(1,487.4)	5.7	3,458.9	234.9	–	71.5	306.4	3,765.3
Other income	0.1	2.3	20.9	–	–	6.7	30.0	6.5	–	1.8	8.3	38.3
Segment revenue	**3,182.5**	**1,732.2**	**45.5**	**3.7**	**(1,487.4)**	**12.4**	**3,488.9**	**241.4**	**–**	**73.3**	**314.7**	**3,803.6**
EBIT (before significant items and financial instruments)	129.1	197.6	19.7	16.9	–	(88.8)	274.5	110.9	–	9.2	120.1	394.6
Significant income/(expense) items	(22.0)	(5.9)	–	(0.6)	–	(93.9)	(122.4)	–	–	(0.3)	(0.3)	(122.7)
Changes in fair value of financial instruments	–	409.5	–	–	–	–	409.5	5.0	–	–	5.0	414.5
Segment EBIT result	**107.1**	**601.2**	**19.7**	**16.3**	**–**	**(182.7)**	**561.6**	**115.9**	**–**	**8.9**	**124.8**	**686.4**
Finance income	0.8	10.2	0.1	16.8	–	6.2	34.1	2.3	–	0.5	2.8	36.9
Finance costs	–	–	–	–	–	(130.9)	(130.9)	0.3	–	(1.6)	(1.3)	(132.2)
Profit/(loss) before tax	**107.9**	**611.4**	**19.8**	**33.1**	**–**	**(307.4)**	464.8	**118.5**	**–**	**7.8**	126.3	591.1
Income tax expense							(110.6)				(70.0)	(180.6)
Profit after tax							**354.2**				**56.3**	**410.5**
Segment assets	**3,224.7**	**8,805.7**	**553.1**	**460.3**	**–**	**349.8**	**13,393.6**	**545.0**	**–**	**168.9**	**713.9**	**14,107.5**
Segment liabilities	**540.8**	**4,433.9**	**16.4**	**5.3**	**–**	**2,467.9**	**7,464.3**	**79.2**	**–**	**46.4**	**125.6**	**7,589.9**
Other segment information												
Share of profits of associates and jointly controlled entities using the equity method	–	21.6	0.8	13.7	–	–	36.1	–	–	–	–	36.1
Investments accounted for using the equity method	0.9	–	333.1	200.4	–	–	534.4	–	–	–	–	534.4
Acquisition of non-current assets	1,104.3	94.1	509.8	367.5	–	49.2	2,124.9	45.9	–	1.3	47.2	2,172.1
Depreciation and amortisation	13.0	23.9	12.4	–	–	25.3	74.6	84.6	–	4.3	88.9	163.5
Impairment losses	–	–	0.5	–	–	22.7	23.2	–	–	–	–	23.2
Other non-cash expenses	31.5	3.1	2.1	0.3	–	7.0	44.0	3.9	–	0.4	4.3	48.3

Note 3 – Segment information (continued)

Geographical segments

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

	Segment revenue		Assets		Acquisition of non-current assets	
	2008 $m	2007 $m	2008 $m	2007 $m	2008 $m	2007 $m
Australia	5,651.2	3,489.2	8,970.6	13,393.6	1,163.2	2,124.9
Papua New Guinea	175.5	241.1	482.3	545.0	31.1	45.9
Chile	50.5	73.3	–	168.9	1.8	1.3
	5,877.2	**3,803.6**	**9,452.9**	**14,107.5**	**1,196.1**	**2,172.1**

Note 4 – Revenue

	Consolidated		Parent Entity	
	2008 $m	2007 $m	2008 $m	2007 $m
Continuing operations				
Revenue from sale of goods	5,335.5	3,351.3	44.3	142.1
Revenue from rendering of services	88.5	107.6	9.9	0.2
Dividends				
Subsidiaries	–	–	110.0	265.3
Associates and jointly controlled entities	5.6	–	13.6	13.9
	5,429.6	**3,458.9**	**177.8**	**421.5**
Discontinued operations				
Revenue from sale of goods	227.7	300.9	–	–
(Loss)/gain in fair value of oil derivatives	(10.7)	4.1	–	–
	217.0	305.0	–	–
Revenue from rendering of services	6.9	1.4	–	–
	223.9	**306.4**	**–**	**–**

Note 5 – Other income

	Consolidated		Parent Entity	
	2008 $m	2007 $m	2008 $m	2007 $m
Continuing operations				
Gain on disposal of investments	146.0	–	124.3	–
Development fee income	40.0	20.1	40.0	20.1
Net gain on disposal of property, plant and equipment	–	0.1	–	–
Net foreign exchange (losses)/gains	(0.5)	(1.4)	(0.5)	(1.5)
Other	1.0	11.2	0.1	8.7
	186.5	**30.0**	**163.9**	**27.3**
Discontinued operations				
Net foreign exchange gains	29.6	2.1	14.9	18.0
Other	7.6	6.2	–	–
	37.2	**8.3**	**14.9**	**18.0**

Note 6 – Expenses

	Consolidated		Parent Entity	
	2008 $m	2007 $m	2008 $m	2007 $m
Continuing operations				
Cost of sales	4,388.4	2,859.8	19.6	128.1
Loss/(gain) in fair value of electricity derivatives	263.1	(414.4)	11.6	–
	4,651.5	2,445.4	31.2	128.1
Administrative expenses	123.0	105.1	5.7	7.8
Employee benefits expense	255.6	171.6	2.8	4.1
Other expenses				
Impairment of property, plant and equipment	58.4	22.7	2.2	–
Impairment of exploration and evaluation assets	5.4	–	5.4	–
Impairment of oil and gas assets	–	0.5	–	–
Impairment of investments in subsidiaries	–	–	–	25.2
Impairment of loans to subsidiaries	–	–	88.8	56.9
Phoenix Change Program one-off costs	29.1	–	–	–
Redundancy, termination and integration costs	11.7	37.0	–	–
Demerger costs	22.3	58.2	–	51.1
Other	57.5	48.3	–	21.2
	5,214.5	**2,888.8**	**136.1**	**294.4**
Discontinued operations				
Cost of sales	67.1	90.0	–	–
Administrative expenses	3.7	1.6	–	–
Employee benefits expense	3.5	3.3	–	–
Other expenses				
Loss on disposal of subsidiaries	3.0	–	51.9	–
Impairment of intangible assets	18.2	–	–	–
Impairment of property, plant and equipment	18.8	–	–	–
Redundancy and termination costs	–	0.3	–	–
Loss in fair value of oil derivatives de-designated	154.7	–	–	–
Other	6.2	5.8	–	–
	275.2	**101.0**	**51.9**	**–**

Note 7 – Net financing costs

	Consolidated		Parent Entity	
	2008 $m	2007 $m	2008 $m	2007 $m
Finance income				
Interest income				
Subsidiaries	–	–	388.4	219.6
Associates	21.8	24.4	21.8	24.4
Other entities	17.4	12.5	7.4	6.3
	39.2	**36.9**	**417.6**	**250.3**
Attributable to:				
Continuing operations	36.5	34.1	389.3	215.2
Discontinued operations	2.7	2.8	28.3	35.1
	39.2	**36.9**	**417.6**	**250.3**
Finance costs				
Interest expense				
Subsidiaries	–	–	102.0	29.5
Other related parties	–	18.9	–	16.7
Other entities	182.8	112.0	178.8	95.6
Less finance costs capitalised	(12.8)	(3.4)	–	–
Unwinding of discounts on provisions	14.6	1.3	0.2	–
Other finance costs	6.5	3.4	6.5	3.4
	191.1	**132.2**	**287.5**	**145.2**
Attributable to:				
Continuing operations	187.6	130.9	287.5	145.2
Discontinued operations	3.5	1.3	–	–
	191.1	**132.2**	**287.5**	**145.2**
Net financing costs/(income)				
Attributable to:				
Continuing operations	151.1	96.8	(101.8)	(70.0)
Discontinued operations	0.8	(1.5)	(28.3)	(35.1)
	151.9	**95.3**	**(130.1)**	**(105.1)**

The weighted average capitalisation rate on funds borrowed for finance costs capitalised is 7.3% (2007: 6.3%).

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.

	Consolidated		Parent Entity	
	2008 $m	2007 $m	2008 $m	2007 $m
Depreciation and amortisation				
Property, plant and equipment	73.4	58.9	3.2	3.7
Oil and gas assets	74.2	95.7	9.5	8.4
Intangible assets	16.7	5.5	2.0	–
Other	4.3	3.4	–	–
	168.6	**163.5**	**14.7**	**12.1**
Attributable to:				
Continuing operations	102.3	74.6	14.7	12.1
Discontinued operations	66.3	88.9	–	–
	168.6	**163.5**	**14.7**	**12.1**
Employee benefits expense				
Wages and salaries	225.8	148.5	–	–
Defined benefit superannuation plans	2.2	3.4	0.7	3.4
Defined contribution superannuation plans	8.4	7.1	–	–
Share-based payment plans	2.1	0.7	2.1	0.7
Other employee benefits	20.6	15.2	–	–
	259.1	**174.9**	**2.8**	**4.1**
Impairment of trade receivables (net of bad debts recovered)	35.3	20.0	–	–
Net loss on disposal of property, plant and equipment	2.1	–	–	–
Operating lease rental expenses	14.6	14.2	–	–

Note 8 – Profit before income tax (continued)

	Consolidated		Parent Entity	
	2008	2007	2008	2007
	$m	$m	$m	$m
Significant (expense)/income items				
Profit before income tax from continuing and discontinued operations includes the following significant (expense)/income items:				
Share of profits from Queensland Gas Company Limited (QGC) arising from the sale of a 20% interest in a coal seam gas acreage	60.3	–	–	–
Gain on deemed disposal on equity dilution in QGC	22.3	–	–	–
Gain on disposal of investment in AlintaAGL Pty Limited	123.7	–	124.3	–
Loss on disposal of Chile operations	(3.0)	–	(51.9)	–
Loss in fair value of oil derivatives de-designated	(154.7)	–	–	–
Impairment of non-current assets net of writeback of lease incentive	(83.1)	(22.7)	(7.6)	–
Impairment of investments in subsidiaries	–	–	–	(25.2)
Impairment of loans to subsidiaries	–	–	(88.8)	(56.9)
Project expenditure written off	–	(4.5)	–	–
Demerger costs	(22.3)	(58.2)	–	(51.1)
Phoenix Change Program one-off costs	(29.1)	–	–	–
Redundancy, termination and integration costs	(11.7)	(37.3)	–	–
	(97.6)	**(122.7)**	**(24.0)**	**(133.2)**
Income tax income/(expense) applicable:				
Share of profits from Queensland Gas Company Limited (QGC) arising from the sale of a 20% interest in a coal seam gas acreage	–	–	–	–
Gain on deemed disposal on equity dilution in QGC	(6.7)	–	–	–
Gain on disposal of investment in AlintaAGL Pty Limited	(37.3)	–	(37.3)	–
Loss on disposal of Chile operations	30.4	–	33.0	–
Loss in fair value of oil derivatives de-designated	77.4	–	–	–
Impairment of non-current assets, net of writeback of lease incentive	13.8	6.8	2.3	–
Impairment of investments in subsidiaries	–	–	–	–
Impairment of loans to subsidiaries	–	–	–	–
Project expenditure written off	–	1.3	–	–
Demerger costs	6.7	17.5	–	15.3
Phoenix Change Program one-off costs	8.7	–	–	–
Redundancy, termination and integration costs	3.5	11.2	–	–
	96.5	**36.8**	**(2.0)**	**15.3**
Tax consolidation benefit on formation of tax-consolidated group	80.1	–	–	–
Recognition of a deferred tax asset on derivatives issued as consideration for acquisition of an asset	26.1	–	–	–
Overprovision for income tax relating to demerger of AGL Energy Limited tax-consolidated group	16.5	–	16.5	–
Write-down of deferred tax assets relating to PNG operations	(59.0)	–	–	–
	160.2	**36.8**	**14.5**	**15.3**
Significant expense items before income tax	(97.6)	(122.7)	(24.0)	(133.2)
Income tax income	160.2	36.8	14.5	15.3
	62.6	**(85.9)**	**(9.5)**	**(117.9)**

Note 9 – Income tax

	Consolidated		Parent Entity	
	2008	2007	2008	2007
	$m	$m	$m	$m
Income tax recognised in the income statement				
The major components of income tax expense are:				
Current income tax				
Current tax expense in respect of the current year	104.1	46.6	77.5	34.5
Adjustments in respect of current income tax of prior years	(17.6)	(12.6)	(18.2)	(1.5)
Deferred income tax				
Relating to the origination and reversal of temporary differences	(207.7)	146.6	(14.4)	(0.9)
Write-down of deferred tax assets relating to PNG operations	59.0	–	–	–
Total income tax (income)/expense	**(62.2)**	**180.6**	**44.9**	**32.1**
Attributable to:				
Continuing operations	(68.3)	110.6	59.2	8.2
Discontinued operations (Note 10)	6.1	70.0	(14.3)	23.9
	(62.2)	**180.6**	**44.9**	**32.1**
Numerical reconciliation between tax (income)/expense and pre-tax profit				
The prima facie income tax expense on pre-tax accounting profit reconciles to the income tax (income)/expense in the financial statements as follows:				
Profit before tax from continuing operations	248.0	464.8	292.7	212.3
(Loss)/profit before tax from discontinued operations	(81.2)	126.3	(8.7)	53.1
Profit from operations	**166.8**	**591.1**	**284.0**	**265.4**
Income tax expense calculated at 30%	50.0	177.3	85.2	79.6
Impairment of non-current assets	11.1	–	–	–
Impairment of investments in subsidiaries	–	–	–	7.6
Impairment of loans to subsidiaries	–	–	26.6	17.1
Non-deductible expenses	15.8	28.1	11.7	18.4
Capital loss on disposal of subsidiary	(32.1)	–	(17.4)	–
Non-assessable income	(6.4)	(8.7)	(6.4)	(8.7)
Non-assessable dividends	–	–	(37.1)	(79.6)
Share of profits of associates and jointly controlled entities	(24.2)	(7.6)	–	–
Effect of different tax rates in foreign jurisdictions	(13.3)	25.3	–	–
Temporary differences not previously recorded now recognised	–	(29.1)	–	–
Recognition of a deferred tax asset on derivatives issued as consideration for acquisition of an asset	(26.1)	–	–	–
Tax consolidation benefit on formation of tax-consolidated group	(80.1)	–	–	–
Write-down of deferred tax assets relating to PNG operations	59.0	–	–	–
Other	1.7	7.9	0.5	(0.8)
Adjustments in respect of current income tax of prior years	(17.6)	(12.6)	(18.2)	(1.5)
	(62.2)	**180.6**	**44.9**	**32.1**

Note 9 – Income tax (continued)

	Consolidated 2008 $m	Consolidated 2007 $m	Parent Entity 2008 $m	Parent Entity 2007 $m
Income tax recognised directly in equity				
Deferred income tax				
Revaluation of financial instruments treated as cash flow hedges	(774.3)	971.1	4.6	1.4
Actuarial (loss)/gain on defined benefit plans	(4.2)	3.0	(3.0)	3.0
Net gain on hedge of net investment in foreign operations	7.2	20.6	–	–
Share issue transaction costs	–	(6.3)	–	(6.3)
Income tax (income)/expense recognised in equity	**(771.3)**	**988.4**	**1.6**	**(1.9)**
Current tax assets and liabilities				
Current tax assets				
Income tax refund receivable	**47.9**	**30.6**	**47.9**	**30.6**
Current tax liabilities				
Income tax payable attributable to:				
Parent entity	–	–	–	–
Entities in the tax-consolidated group	–	–	–	–
Other entities	23.4	10.3	–	–
	23.4	**10.3**	**–**	**–**
Deferred income tax recognised in the income statement				
Temporary differences				
Unbilled revenue	13.8	6.1	–	–
Allowance for doubtful debts	(3.5)	(0.2)	–	–
Other receivables	(6.6)	6.3	(5.0)	6.1
Exploration and evaluation assets	(2.9)	4.5	(3.4)	3.5
Oil and gas assets	(2.3)	12.0	(0.1)	(0.1)
Property, plant and equipment	(47.9)	(1.6)	(5.1)	5.2
Defined benefit superannuation plans	(0.7)	0.4	0.2	0.4
Payables and accruals	(10.3)	11.2	1.0	0.6
Provisions	3.8	(3.1)	(0.5)	(0.4)
Derivative financial instruments	(156.3)	130.2	(1.8)	(0.3)
Share issue transaction costs	1.3	–	1.3	–
Other	3.9	(19.2)	(1.0)	(15.9)
	(207.7)	**146.6**	**(14.4)**	**(0.9)**

	Consolidated 2008 $m	Consolidated 2007 $m	Parent Entity 2008 $m	Parent Entity 2007 $m
Deferred tax balances				
Deferred tax assets/(liabilities) arise from the following:				
Unbilled revenue	(166.1)	(152.3)	–	–
Allowance for doubtful debts	13.0	9.5	–	–
Other receivables	(1.6)	(8.2)	(1.1)	(6.1)
Exploration and evaluation assets	(5.4)	(8.3)	(0.1)	(3.5)
Oil and gas assets	(4.8)	(7.1)	0.1	0.1
Property, plant and equipment	(83.8)	(90.3)	(0.1)	(5.3)
Defined benefit superannuation plans	(1.1)	(6.0)	(3.2)	(6.0)
Payables and accruals	19.3	8.8	–	1.0
Provisions	73.7	16.0	1.0	0.4
Derivative financial instruments	(250.1)	(1,121.8)	(5.8)	(2.9)
Share issue transaction costs	3.8	5.1	3.8	5.1
Other	3.5	14.3	18.1	17.1
Net deferred tax asset/(liability)	**(399.6)**	**(1,340.3)**	**12.7**	**(0.1)**
Net deferred tax asset/(liability) is split as follows:				
Deferred tax assets recognised in the balance sheet	–	–	12.7	–
Deferred tax liabilities recognised in the balance sheet	(379.2)	(1,340.3)	–	(0.1)
Deferred tax liabilities recognised in liabilities of disposal groups classified as held for sale in the balance sheet	(20.4)	–	–	–
	(399.6)	**(1,340.3)**	**12.7**	**(0.1)**
Unrecognised deferred tax assets/(liabilities)				
Deductible temporary differences	51.0	–	51.0	–
Taxable temporary differences	–	–	–	–
Income tax losses	–	–	–	–
Capital tax losses	–	–	–	–
	51.0	**–**	**51.0**	**–**

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. 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.

Note 10 – Discontinued operations

Disposal of Chilean gas distribution business

On 25 March 2008, the consolidated entity announced it had entered into a sale agreement to dispose of its 100% owned Chilean gas distribution business (GasValpo) and associated assets and related (Chilean and non-Chilean) entities to a consortium of Australian superannuation funds. The disposal was completed on 30 April 2008, on which date control of the business passed to the acquirer, resulting in a pre-tax loss on disposal of $3.0 million.

At 31 December 2007, the consolidated entity recognised an impairment loss of $37.0 million on the carrying value of the GasValpo business.

PNG oil and gas assets – disposal group classified as held for sale

On 22 May 2008, the consolidated entity announced its intention to proceed with the sale of its PNG oil, gas and LNG project assets. The consolidated entity is actively seeking a buyer for its PNG oil and gas business and expects to complete the sale by the end of December 2008. On initial reclassification of these operations as held for sale from 1 May 2008, the consolidated entity has not recognised any impairment losses.

The PNG oil and gas business has been classified and accounted for at 30 June 2008 as a disposal group held for sale.

North Queensland gas pipeline business – disposal group classified as held for sale

On 30 June 2008, the Parent Entity and its 50/50 joint venture partner, Arrow Energy Limited (Arrow), announced they have 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 follows the purchase by the Parent Entity and Arrow of the Enertrade assets in November 2007, and relates to the on-sale of the gas pipeline asset only. The joint venture will retain ownership of the gas processing and compression facility located at Moranbah, which will be integrated into the Moranbah Gas Project joint venture.

The sale of the pipeline is consistent with the intentions outlined at the time the consolidated entity acquired this asset. Ownership of the pipeline is non-core to the consolidated entity's integrated strategy.

Under the terms of the sale, the Parent Entity and Arrow will continue to operate the pipeline through a 50/50 jointly owned company, which will provide contracted operating and maintenance services to VFMC.

On initial reclassification of these operations as held for sale from 1 December 2007, the consolidated entity has not recognised any impairment losses.

The North Queensland gas pipeline business has been classified and accounted for at 30 June 2008 as a disposal group held for sale.

Financial performance of operations disposed and held for sale

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

	Consolidated						
	Chile	PNG oil and gas	North Qld gas pipeline	Total	Chile	PNG oil and gas	Total
	2008	2008	2008	2008	2007	2007	2007
	$m	$m	$m	$m	$m	$m	$m
Revenue	46.8	167.9	9.2	223.9	71.5	234.9	306.4
Other income	3.7	33.5	–	37.2	1.8	6.5	8.3
Expenses	(69.2)	(201.1)	(1.9)	(272.2)	(60.1)	(40.9)	(101.0)
Depreciation and amortisation	(4.8)	(61.5)	–	(66.3)	(4.3)	(84.6)	(88.9)
Net financing (costs)/income	(1.0)	0.1	0.1	(0.8)	(1.1)	2.6	1.5
(Loss)/profit before tax	(24.5)	(61.1)	7.4	(78.2)	7.8	118.5	126.3
Income tax expense	(3.2)	(31.1)	(2.2)	(36.5)	(2.6)	(67.4)	(70.0)
	(27.7)	**(92.2)**	**5.2**	**(114.7)**	**5.2**	**51.1**	**56.3**
Loss on disposal of operations (a)	(3.0)	–	–	(3.0)	–	–	–
Income tax income	30.4	–	–	30.4	–	–	–
	27.4	**–**	**–**	**27.4**	**–**	**–**	**–**
(Loss)/profit after tax from discontinued operations	**(0.3)**	**(92.2)**	**5.2**	**(87.3)**	**5.2**	**51.1**	**56.3**

(a) Includes gains of $12.6 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 combined net cash flows of operations disposed and held for sale which have been included in the cash flow statement are as follows:

	Consolidated		Parent Entity	
	2008	2007	2008	2007
	$m	$m	$m	$m
Net cash flows from operating activities	162.2	142.4	28.3	35.1
Net cash flows from/(used in) investing activities	27.2	(46.8)	103.7	–
Net cash lows from/(used in) financing activities	0.6	(3.2)	–	–
Net cash flows from discontinued operations	**190.0**	**92.4**	**132.0**	**35.1**

Assets and liabilities of disposal groups classified as held for sale

The major classes of assets and liabilities comprising the operations classified as disposal groups held for sale at reporting date are as follows:

	Consolidated			
	PNG oil and gas	North Queensland gas pipeline	Total	
	2008	2008	2008	2007
	$m	$m	$m	$m
Assets				
Cash and cash equivalents	4.5	4.9	9.4	–
Trade and other receivables	4.1	1.7	5.8	–
Inventories	15.3	0.6	15.9	–
Other assets	1.9	–	1.9	–
Exploration and evaluation assets	39.4	–	39.4	–
Oil and gas assets	297.2	–	297.2	–
Property, plant and equipment	–	89.7	89.7	–
Assets of disposal groups classified as held for sale	**362.4**	**96.9**	**459.3**	**–**
Liabilities				
Trade and other payables	(15.7)	(0.1)	(15.8)	–
Provisions	(16.7)	(0.1)	(16.8)	–
Deferred tax liabilities	(7.1)	(13.3)	(20.4)	–
Liabilities of disposal groups classified as held for sale	**(39.5)**	**(13.5)**	**(53.0)**	**–**
Net assets of disposal groups classified as held for sale	**322.9**	**83.4**	**406.3**	**–**

Note 10 – Discontinued operations (continued)

Business disposed

Details of the disposal of Chilean gas distribution business are as follows:

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

	Consolidated		Parent Entity	
	2008 $m	2007 $m	2008 $m	2007 $m
Assets				
Cash and cash equivalents	12.9	–	–	–
Trade and other receivables	11.6	–	–	–
Inventories	3.6	–	–	–
Property, plant and equipment	108.5	–	–	–
Other financial assets	–	–	125.9	–
Deferred tax assets	2.0	–	–	–
Other assets	0.5	–	–	–
	139.1	**–**	**125.9**	**–**
Liabilities				
Trade and other payables	(11.7)	–	–	–
Borrowings	(32.2)	–	–	–
Provisions	(0.5)	–	–	–
Other liabilities	(0.9)	–	–	–
Deferred tax liabilities	(4.2)	–	–	–
	(49.5)	**–**	**–**	**–**
Net assets disposed	**89.6**	**–**	**125.9**	**–**
Consideration received or receivable:				
Cash consideration received	70.4	–	70.4	–
Consideration receivable	3.6	–	3.6	–
Total disposal consideration	**74.0**	**–**	**74.0**	**–**
Less net assets disposed	**(89.6)**	**–**	**(125.9)**	**–**
	(15.6)	–	(51.9)	–
Transferred from foreign currency translation reserve to profit or loss on disposal of foreign operation	12.6	–	–	–
Loss on disposal	**(3.0)**	**–**	**(51.9)**	**–**
Net cash inflow on disposal:				
Cash consideration received	70.4	–	70.4	–
Less cash and cash equivalent balances disposed of	(12.9)	–	–	–
Net cash inflow on disposal	**57.5**	**–**	**70.4**	**–**

Note 11 – Dividends

	Consolidated		Parent Entity	
	2008 $m	2007 $m	2008 $m	2007 $m
Recognised amounts				
Final dividend				
Final dividend for 2007 of 26.0 cents per share, fully franked at 30%, paid 28 September 2007 (2007: nil)	112.7	–	112.7	–
Interim dividend				
Interim dividend for 2008 of 26.0 cents per share, fully franked at 30%, paid 16 April 2008 (2007: Interim dividend for 2007 of 9.5 cents per share, fully franked at 30%, paid 27 March 2007)	112.9	35.8	112.9	35.8
Total dividends	**225.6**	**35.8**	**225.6**	**35.8**
Dividends satisfied by the issue of shares under the AGL Dividend Reinvestment Plan (DRP) and to the underwriter of the DRP (Note 38)	(112.9)	–	(112.9)	–
Dividends paid as per the cash flow statement	**112.7**	**35.8**	**112.7**	**35.8**
Unrecognised amounts				
Since the end of the financial year, the Directors have declared a final dividend for 2008 of 27.0 cents per share (2007: 26.0 cents), fully franked at 30%, payable 26 September 2008	**119.7**	**112.7**	**119.7**	**112.7**

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 2009 financial year.

Dividend reinvestment plan

The AGL Dividend Reinvestment Plan (DRP) will be in operation and the Directors have determined that a discount of 2.5% will be applied when determining the DRP price for the final dividend.

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

	Consolidated		Parent Entity	
	2008 $m	2007 $m	2008 $m	2007 $m
30% franking credits available to shareholders of the Parent Entity for subsequent financial years, after adjusting for franking debits that will arise from the refund receivable of the current tax asset			(49.1)	(13.5)
Impact on franking account balance of dividends proposed after the reporting date but not recognised as a liability			(51.3)	(48.3)

Note 12 – Cash and cash equivalents

	Consolidated		Parent Entity	
	2008 $m	2007 $m	2008 $m	2007 $m
Cash at bank and on hand	63.7	203.2	33.0	171.1
Short-term money market deposits	0.1	76.7	0.1	9.7
	63.8	**279.9**	**33.1**	**180.8**

Cash at bank and on hand earns interest at floating rates based on daily bank deposit rates.

Short-term money market deposits are made for varying periods of between one day and one month depending on the immediate cash requirements of the consolidated entity, and earn interest at the respective short-term deposit rates.

Note 13 – Trade and other receivables (current)

	Consolidated 2008 $m	Consolidated 2007 $m	Parent Entity 2008 $m	Parent Entity 2007 $m
Trade receivables	606.1	1,172.3	3.7	16.6
Allowance for doubtful debts	(43.4)	(35.5)	–	–
	562.7	1,136.8	3.7	16.6
Unbilled revenue	553.7	507.6	–	–
Goods and services tax recoverable	3.0	–	0.5	1.9
Amounts owing by associates	3.7	20.5	3.7	20.5
Amounts owing by jointly controlled entities	35.6	29.6	–	–
Other receivables	12.3	7.8	10.4	1.2
	1,171.0	**1,702.3**	**18.3**	**40.2**
Allowance for doubtful debts				
Movements in the allowance for doubtful debts are detailed below:				
Balance at beginning of financial year	35.5	3.1	–	–
Impairment losses recognised on receivables	42.8	22.3	–	–
Amounts written off as uncollectible	(34.2)	(21.1)	–	–
Acquisitions through business combinations	–	10.2	–	–
Acquisitions through internal restructure	–	21.1	–	–
Disposal of subsidiary	(0.7)	–	–	–
Foreign currency exchange differences	–	(0.1)	–	–
Balance at end of financial year	**43.4**	**35.5**	**–**	**–**

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

	Consolidated 2008 Total $m	Consolidated 2008 Allowance $m	Consolidated 2007 Total $m	Consolidated 2007 Allowance $m	Parent Entity 2008 Total $m	Parent Entity 2008 Allowance $m	Parent Entity 2007 Total $m	Parent Entity 2007 Allowance $m
Not past due	427.7	(4.6)	1,025.5	(5.1)	3.7	–	16.6	–
Past due 31-60 days	61.0	(2.7)	51.0	(3.7)	–	–	–	–
Past due 61-90 days	26.3	(2.9)	23.1	(3.0)	–	–	–	–
Past 90 days	91.1	(33.2)	72.7	(23.7)	–	–	–	–
	606.1	**(43.4)**	**1,172.3**	**(35.5)**	**3.7**	**–**	**16.6**	**–**

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 allowance for doubtful debts of $42.8 million (2007: $22.3 million) has been recognised by the consolidated entity and $nil (2007: $nil) by the Parent Entity. These amounts have been included in other expenses in Note 6.

At the reporting date, trade receivables with a carrying amount of $139.6 million (2007: $116.4 million) for the consolidated entity and $nil (2007: $nil) for the Parent Entity 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 collectable 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 53.

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.

	Consolidated 2008 $m	Consolidated 2007 $m	Parent Entity 2008 $m	Parent Entity 2007 $m
Note 14 – Inventories				
Raw materials and stores – at cost	25.2	20.9	0.9	0.9
Finished goods – at cost	13.5	7.0	0.3	–
	38.7	**27.9**	**1.2**	**0.9**
Note 15 – Other financial assets (current)				
Derivative financial instruments – at fair value (Note 56)				
Forward foreign exchange contracts – net investment hedges	–	5.1	–	5.1
Energy derivatives – cash flow hedges	475.8	2,402.3	247.5	32.3
Energy derivatives – economic hedges	721.5	2,728.2	42.1	–
	1,197.3	5,135.6	289.6	37.4
Futures deposits and margin calls	13.6	(271.4)	–	–
Other deposits – at amortised cost	–	238.3	–	–
	1,210.9	**5,102.5**	**289.6**	**37.4**

Other deposits are interest-bearing security deposits which have been lodged with the National Electricity Market Management Company Limited for the purchase of electricity.

Note 16 – Other assets (current)

	Consolidated 2008 $m	Consolidated 2007 $m	Parent Entity 2008 $m	Parent Entity 2007 $m
Green commodities scheme certificates and instruments	85.4	83.4	–	–
Prepayments	12.2	12.4	1.7	–
Other	–	2.9	–	–
	97.6	98.7	1.7	–

Note 17 – Non-current assets classified as held for sale

	Consolidated 2008 $m	Consolidated 2007 $m	Parent Entity 2008 $m	Parent Entity 2007 $m
Investment in a jointly controlled entity	71.2	–	64.2	–
Property, plant and equipment	–	117.0	–	–
	71.2	**117.0**	**64.2**	**–**

In April 2008, the directors of the Parent Entity approved the disposal of the consolidated entity's 50.0% ownership interest in Auscom Holdings Pty Limited. Efforts to sell the investment have commenced, and a sale is expected to be completed by the end of September 2008. No impairment loss was recognised on reclassification of the investment as held for sale.

On the 29 January 2007, the consolidated entity announced it had entered into an agreement to dispose its gas fired peaking power station at Hallett in South Australia to TRUenergy. Financial settlement of the transaction occurred on 2 July 2007. No impairment loss was recognised on reclassification of the property, plant and equipment as held for sale.

	Consolidated		Parent Entity	
	2008 $m	2007 $m	2008 $m	2007 $m

Note 18 – Assets of disposal groups classified as held for sale

	Consolidated 2008 $m	Consolidated 2007 $m	Parent Entity 2008 $m	Parent Entity 2007 $m
Assets related to the PNG oil and gas business (Note 10)	362.4	–	–	–
Assets related to the North Queensland gas pipeline business (Note 10)	96.9	–	–	–
	459.3	**–**	**–**	**–**

Note 19 – Trade and other receivables (non-current)

	Consolidated 2008 $m	Consolidated 2007 $m	Parent Entity 2008 $m	Parent Entity 2007 $m
Other receivables	**0.8**	**1.4**	**–**	**–**

Note 20 – Investments accounted for using the equity method

	Consolidated 2008 $m	Consolidated 2007 $m	Parent Entity 2008 $m	Parent Entity 2007 $m
Investments in associates – listed	419.6	330.1	–	–
Investments in associates – unlisted	150.7	122.7	–	–
Investments in jointly controlled entities – unlisted	14.7	81.6	–	–
	585.0	**534.4**	**–**	**–**
Reconciliation of movements in investments accounted for using the equity method				
Balance at 1 July	534.4	–	–	–
Additions	0.7	452.3	–	–
Acquisitions through internal restructure	–	241.5	–	–
Disposals	(120.6)	–	–	–
Assets classified as held for sale	(71.2)	–	–	–
Share of profits after income tax	99.8	36.1	–	–
Gain on deemed disposal on equity dilution	22.3	–	–	–
Share of movements in reserves	163.5	(174.3)	–	–
Share of actuarial (loss)/gain on defined benefit plans	(10.4)	5.2	–	–
Dividends received	(33.5)	(26.4)	–	–
Balance at 30 June	**585.0**	**534.4**	**–**	**–**

Name of entity	Principal activities	Country of incorporation	Reporting dates	Ownership interest 2008 %	Ownership interest 2007 %	Carrying value 2008 $m	Carrying value 2007 $m
Associates							
Queensland Gas Company Limited (a)	Exploration, evaluation and development of coal seam gas deposits	Australia	30 June	24.9	27.6	419.6	330.1
AlintaAGL Pty Limited (b)	Retail energy and electricity generation	Australia	31 Dec	–	33.0	–	118.8
Greater Energy Alliance Corporation Pty Limited (c)	Electricity generation	Australia	31 Dec	32.5	32.5	147.0	–
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	2.8	3.0
Jointly controlled entities							
ActewAGL Retail Partnership	Energy and water services	Australia	30 June	50.0	50.0	14.0	13.4
Auscom Holdings Pty Limited (d)	Distribution and sale of LPG	Australia	31 Dec	50.0	50.0	–	68.2
North Queensland Pipeline Management Pty Ltd (e)	Pipeline management services	Australia	30 June	50.0	–	0.2	–
Central Queensland Pipeline Pty Ltd (e)	Gas pipeline development	Australia	30 June	50.0	–	0.5	–
MWF JV Pty Limited (f)	Wind farm development	Australia	30 June	50.0	–	–	–
						585.0	**534.4**

(a) On 4 February 2008, Queensland Gas Company Limited (QGC) announced it had entered into an alliance with global energy company BG Group to build a liquefied natural gas plant on the Queensland coast near Gladstone using coal seam gas supplied by QGC. On 11 April 2008, following completion of the transaction, QGC received approximately $415 million from BG Group in return for a 20% share of QGC's existing interests in its Walloon coal seam gas acreage; and approximately $249 million as payment for 81,278,451 new shares equivalent to 9.9% of QGC's expanded capital.

As a result of the transaction between QGC and BG Group, the consolidated entity's ownership interest in QGC has been diluted to 24.9%. This dilution resulted in the consolidated entity recognising a deemed gain on disposal of an initial interest in QGC of $22.3 million pre-tax. The published fair value of the consolidated entity's investment in QGC is $1,098.8 million (2007: $572.9 million).

The consolidated entity's share of profits from QGC of $67.1 million includes $60.3 million from the sale of 20% of QGC's interests in the Walloon coal seam gas acreage.

(b) The consolidated entity disposed of its 33.0% ownership interest in AlintaAGL Pty Limited on 12 December 2007. The sale of the investment resulted in a pre-tax profit of $123.7 million.

(c) At 30 June 2007, the carrying value of the investment in Greater Energy Alliance Corporation Pty Limited (GEAC) had been reduced to zero due to the recognition of the consolidated entity's share of movements in the hedge reserve of GEAC. Equity accounting was therefore suspended and management believed that this would only be for a short-term due to the unprecedented volatility of prices in the electricity market.

(d) In April 2008, the Directors of the Parent Entity approved the disposal of the consolidated entity's 50.0% ownership interest in Auscom Holdings Pty Limited. Efforts to sell the investment have commenced, and a sale is expected to be completed by the end of September 2008. At the reporting date, the carrying value of the investment was classified as held for sale (refer Note 17).

Note 20 – Investments accounted for using the equity method (continued)

(e) The consolidated entity acquired a 50.0% ownership interest in North Queensland Pipeline Management Pty Ltd and Central Queensland Pipeline Pty Ltd on 1 December 2007 (refer Note 47).

(f) The consolidated entity acquired a 50.0% ownership interest in MWF JV Pty Limited on 21 February 2008.

	Consolidated	
	2008 $m	2007 $m
Summarised financial information of associates		
Current assets	1,288.5	1,165.5
Non-current assets	3,933.7	5,442.6
Total assets	5,222.2	6,608.1
Current liabilities	476.5	1,529.2
Non-current liabilities	3,361.3	4,948.8
Total liabilities	3,837.8	6,478.0
Net assets	**1,384.4**	**130.1**
Revenue	**1,716.5**	**1,351.7**
Net profit after tax	**234.6**	**53.4**
Consolidated entity's share of associates' profit	**63.7**	**18.7**
Summarised financial information of jointly controlled entities		
Current assets	100.3	208.1
Non-current assets	30.0	359.0
Total assets	130.3	567.1
Current liabilities	95.7	213.7
Non-current liabilities	0.6	183.5
Total liabilities	96.3	397.2
Net assets	**34.0**	**169.9**
Revenue	**1,248.7**	**1,107.5**
Expenses	**(1,167.6)**	**(1,030.7)**
Consolidated entity's share of jointly controlled entities' profit	**36.1**	**17.4**

Dividends received from associates and joint ventures

During the year, the consolidated entity received dividends of $nil (2007: $nil) from its associates and $33.5 million (2007: $26.4 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 42 and 44 respectively.

Note 21 – Exploration and evaluation assets

	Consolidated		Parent Entity	
	2008 $m	2007 $m	2008 $m	2007 $m
Balance at beginning of financial year	66.2	51.5	11.8	–
Additions	9.4	20.3	4.2	11.8
Impairment loss	(5.4)	–	(5.4)	–
Assets included in a disposal group classified as held for sale (Note 10)	(39.4)	–	–	–
Net foreign currency exchange differences	(4.9)	(5.6)	–	–
Balance at end of financial year	**25.9**	**66.2**	**10.6**	**11.8**

Impairment loss

The consolidated entity reassessed the carrying value of development and evaluation expenditure relating to a coal seam methane drilling project in the Gas and Power Development business. Owing to the uncertainty around the viability of the project, an impairment charge of $5.4 million has been recognised.

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

Note 22 – Oil and gas assets

	Consolidated		Parent Entity	
	2008 $m	2007 $m	2008 $m	2007 $m
Assets in development				
Balance at beginning of financial year	–	–	–	–
Additions	–	0.5	–	–
Impairment loss	–	(0.5)	–	–
Balance at end of financial year	–	–	–	–
Producing assets				
Balance at beginning of financial year	505.1	498.4	104.4	10.7
Additions	57.0	158.6	21.3	102.1
Depreciation and amortisation expense	(74.2)	(95.7)	(9.5)	(8.4)
Assets included in a disposal group classified as held for sale (Note 10)	(297.2)	–	–	–
Net foreign currency exchange differences	(40.0)	(56.2)	–	–
Balance at end of financial year	150.7	505.1	116.2	104.4
Total oil and gas assets	**150.7**	**505.1**	**116.2**	**104.4**
Cost (gross carrying amount)	176.0	629.5	134.1	112.8
Accumulated depreciation, amortisation and impairment	(25.3)	(124.4)	(17.9)	(8.4)
Net carrying amount	**150.7**	**505.1**	**116.2**	**104.4**

Depreciation and amortisation expense

Depreciation and amortisation expense of $12.7 million (2007: $11.1 million) for the consolidated entity and $9.5 million (2007: $8.4 million) for the Parent Entity is included in the line item 'depreciation and amortisation' in the income statement.

Depreciation and amortisation expense of $61.5 million (2007: $84.6 million) for the consolidated entity and $nil (2007: $nil) for the Parent Entity is included in the line item 'discontinued operations' in the income statement.

Impairment loss

On 1 February 2007, the consolidated entity announced that the PNG Gas Project development concept to pipe gas to Australia would not proceed. The impairment loss of $0.5 million for oil and gas assets relates to the write off of the consolidated entity's share of front end engineering and design costs associated with the PNG pipeline project incurred during the previous financial year.

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

Note 23 – Property, plant and equipment

	Freehold land and buildings $m	Leasehold improvements $m	Plant and equipment $m	Total $m
Consolidated – year ended 30 June 2008				
Balance at 1 July 2007, net of accumulated depreciation and impairment	13.0	32.6	1,056.0	1,101.6
Additions	–	1.6	259.9	261.5
Acquisitions through business combinations (Note 47)	1.5	–	795.2	796.7
Disposals	–	(0.7)	(110.3)	(111.0)
Assets included in a disposal group classified as held for sale (Note 10)	–	–	(89.7)	(89.7)
Depreciation expense	(0.1)	(2.2)	(71.1)	(73.4)
Impairment loss	–	(16.9)	(60.3)	(77.2)
Transfers	–	1.0	(1.0)	–
Net foreign currency exchange differences	–	–	12.7	12.7
Balance at 30 June 2008, net of accumulated depreciation and impairment	**14.4**	**15.4**	**1,791.4**	**1,821.2**
Balance at 1 July 2007				
Cost (gross carrying amount)	14.1	40.0	1,324.2	1,378.3
Accumulated depreciation and impairment	(1.1)	(7.4)	(268.2)	(276.7)
Net carrying amount	**13.0**	**32.6**	**1,056.0**	**1,101.6**
Balance at 30 June 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**
Consolidated – year ended 30 June 2007				
Balance at 1 July 2006, net of accumulated depreciation and impairment	10.4	4.7	830.3	845.4
Additions	–	11.5	138.0	149.5
Acquisitions through business combinations (Note 47)	–	–	49.9	49.9
Acquisitions through internal restructure	3.0	18.6	297.0	318.6
Disposals	–	–	(52.1)	(52.1)
Assets classified as held for sale (Note 17)	(0.3)	–	(116.7)	(117.0)
Depreciation expense	(0.1)	(2.2)	(56.6)	(58.9)
Impairment loss	–	–	(22.7)	(22.7)
Net foreign currency exchange differences	–	–	(11.1)	(11.1)
Balance at 30 June 2007, net of accumulated depreciation and impairment	**13.0**	**32.6**	**1,056.0**	**1,101.6**
Balance at 1 July 2006				
Cost (gross carrying amount)	11.4	6.3	929.1	946.8
Accumulated depreciation and impairment	(1.0)	(1.6)	(98.8)	(101.4)
Net carrying amount	**10.4**	**4.7**	**830.3**	**845.4**
Balance at 30 June 2007				
Cost (gross carrying amount)	14.1	40.0	1,324.2	1,378.3
Accumulated depreciation and impairment	(1.1)	(7.4)	(268.2)	(276.7)
Net carrying amount	**13.0**	**32.6**	**1,056.0**	**1,101.6**

	Freehold land and buildings $m	Leasehold improvements $m	Plant and equipment $m	Total $m
Parent Entity – year ended 30 June 2008				
Balance at 1 July 2007, net of accumulated depreciation and impairment	1.5	28.9	10.1	40.5
Additions	–	1.6	5.6	7.2
Depreciation expense	–	(1.7)	(1.5)	(3.2)
Impairment loss	–	(16.9)	(3.0)	(19.9)
Transfers	–	0.2	(0.2)	–
Balance at 30 June 2008, net of accumulated depreciation and impairment	**1.5**	**12.1**	**11.0**	**24.6**
Balance at 1 July 2007				
Cost (gross carrying amount)	1.5	32.7	16.8	51.0
Accumulated depreciation and impairment	–	(3.8)	(6.7)	(10.5)
Net carrying amount	**1.5**	**28.9**	**10.1**	**40.5**
Balance at 30 June 2008				
Cost (gross carrying amount)	1.5	13.9	17.3	32.7
Accumulated depreciation and impairment	–	(1.8)	(6.3)	(8.1)
Net carrying amount	**1.5**	**12.1**	**11.0**	**24.6**
Parent Entity – year ended 30 June 2007				
Balance at 1 July 2006, net of accumulated depreciation and impairment	–	3.1	5.9	9.0
Additions	–	11.5	8.7	20.2
Acquisitions through internal restructure	1.5	16.1	–	17.6
Disposals	–	–	(46.1)	(46.1)
Depreciation expense	–	(1.8)	(1.9)	(3.7)
Transfers	–	–	43.5	43.5
Balance at 30 June 2007, net of accumulated depreciation and impairment	**1.5**	**28.9**	**10.1**	**40.5**
Balance at 1 July 2006				
Cost (gross carrying amount)	–	3.2	6.4	9.6
Accumulated depreciation and impairment	–	(0.1)	(0.5)	(0.6)
Net carrying amount	**–**	**3.1**	**5.9**	**9.0**
Balance at 30 June 2007				
Cost (gross carrying amount)	1.5	32.7	16.8	51.0
Accumulated depreciation and impairment	–	(3.8)	(6.7)	(10.5)
Net carrying amount	**1.5**	**28.9**	**10.1**	**40.5**

Depreciation expense

Depreciation expense of $68.7 million (2007: $55.1 million) for the consolidated entity and $3.2 million (2007: $3.7 million) for the Parent Entity is included in the line item 'depreciation and amortisation' in the income statement.

Depreciation expense of $4.7 million (2007: $3.8 million) for the consolidated entity and $nil (2007: $nil) for the Parent Entity is included in the line item 'discontinued operations' in the income statement.

Impairment loss

The consolidated entity reviewed the recoverable amount of its information technology related 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 charge of $34.6 million (2007: $22.7 million) has been recognised.

The consolidated entity relocated from its St Leonards head office in June 2008 and has written down the carrying value of leasehold improvements and other plant and equipment by $20.2 million (2007: $nil) and for the Parent Entity by $19.9 million (2007: $nil).

Note 23 – Property, plant and equipment (continued)

The carrying values of certain landfill gas extraction sites and a co-generating gas turbine within the Merchant Energy business have been written down by $3.6 million (2007: $nil) based on revised cash flow forecasts.

At 31 December 2007, the consolidated entity assessed the recoverable amount of its Chilean gas distribution business. The carrying amount of the business was determined to be higher than its recoverable amount, and an impairment loss of $18.8 million (2007: $nil) was recognised on property, plant and equipment.

The impairment loss of $18.8 million relating to property, plant and equipment of the Chilean gas distribution business is included in other expenses for discontinued operations in the line item 'impairment of property, plant and equipment' in Note 6.

The impairment loss of $58.4 million relating to the other plant and equipment 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 $142.9 million (2007: $144.6 million) for the consolidated entity and $nil (2007: $nil) for the Parent Entity.

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 $263.5 million (2007: $119.7 million) for the consolidated entity and $5.1 million (2007: $0.2 million) for the Parent Entity.

Note 24 – Intangible assets

	Goodwill $m	Licences $m	Customer relationships and contracts $m	Other $m	Total $m
Consolidated – year ended 30 June 2008					
Balance at 1 July 2007, net of accumulated amortisation	2,596.0	301.2	219.1	5.2	3,121.5
Acquisitions through business combinations (Note 47)	–	–	63.7	–	63.7
Fair value adjustments on prior year acquisitions	43.6	–	(39.4)	–	4.2
Amortisation expense	–	–	(16.4)	(0.3)	(16.7)
Impairment loss	(15.2)	–	–	(3.0)	(18.2)
Foreign currency exchange differences	–	–	–	0.4	0.4
Balance at 30 June 2008, net of accumulated amortisation	**2,624.4**	**301.2**	**227.0**	**2.3**	**3,154.9**
Balance at 1 July 2007					
Cost (gross carrying amount)	2,596.0	301.2	224.0	8.6	3,129.8
Accumulated amortisation	–	–	(4.9)	(3.4)	(8.3)
Net carrying amount	**2,596.0**	**301.2**	**219.1**	**5.2**	**3,121.5**
Balance at 30 June 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**

	Goodwill $m	Licences $m	Customer relationships and contracts $m	Other $m	Total $m
Consolidated – year ended 30 June 2007					
Balance at 1 July 2006, net of accumulated amortisation	523.4	301.2	–	–	824.6
Acquisitions through business combinations (Note 47)	870.3	–	224.0	–	1,094.3
Acquisitions through internal restructure	1,189.5	–	–	7.0	1,196.5
Fair value adjustments on prior year acquisitions	12.8	–	–	–	12.8
Amortisation expense	–	–	(4.9)	(0.6)	(5.5)
Foreign currency exchange differences	–	–	–	(1.2)	(1.2)
Balance at 30 June 2007, net of accumulated amortisation	**2,596.0**	**301.2**	**219.1**	**5.2**	**3,121.5**
Balance at 1 July 2006					
Cost (gross carrying amount)	523.4	301.2	–	–	824.6
Accumulated amortisation	–	–	–	–	–
Net carrying amount	**523.4**	**301.2**	**–**	**–**	**824.6**
Balance at 30 June 2007					
Cost (gross carrying amount)	2,596.0	301.2	224.0	8.6	3,129.8
Accumulated amortisation	–	–	(4.9)	(3.4)	(8.3)
Net carrying amount	**2,596.0**	**301.2**	**219.1**	**5.2**	**3,121.5**
Parent Entity – year ended 30 June 2008					
Balance at 1 July 2007, net of accumulated amortisation	–	–	–	–	–
Acquisitions through business combinations (Note 47)	–	–	63.7	–	63.7
Amortisation expense	–	–	(2.0)	–	(2.0)
Balance at 30 June 2008, net of accumulated amortisation	**–**	**–**	**61.7**	**–**	**61.7**
Balance at 1 July 2007					
Cost (gross carrying amount)	–	–	–	–	–
Accumulated amortisation	–	–	–	–	–
Net carrying amount	**–**	**–**	**–**	**–**	**–**
Balance at 30 June 2008					
Cost (gross carrying amount)	–	–	63.7	–	63.7
Accumulated amortisation	–	–	(2.0)	–	(2.0)
Net carrying amount	**–**	**–**	**61.7**	**–**	**61.7**

Note 24 – Intangible assets (continued)

	Goodwill $m	Licences $m	Customer relationships and contracts $m	Other $m	Total $m
Parent Entity – year ended 30 June 2007					
Balance at 1 July 2006, net of accumulated amortisation	–	–	–	–	–
Balance at 30 June 2007, net of accumulated amortisation	**–**	**–**	**–**	**–**	**–**
Balance at 1 July 2006					
Cost (gross carrying amount)	–	–	–	–	–
Accumulated amortisation	–	–	–	–	–
Net carrying amount	**–**	**–**	**–**	**–**	**–**
Balance at 30 June 2007					
Cost (gross carrying amount)	–	–	–	–	–
Accumulated amortisation	**–**	**–**	**–**	**–**	**–**
Net carrying amount	**–**	**–**	**–**	**–**	**–**

Amortisation expense
Amortisation expense of $16.6 million (2007: $5.0 million) for the consolidated entity and $2.0 million (2007: $nil) for the Parent Entity is included in the line item 'depreciation and amortisation' in the income statement.

Amortisation expense of $0.1 million (2007: $0.5 million) for the consolidated entity and $nil (2007: $nil) for the Parent Entity is included in the line item 'discontinued operations' in the income statement.

Impairment loss
At 31 December 2007, the consolidated entity assessed the recoverable amount of its Chilean gas distribution business within the Energy Investments CGU. The carrying amount of the business was determined to be higher than its recoverable amount, and an impairment loss of $37.0 million (2007: $nil) was recognised. The impairment loss was allocated to the following assets: the carrying amount of goodwill was fully written off by $15.2 million; the carrying amount of other intangible assets was fully written off by $3.0 million and the carrying amount of property, plant and equipment was written down by $18.8 million. The recoverable amount of the business was assessed by reference to the cash-generating unit's fair value less costs to sell.

The impairment loss of $18.2 million (2007: $nil) relating to goodwill and other intangible assets is included in other expenses for discontinued operations in the line item 'impairment of intangible assets' in Note 6.

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 indefinite lived intangibles have been allocated to cash-generating units (CGUs) for the purpose of impairment testing as follows:

	Goodwill	Licences	Total intangilble assets with indefinite lives
Consolidated – year ended 30 June 2008			
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**
Consolidated – year ended 30 June 2007			
Cash-generating unit			
Retail Energy	2,013.3	–	2,013.3
Merchant Energy	567.5	301.2	868.7
Energy Investments	15.2	–	15.2
	2,596.0	**301.2**	**2,897.2**

The licences $301.2 million (2007: $301.2 million) to operate hydro electric power stations within the Retail and 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 amount for the Retail and Merchant Energy CGU has 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 amount for the Retail and Merchant Energy CGU has been determined using a value in use model including an appropriate terminal value. Cash flow forecasts are based on Board approved budgets and the most recent 3 year plan extrapolated out to 10 years using forecast CPI. The terminal value is based on final year free cashflow capitalised in perpetuity. Discount rates used are the pre-tax weighted average cost of capital of 13.41% (2007: 14.59%).

No impairment loss has been recognised for the Retail and Merchant Energy CGU for the year ended 30 June 2008 (2007: $nil).

Note 25 – Other financial assets (non-current)

	Consolidated 2008 $m	Consolidated 2007 $m	Parent Entity 2008 $m	Parent Entity 2007 $m
Investments in subsidiaries – at cost	–	–	1,628.0	1,582.2
Allowance for impairment in value	–	–	(25.2)	(25.2)
	–	–	1,602.8	1,557.0
Investments in associates – at cost	–	–	438.3	558.3
Investments in jointly controlled entities – at cost	–	–	0.7	64.2
	–	**–**	**2,041.8**	**2,179.5**
Loans to subsidiaries – at amortised cost	–	–	5,412.3	4,728.8
Allowance for impairment in value	–	–	(194.1)	(105.3)
	–	–	5,218.2	4,623.5
Loans to associates – at amortised cost	99.3	346.3	99.3	346.3
	99.3	**346.3**	**5,317.5**	**4,969.8**
Derivative financial instruments – at fair value (Note 56)				
Interest rate swap contracts – cash flow hedges	21.5	6.7	21.5	6.7
Energy derivatives – cash flow hedges	343.3	1,039.2	–	3.4
	364.8	**1,045.9**	**21.5**	**10.1**
	464.1	**1,392.2**	**7,380.8**	**7,159.4**

Loans to subsidiaries are interest-bearing and are made in the ordinary course of business on normal commercial terms and conditions for an indefinite period.

For terms and conditions relating to loans to associates, refer to Note 53.

	Consolidated		Parent Entity	
	2008	2007	2008	2007
	$m	$m	$m	$m

Note 26 – Other assets (non-current)

	2008 $m	2007 $m	2008 $m	2007 $m
Green commodities scheme certificates and instruments	38.2	–	–	–
Defined benefit superannuation plan asset (Note 51)	10.7	20.1	10.7	20.1
Generation dispatch agreements	38.3	–	–	–
Other	2.7	6.1	–	–
	89.9	**26.2**	**10.7**	**20.1**

Note 27 – Trade and other payables (current)

	2008 $m	2007 $m	2008 $m	2007 $m
Trade payables and accrued expenses	851.3	1,402.5	40.0	45.4
Goods and services tax payable	–	7.2	–	–
Amounts owing to associates	0.7	72.6	–	–
	852.0	**1,482.3**	**40.0**	**45.4**

Trade payables are generally settled within 30 days of the date of recognition.

For terms and conditions relating to amounts owing to associates, refer to Note 53.

Note 28 – Borrowings (current)

At amortised cost

	2008 $m	2007 $m	2008 $m	2007 $m
Bank overdrafts – unsecured	–	0.7	–	–
Bank loans – unsecured	–	380.7	–	380.0
Finance lease liabilities – secured (Note 43)	–	0.3	–	–
Customer deposits	–	24.6	–	9.7
	–	**406.3**	**–**	**389.7**

Note 29 – Provisions (current)

	2008 $m	2007 $m	2008 $m	2007 $m
Employee benefits	22.5	19.4	0.1	–
Onerous contracts (Note 35)	0.8	1.6	–	–
Other	1.0	0.2	–	–
	24.3	**21.2**	**0.1**	**–**

Note 30 – Other financial liabilities (current)

	2008 $m	2007 $m	2008 $m	2007 $m
Derivative financial instruments – at fair value (Note 56)				
Forward foreign exchange contracts – cash flow hedges	1.5	0.8	1.5	0.8
Forward foreign exchange contracts – net investment hedges	0.7	–	0.7	–
Energy derivatives – cash flow hedges	101.8	14.8	–	15.9
Energy derivatives – economic hedges	666.4	2,177.1	318.3	–
	770.4	2,192.7	320.5	16.7
Loans from subsidiaries – at amortised cost	–	–	480.0	480.0
	770.4	**2,192.7**	**800.5**	**496.7**

Loans from subsidiaries are interest-bearing and are made in the ordinary course of business on normal commercial terms and conditions and are repayable on demand.

Note 31 – Other liabilities (current)

	2008 $m	2007 $m	2008 $m	2007 $m
Unearned revenue	**1.9**	**1.5**	**1.8**	**–**

Note 32 – Liabilities of disposal group classified as held for sale

	2008 $m	2007 $m	2008 $m	2007 $m
Liabilities related to the PNG oil and gas business (Note 10)	39.5	–	–	–
Liabilities related to the North Queensland gas pipeline business (Note 10)	13.5	–	–	–
	53.0	**–**	**–**	**–**

Note 33 – Trade and other payables (non-current)

	2008 $m	2007 $m	2008 $m	2007 $m
Trade payables	**38.2**	**–**	**–**	**–**

Note 34 – Borrowings (non-current)

At amortised cost

	2008 $m	2007 $m	2008 $m	2007 $m
Bank loans – unsecured	2,077.5	2,019.2	2,077.5	1,989.5
Finance lease liabilities – secured (Note 43)	8.8	8.8	–	–
Customer deposits	12.1	13.4	0.6	0.6
Other loans – unsecured	3.3	–	–	–
	2,101.7	**2,041.4**	**2,078.1**	**1,990.1**

Significant terms and conditions

Bank loans are unsecured and are repayable on maturity in October 2009, October 2010 and 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 7.6% (2007: 6.9%)

Finance lease liabilities are secured over the assets leased.

Customer deposits relate to security deposits lodged with the Parent Entity and 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.

Note 35 – Provisions (non-current)

	2008 $m	2007 $m	2008 $m	2007 $m
Employee benefits	17.6	10.2	0.1	–
Environmental restoration	26.9	20.2	2.0	1.4
Onerous contracts	157.0	2.1	–	–
Other	0.1	0.1	–	–
	201.6	**32.6**	**2.1**	**1.4**

Note 35 – Provisions (non-current) (continued)

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

	Environmental restoration $m	Onerous contracts $m	Other $m	Total $m
Consolidated – year ended 30 June 2008				
Balance at beginning of financial year	20.2	3.7	0.3	24.2
Additional provisions recognised	0.6	–	5.6	6.2
Acquisitions through business combinations	21.6	165.5	–	187.1
Provisions utilised	–	(22.6)	(4.4)	(27.0)
Provisions reversed	–	–	(0.4)	(0.4)
Liability included in a disposal group classified as held for sale (Note 10)	(16.8)	–	–	(16.8)
Unwinding of discount and changes in discount rate	3.4	11.2	–	14.6
Foreign currency exchange differences	(2.1)	–	–	(2.1)
Balance at end of financial year	**26.9**	**157.8**	**1.1**	**185.8**
Current	–	0.8	1.0	1.8
Non-current	26.9	157.0	0.1	184.0
	26.9	**157.8**	**1.1**	**185.8**
Parent Entity – year ended 30 June 2008				
Balance at beginning of financial year	1.4	–	–	1.4
Additional provisions recognised	0.4	–	–	0.4
Unwinding of discount and changes in discount rate	0.2	–	–	0.2
Balance at end of financial year	**2.0**	**–**	**–**	**2.0**
Current	–	–	–	–
Non-current	2.0	–	–	2.0
	2.0	**–**	**–**	**2.0**

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.

	Consolidated 2008 $m	Consolidated 2007 $m	Parent Entity 2008 $m	Parent Entity 2007 $m

Note 36 – Other financial liabilities (non-current)

	Consolidated 2008 $m	Consolidated 2007 $m	Parent Entity 2008 $m	Parent Entity 2007 $m
Derivative financial instruments – at fair value (Note 56)				
Forward foreign exchange contracts – cash flow hedges	0.3	1.3	0.3	1.3
Energy derivatives – cash flow hedges	12.5	34.3	–	19.8
	12.8	35.6	0.3	21.1
Loans from subsidiaries – at amortised cost	–	–	948.7	591.9
	12.8	**35.6**	**949.0**	**613.0**

Loans from subsidiaries are interest-bearing and are made in the ordinary course of business on normal commercial terms and conditions and are repayable on demand.

Note 37 – Other liabilities (non-current)

	Consolidated 2008 $m	Consolidated 2007 $m	Parent Entity 2008 $m	Parent Entity 2007 $m
Defined benefit superannuation plan liability (Note 51)	6.9	–	–	–
Unearned revenue	0.9	1.0	–	–
Other	6.7	24.7	–	18.2
	14.5	**25.7**	**–**	**18.2**

Note 38 – Issued capital

	Consolidated 2008 $m	Consolidated 2007 $m	Parent Entity 2008 $m	Parent Entity 2007 $m
443,354,097 (2007: 433,555,467) fully-paid ordinary shares	**3,971.6**	**3,858.9**	**3,971.6**	**3,858.9**

	2008 Number of shares	2008 $m	2007 Number of shares	2007 $m
Movement in fully-paid ordinary shares				
Balance at beginning of financial year	433,555,467	3,858.9	2	–
Shares issued under AGL Dividend Reinvestment Plan (a)	2,633,758	29.8	–	–
Shares issued to underwriter of the AGL Dividend Reinvestment Plan (b)	7,164,872	83.1	–	–
Shares issued on demerger (c)	–	–	377,005,465	2,940.7
Placement of ordinary shares (d)	–	–	56,550,000	933.1
Transaction costs, net of related income tax (e)	–	(0.2)	–	(14.9)
Balance at end of financial year	**443,354,097**	**3,971.6**	**433,555,467**	**3,858.9**

(a) On 16 April 2008, 2,633,758 ordinary shares were issued at $11.31 per share to participating shareholders under the AGL Dividend Reinvestment Plan.

(b) On 16 April 2008, 7,164,872 ordinary shares were issued at $11.60 per share to Citigroup Global Markets Australia Pty Limited as underwriter of the AGL Dividend Reinvestment Plan.

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

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

(e) Transaction costs, net of related income tax represent costs arising from the issue of shares.

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 39 – Reserves

	Consolidated		Parent Entity	
	2008 $m	2007 $m	2008 $m	2007 $m
Foreign currency translation	(24.5)	(9.6)	–	–
Employee equity benefits	1.0	0.7	1.0	0.7
Hedging	524.9	2,144.3	13.8	3.2
Other	(0.1)	2.1	–	–
	501.3	**2,137.5**	**14.8**	**3.9**
Movement in reserves				
Foreign currency translation reserve				
Balance at beginning of financial year	(9.6)	8.3	–	–
Adjustment on acquisition of subsidiaries and associates in respect of the AGL Energy Limited demerger	–	10.1	–	–
Translation of foreign operations	14.8	(78.1)	–	–
Transferred to profit or loss on disposal of foreign operation	(12.6)	–	–	–
Net (loss)/gain on hedge of net investment in foreign operations	(10.4)	70.8	–	–
Share of gain/(loss) in reserve attributable to associates	0.5	(0.1)	–	–
Deferred income tax	(7.2)	(20.6)	–	–
Balance at end of financial year	**(24.5)**	**(9.6)**	**–**	**–**

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign operations, as well as from the translation of liabilities that hedge the net investment in foreign operations.

	Consolidated 2008 $m	Consolidated 2007 $m	Parent Entity 2008 $m	Parent Entity 2007 $m
Employee equity benefits reserve				
Balance at beginning of financial year	0.7	–	0.7	–
Share-based payment plans expense	2.1	0.7	2.1	0.7
Purchase of shares on-market under AGL Share Reward Plan	(1.2)	–	(1.2)	–
Purchase of shares on-market under AGL Long-Term Incentive Plan	(0.6)	–	(0.6)	–
Balance at end of financial year	**1.0**	**0.7**	**1.0**	**0.7**

The employee equity benefits reserve is used to record the value of share-based payments to employees, including key management personnel, as part of their remuneration. Refer to Note 52 for further information on share-based payment plans.

	Consolidated 2008 $m	Consolidated 2007 $m	Parent Entity 2008 $m	Parent Entity 2007 $m
Hedging reserve				
Balance at beginning of financial year	2,144.3	(25.6)	3.2	(0.1)
Adjustment on acquisition of subsidiaries and associates in respect of the AGL Energy Limited demerger	–	92.9	–	–
(Loss)/gain recognised on cash flow hedges	(1,262.2)	3,481.4	18.3	3.8
Transferred to profit or loss	(1,294.2)	(257.1)	(3.1)	0.9
Share of gain/(loss) in reserve attributable to associates	162.7	(176.2)	–	–
Deferred income tax	774.3	(971.1)	(4.6)	(1.4)
Balance at end of financial year	**524.9**	**2,144.3**	**13.8**	**3.2**

The hedging reserve represents the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

	Consolidated		Parent Entity	
	2008 $m	2007 $m	2008 $m	2007 $m
Movement in reserves				
Other reserve				
Balance at beginning of financial year	2.1	–	–	–
Adjustment on acquisition of jointly controlled entities in respect of the AGL Energy Limited demerger	–	0.1	–	–
Share of net gain in reserve attributable to associates and jointly controlled entities	0.3	2.0	–	–
Transfer to retained earnings on disposal of associate	(2.5)	–	–	–
Balance at end of financial year	**(0.1)**	**2.1**	**–**	**–**

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

Note 40 – Retained earnings

	Consolidated 2008 $m	Consolidated 2007 $m	Parent Entity 2008 $m	Parent Entity 2007 $m
Balance at beginning of financial year	521.2	23.4	208.7	4.3
Profit after tax attributable to shareholders of the Parent Entity	229.0	410.5	239.1	233.3
Dividends paid or provided (Note 11)	(225.6)	(35.8)	(225.6)	(35.8)
Adjustment on acquisition of subsidiaries, associates and jointly controlled entities in respect of the AGL Energy Limited demerger	–	111.0	–	–
Actuarial (loss)/gain on defined benefit plans, net of tax	(9.7)	6.9	(6.9)	6.9
Share of actuarial (loss)/gain on defined benefit plans attributable to associates and jointly controlled entities	(10.4)	5.2	–	–
Transfer from other reserves on disposal of associate	2.5	–	–	–
Balance at end of financial year	**507.0**	**521.2**	**215.3**	**208.7**

Note 41 – Earnings per share (EPS)

	Consolidated	
	2008 Cents	2007 Cents
Basic earnings/(loss) per share		
From continuing operations	72.6	128.1
From discontinued operations	(20.0)	20.4
Total basic earnings per share	**52.6**	**148.5**
Diluted earnings/(loss) per share		
From continuing operations	72.6	128.1
From discontinued operations	(20.0)	20.4
Total diluted earnings per share	**52.6**	**148.5**
Basic earnings per share – before significant items and changes in fair value of financial instruments		
From continuing operations	68.9	56.0
From discontinued operations	11.7	19.5
Total basic earnings per share	**80.6**	**75.5**
Diluted earnings per share – before significant items and changes in fair value of financial instruments		
From continuing operations	68.8	55.9
From discontinued operations	11.7	19.5
Total diluted earnings per share	**80.5**	**75.4**

Note 41 – Earnings per share (EPS) (continued)

Earnings used in calculating basic and diluted earnings per share

	Continuing operations 2008 $m	Discontinued operations 2008 $m	Total 2008 $m	Continuing operations 2007 $m	Discontinued operations 2007 $m	Total 2007 $m
Profit/(loss) after tax attributable to shareholders of the Parent Entity	316.3	(87.3)	229.0	354.2	56.3	410.5
Earnings used to calculate basic and diluted EPS	316.3	(87.3)	229.0	354.2	56.3	410.5
Less:						
Significant items after income tax	208.5	(145.9)	62.6	(85.7)	(0.2)	(85.9)
Changes in fair value of financial instruments after income tax	(192.2)	7.6	(184.6)	285.2	2.5	287.7
Earnings used to calculate basic and diluted EPS before significant items and changes in fair value of financial instruments after income tax	300.0	51.0	351.0	154.7	54.0	208.7

Weighted average number of ordinary shares

	2008 No. millions	2007 No. millions
Weighted average number of ordinary shares used in the calculation of basic EPS	435.6	276.4
Effect of dilution – LTIP share performance rights	0.2	0.2
Weighted average number of ordinary shares used in the calculation of diluted EPS	**435.8**	**276.6**

Note 42 – Capital and other expenditure commitments

	Consolidated 2008 $m	Consolidated 2007 $m	Parent Entity 2008 $m	Parent Entity 2007 $m
Capital expenditure commitments				
Property, plant and equipment				
Contracted for at reporting date but not provided for and payable:				
Not later than one year	221.0	71.2	–	–
Later than one year but not later than five years	28.2	110.9	–	–
Later than five years	–	–	–	–
	249.2	**182.1**	**–**	**–**
Consolidated entity's share of joint venture operations capital commitments				
Not later than one year	2.3	0.6	–	–
Later than one year but not later than five years	–	–	–	–
Later than five years	–	–	–	–
	2.3	**0.6**	**–**	**–**
Consolidated entity's share of jointly controlled entities' capital commitments				
Not later than one year	0.5	3.0	–	–
Later than one year but not later than five years	–	–	–	–
Later than five years	–	–	–	–
	0.5	**3.0**	**–**	**–**
Other expenditure commitments				
Consolidated entity's share of joint venture operations other expenditure commitments				
Not later than one year	1.3	3.8	–	–
Later than one year but not later than five years	–	–	–	–
Later than five years	–	–	–	–
	1.3	**3.8**	**–**	**–**
Other – Information technology services				
Not later than one year	33.4	15.2	–	–
Later than one year but not later than five years	75.4	15.3	–	–
Later than five years	–	1.1	–	–
	108.8	**31.6**	**–**	**–**

Note 43 – Lease commitments

	Minimum future lease payments 2008 $m	Present value of payments 2008 $m	Minimum future lease payments 2007 $m	Present value of payments 2007 $m
Finance lease liabilities				
Consolidated				
Not later than one year	–	–	0.4	0.3
Later than one year but not later than five years	–	–	1.0	0.9
Later than five years	178.4	8.8	178.7	7.9
Minimum future lease payments*	178.4	8.8	180.1	9.1
Less future finance charges	(169.6)	–	(171.0)	–
Present value of minimum lease payments	**8.8**	**8.8**	**9.1**	**9.1**
Included in the financial statements as:				
Current borrowings (Note 28)		–		0.3
Non-current borrowings (Note 34)		8.8		8.8
		8.8		**9.1**

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

The Parent Entity has no finance lease liabilities.

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.

	Consolidated 2008 $m	Consolidated 2007 $m	Parent Entity 2008 $m	Parent Entity 2007 $m
Operating leases				
Non-cancellable operating lease rentals are payable as follows:				
Not later than one year	9.6	9.5	1.8	4.9
Later than one year but not later than five years	34.9	43.4	7.8	21.2
Later than five years	46.4	61.9	11.7	31.0
	90.9	**114.8**	**21.3**	**57.1**

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 44 – Contingent liabilities and contingent assets

	Consolidated 2008 $m	Consolidated 2007 $m	Parent Entity 2008 $m	Parent Entity 2007 $m
Contingent liabilities				
Guarantees and warranties in respect of subsidiaries	–	15.9	215.7	246.2
Contingent consideration under contract (a)	51.0	51.0	–	–
	51.0	**66.9**	**215.7**	**246.2**

(a) Contingent consideration under contract consists of the contingent payment of up to $51.0 million which will be made if additional reserves are proven in the Camden Gas Project area by 31 December 2008, based upon an agreed reserve formula with reserves verified by an independent external expert.

Other contingent liabilities

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

The Parent Entity has undertaken to provide financial support, as and when required, to certain wholly-owned subsidiaries, so as to enable those entities to pay their debts as and when such debts become due and payable.

The Parent Entity has provided warranties and indemnities to certain third parties in relation to the performance of contracts by various wholly-owned subsidiaries.

Contingent assets

There are no contingent assets for the consolidated entity or the Parent Entity.

Note 45 – Remuneration of auditors

	Consolidated 2008 $000	Consolidated 2007 $000	Parent Entity 2008 $000	Parent Entity 2007 $000
Auditor of the Parent Entity				
Audit and review of financial reports	1,867	795	225	200
Other regulatory audit services	86	32	–	–
Services in respect of AGL Annual General Meeting	15	–	–	–
Services in connection with AGL's application to Independent Pricing & Regulatory Tribunal	9	–	–	–
Review of Completion Statements for disposal of a business	13	–	–	–
Other accounting advice and services	122	–	–	–
Investigating Accountants Report for share placement prospectus	–	100	–	100
Audit and review of Certified Working Capital Statements for demerger	–	252	–	252
Review of Directors forecasts for AGL Supplementary Scheme booklet	–	21	–	21
AGL redaction process assistance	–	136	–	136
	2,112	**1,336**	**225**	**709**
Other auditors				
Audit and review of financial reports	–	39	–	–
Review of Completion Statements for disposal of a business	37	–	–	–
	37	**39**	**–**	**–**

The auditor of AGL Energy Limited is Deloitte Touche Tohmatsu.

Note 46 – Subsidiaries

	Note	Country of incorporation	Ownership interest 2008 %	Ownership interest 2007 %
Parent entity				
AGL Energy Limited		Australia		
Subsidiaries				
AGL Limited		New Zealand	100	100
AGL ACT Retail Investments Pty Limited	(a)	Australia	100	100
AGL Chile Operations SA	(d)	Chile	–	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 Foundation Limited	(e)	Australia	–	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	(a)	Australia	100	100
AGL Finance 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 Gas Production (Camden) Pty Limited	(a)	Australia	100	100
AGL Gas Trading Pty Limited		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 Maintenance Services Pty Limited	(e)	Australia	–	100
AGL Hydro Operations Pty Limited	(a)	Australia	100	100
AGL Hydro Partnership		Australia	100	100
AGL International	(d)	Cayman Islands	–	100
AGL Pipelines Investments Pty Limited	(a)	Australia	100	100
AGL Pipelines Investments (QLD) Pty Limited		Australia	100	100
AGL Power Generation (Hallett Hill) Pty Limited	(a)(c)	Australia	100	–
AGL Power Generation (NSW) Pty Limited	(a)	Australia	100	100
AGL Power Generation (QLD) Pty Limited	(a)	Australia	100	100
AGL Power Generation (SA) Pty Limited	(e)	Australia	–	100
AGL Power Generation (Victoria) Pty Limited	(a)	Australia	100	100
AGL Retail Energy Limited	(a)	Australia	100	100
AGL SA Generation Pty Limited (formerly TRUenergy SA Generation Pty Ltd)	(a)(b)	Australia	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 (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 (formerly TRUenergy Torrens Island Pty Ltd)	(a)(b)	Australia	100	–
AGL Torrens Island Holdings Pty Limited (formerly TRUenergy Australia Pty Ltd)	(a)(b)	Australia	100	–
AGL Utility Services Pty Limited	(a)	Australia	100	100
AGL Wholesale Gas Limited	(a)	Australia	100	100
AGL Wholesale Gas (SA) Pty Limited	(a)	Australia	100	100
Australian Energy Ltd	(a)	Australia	100	100
Dollar Wind Farm Pty Limited	(a)	Australia	100	100
Dual Fuel Systems Pty Limited	(a)	Australia	100	100
EdgeCap Pty Limited	(e)	Australia	–	100
Empresa de Gas de la V Region SA	(d)	Chile	–	100
Essential Energy Services Pty Ltd		Australia	100	100
H C Extractions Pty Limited	(a)	Australia	100	100
Inversiones AGL Chile Limitada	(d)	Chile	–	100
Macarthur Wind Farm Pty Ltd	(a)	Australia	100	100
North Queensland Pipeline No 1 Pty Ltd (formerly Enertrade (NQ) Pipeline No 1 Pty Ltd)	(a)(b)	Australia	100	–
PGI Pty Ltd	(a)(c)	Australia	100	–
Powerdirect Pty Ltd	(a)	Australia	100	100
Victorian Energy Pty Limited	(a)	Australia	100	100

(a) These wholly-owned subsidiaries are parties to a Deed of Cross Guarantee as detailed in Note 49.
(b) Acquired during the financial year.
(c) Incorporated during the financial year.
(d) Disposed during the financial year.
(e) Deregistered/liquidated during the financial year.

Note 47 – Acquisition of subsidiaries and businesses

Acquisition of Torrens Island Power Station

On 2 July 2007, the consolidated entity acquired 100% of the issued capital of AGL Torrens Island Holdings Pty Limited from TRUenergy, for $479.5 million in cash (including costs of $3.1 million directly attributable to the acquisition) and the assumption of a $96.8 million liability.

The business included the 1,280 MW Torrens Island gas-fired power station in South Australia. As part of the transaction, the consolidated entity also acquired a 10-year, 300-petajoule, gas sales agreement expiring in 2017, together with the associated SEAGas pipeline haulage contract which expires in 2019.

From the date of acquisition, the business has contributed $282.4 million to revenue and $67.8 million to operating profit before net finance costs, changes in fair value of financial instruments and income tax.

Acquisition of North Queensland Merchant Gas and Pipeline businesses

On 1 December 2007, the Parent Entity, in a 50/50 joint venture with Arrow Energy Limited, acquired the gas merchant and pipeline businesses of the Queensland Power Trading Corporation (Enertrade) from the Queensland Government. The Parent Entity's share of the acquisition cost was $141.8 million including costs directly attributable to the acquisition of $7.8 million.

The gas merchant business comprises the purchase of gas from the Moranbah Gas Project coal seam gas operations to sell to large customers in Townsville and dispatch management of the 230 MW Yabulu power station in Townsville into the National Electricity Market. The Parent Entity acquired 100% of the issued capital of North Queensland Pipeline No 1 Pty Ltd that is a 50% participant in the North Queensland Gas Pipeline joint venture. The pipeline business included the 392 km North Queensland gas pipeline between Moranbah and Townsville and the Moranbah gas processing facility. Rights to develop the Central Queensland gas pipeline between Moranbah and Gladstone were also acquired under the transaction.

Note 47 – Acquisition of subsidiaries and businesses (continued)

On 30 June 2008, the Parent Entity and its 50/50 joint venture partner, Arrow Energy Limited, announced they have entered into a sale and purchase agreement with Victorian Funds Management Corporation for the sale of the North Queensland gas pipeline. The joint venture will retain ownership of the gas processing and compression facility located at Moranbah, which will be integrated into the Moranbah Gas Project joint venture. At the reporting date, the carrying value of the gas pipeline business was classified as a disposal group held for sale (refer Notes 10 and 18).

From the date of acquisition, the businesses have contributed $38.8 million to revenue and $13.6 million to operating profit before net finance costs, changes in fair value of financial instruments and income tax.

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

	Torrens Island Power Station		North Queensland Merchant Gas and Pipeline		
	Book value	Fair value on acquisition	Book value	Fair value on acquisition	Total fair value on acquisition
Net assets acquired	$m	$m	$m	$m	$m
Assets					
Cash and cash equivalents	1.2	1.2	–	–	1.2
Trade and other receivables	46.4	46.4	2.2	2.2	48.6
Inventories	18.7	18.7	0.6	0.6	19.3
Other financial assets	–	–	42.9	42.9	42.9
Other assets	0.1	0.1	0.7	0.7	0.8
Investments accounted for using the equity method	–	–	0.7	0.7	0.7
Property, plant and equipment	319.2	689.4	71.5	107.3	796.7
Intangible assets	–	–	–	63.7	63.7
Deferred tax assets	9.4	62.5	–	–	62.5
	395.0	**818.3**	**118.6**	**218.1**	**1,036.4**
Liabilities					
Trade and other payables	(5.6)	(5.6)	(2.1)	(2.1)	(7.7)
Provisions	(19.5)	(197.1)	(0.1)	(0.1)	(197.2)
Deferred tax liabilities	(59.6)	(31.4)	(2.2)	(12.8)	(44.2)
Other financial liabilities	–	–	(60.0)	(60.0)	(60.0)
Other liabilities	(7.9)	(7.9)	(1.3)	(1.3)	(9.2)
	(92.6)	**(242.0)**	**(65.7)**	**(76.3)**	**(318.3)**
Fair value of identifiable net assets		576.3		141.8	718.1
Goodwill on acquisition		–		–	–
		576.3		**141.8**	**718.1**
Consideration					
Cash paid including directly attributable costs		479.5		141.8	621.3
Liabilities assumed		96.8		–	96.8
		576.3		**141.8**	**718.1**

The initial accounting for the above acquisitions has only been provisionally determined at 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 up to twelve months from the date of acquisition to finalise its acquisition accounting, and therefore the information presented should be considered provisional.

Acquisition of Sun Gas Retail

In the 2007 financial year, the consolidated entity acquired 100% of the issued capital of AGL Sales (Queensland) Pty Limited (formerly Sun Gas Retail Pty Ltd) from the Queensland Government on 1 February 2007, for $74.2 million including transaction costs. The business included approximately 70,800 residential and industrial and commercial gas customers located primarily in south-east Queensland.

Acquisition of Powerdirect

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

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

	Provisional fair value on acquisition	Fair value adjustment	Adjusted fair value on acquisition
Net assets acquired	$m	$m	$m
Assets			
Trade and other receivables	222.2	(0.9)	221.3
Inventories	0.9	(0.8)	0.1
Other assets	61.0	(1.2)	59.8
Other financial assets	222.3	–	222.3
Property, plant and equipment	49.9	–	49.9
Intangible assets	224.0	(39.4)	184.6
	780.3	**(42.3)**	**738.0**
Liabilities			
Trade and other payables	(241.6)	(1.3)	(242.9)
Borrowings	(28.5)	–	(28.5)
Provisions	(2.2)	–	(2.2)
Other financial liabilities	(70.1)	–	(70.1)
	(342.4)	**(1.3)**	**(343.7)**
Fair value of identifiable net assets	437.9	(43.6)	394.3
Goodwill on acquisition	870.3	43.6	913.9
	1,308.2	**–**	**1,308.2**
Consideration			
Cash paid including directly attributable costs	**1,308.2**	**–**	**1,308.2**

The fair values of the assets and liabilities acquired as part of the Sun Gas Retail and Powerdirect acquisitions had only been provisionally determined at 30 June 2007. Upon finalisation of the acquisition accounting, the fair value of identifiable net assets of the acquisitions at the respective dates of acquisition have been amended, resulting in a decrease in the fair value of net assets acquired of $43.6 million and a corresponding increase in the amount of goodwill recognised at the dates of each acquisition.

Following the finalisation of the provisional acquisition accounting, all identifiable intangible assets have been recognised separately from goodwill. Goodwill arises from various portfolio benefits that will arise from integrating the activities of the Powerdirect and Sun Gas Retail businesses with that of AGL. The acquisition has augmented AGL's position as the largest energy retailer in Australia and enhanced its competitive position by reducing average cost per account across the entire retail business.

	Consolidated		Parent Entity	
	2008	2007	2008	2007
	$m	$m	$m	$m
Net cash outflow on acquisitions				
Cash paid including directly attributable costs	621.3	1,308.2	141.8	–
Less cash and cash equivalent balances acquired	(1.2)	0.7	–	–
Net cash outflow on acquisitions	**620.1**	**1,308.9**	**141.8**	**–**

Note 48 – Jointly controlled operations and assets

Joint venture/area	Principal activities	Output interest 2008 %	Output interest 2007 %
Camden Gas Project	Gas production and exploration	50.0	50.0
Sydney Basin Exploration	Gas exploration	50.0	50.0
Hunter Exploration	Gas exploration	50.0	50.0
Moranbah Gas Project	Gas production and exploration	50.0	50.0
Moranbah Exploration	Gas exploration	50.0	50.0
PNG – PDL 2 (Kutubu, Moran, SE Mananda)	Oil production	11.9	11.9
PNG – PDL 4 (Gobe Main, SE Gobe)	Oil production	66.7	66.7
PNG – Moran Unit	Oil production	5.2	5.4
PNG – SE Gobe Unit	Oil production	27.3	27.3
PNG – PL 2 Kutubu Pipeline	Oil transportation	11.9	11.9
PNG – PL 3 Gobe Pipeline	Oil transportation	47.0	47.0
PNG – LNG Project	Gas project	3.6	–
North Queensland Energy	Sale of gas and electricity	50.0	–
North Queensland Gas Pipeline	Gas transportation	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:

	Consolidated 2008 $m	Consolidated 2007 $m	Parent Entity 2008 $m	Parent Entity 2007 $m
Current assets				
Cash and cash equivalents	4.0	7.8	3.1	6.5
Trade and other receivables	33.4	22.7	4.4	2.1
Inventories	2.2	17.8	1.2	0.9
Other assets	1.8	4.5	1.7	–
Assets of disposal groups classified as held for sale	459.3	–	–	–
Total current assets	**500.7**	**52.8**	**10.4**	**9.5**
Non-current assets				
Trade and other receivables	0.3	0.4	–	–
Exploration and evaluation assets	24.8	65.4	10.6	11.8
Oil and gas assets	150.7	505.1	116.2	104.4
Property, plant and equipment	33.9	16.2	–	–
Other assets	1.6	2.2	–	–
Total non-current assets	**211.3**	**589.3**	**126.8**	**116.2**
Total assets	**712.0**	**642.1**	**137.2**	**125.7**

The consolidated entity's share of capital expenditure commitments and contingent liabilities of jointly controlled operations are disclosed in Notes 42 and 44 respectively.

Note 49 – Deed of cross guarantee

Pursuant to ASIC Class Order 98/1418 (as amended), the wholly-owned subsidiaries identified in Note 46 (other than AGL Sales Pty Limited, AGL Sales (Queensland Electricity) Pty Limited, AGL South Australia Pty Limited and Powerdirect Pty Ltd) are relieved from the Corporations Act 2001 requirements for preparation, audit and lodgement of their financial reports.

As a condition of the Class Order, the Parent Entity and each of the identified subsidiaries (Closed Group) entered into a new Deed of Cross Guarantee on 27 June 2008. The effect of the Deed is that Parent Entity guarantees to each creditor, payment in full of any debt in the event of winding up of any of the subsidiaries under certain provisions of the Corporations Act 2001. The subsidiaries have also given a similar guarantee in the event that the Parent Entity is wound up.

The consolidated income statement and balance sheet of the entities that are members of the Closed Group are as follows:

	Closed Group 2008 $m	Closed Group 2007 $m
Consolidated income statement		
Profit before tax from continuing operations	19.7	602.2
Income tax income/(expense)	123.6	(178.0)
Profit after tax from continuing operations	143.3	424.2
(Loss)/profit after tax from discontinued operations	(63.3)	–
Profit after tax	80.0	424.2
Retained earnings at beginning of financial year	549.6	9.7
Dividends paid or provided	(225.6)	(35.8)
Adjustment on acquisition of subsidiaries, associates and jointly controlled entities in respect of the AGL Energy Limited demerger	–	139.4
Adjustment for entities added to the new deed of cross guarantee	83.4	–
Actuarial (loss)/gain on defined benefit plans, net of tax	(9.7)	6.9
Share of actuarial (loss)/gain on defined benefit plans attributable to associates and jointly controlled entities	(10.4)	5.2
Transfer from other reserves on disposal of associate	2.5	–
Retained earnings at end of financial year	**469.8**	**549.6**
Consolidated balance sheet		
Current assets		
Cash and cash equivalents	63.8	242.6
Trade and other receivables	1,116.3	802.6
Inventories	19.1	25.3
Current tax assets	47.9	–
Other financial assets	981.9	2,963.0
Other assets	19.2	13.3
Non-current assets classified as held for sale	71.2	117.0
Assets of disposal group classified as held for sale	459.3	–
Total current assets	**2,778.7**	**4,163.8**
Non-current assets		
Trade and other receivables	0.8	1.4
Investments accounted for using the equity method	585.0	534.4
Exploration and evaluation assets	25.9	66.2
Oil and gas assets	150.7	505.1
Property, plant and equipment	1,257.6	155.0
Intangible assets	2,317.5	1,279.0
Other financial assets	1,942.0	4,956.8
Other assets	13.4	24.8
Total non-current assets	**6,292.9**	**7,522.7**
Total assets	**9,071.6**	**11,686.5**
Current liabilities		
Trade and other payables	660.9	839.5
Borrowings	–	390.2
Provisions	24.1	19.7
Current tax liabilities	23.4	45.1
Other financial liabilities	768.3	1,484.3
Other liabilities	1.9	0.6
Liabilities of disposal group classified as held for sale	53.0	–
Total current liabilities	**1,531.6**	**2,779.4**

Note 49 – Deed of cross guarantee (continued)

	Closed Group 2008 $m	Closed Group 2007 $m
Non-current liabilities		
Borrowings	2,092.9	2,002.9
Provisions	201.6	32.4
Deferred tax liabilities	293.1	782.7
Other financial liabilities	12.8	531.1
Other liabilities	14.5	25.7
Total non-current liabilities	**2,614.9**	**3,374.8**
Total liabilities	**4,146.5**	**6,154.2**
Net assets	**4,925.1**	**5,532.3**
Equity		
Issued capital	3,971.6	3,858.9
Reserves	483.7	1,123.8
Retained earnings	469.8	549.6
Total equity	**4,925.1**	**5,532.3**

Note 50 – Key management personnel disclosures

AGL Energy Limited has adopted the revised AASB 124 Related Party Disclosures and has made the detailed remuneration disclosures in the Remuneration Report which is part of the Directors' Report. Please refer to the Remuneration Report for further details.

Key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the consolidated entity and the Parent Entity, directly or indirectly, including the Directors of the Parent Entity.

The following persons were key management personnel of the consolidated entity and the Parent 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	
Paul Anthony	Managing Director and Chief Executive Officer	Resigned 21 October 2007
Michael Fraser (a)	Managing Director and Chief Executive Officer	Appointed 22 October 2007
Charles Allen AO	Non-executive Director	Retired 28 February 2008
Carolyn Hewson	Non-executive Director	
Jeremy Maycock	Non-executive Director	
Sandra McPhee	Non-executive Director	
Max Ould	Non-executive Director	
Bruce Phillips	Non-executive Director	Appointed 23 August 2007
Graham Reaney	Non-executive Director	
Executives		
Greg Conway	Group General Manager Retail Energy	Appointed 21 October 2007 Resigned 7 December 2007
Jeff Dimery	Group General Manager Merchant Energy	Appointed 29 January 2008
Phil James	Group General Manager Retail Energy	
Paul McWilliams	Head of Corporate Support Services, Company Secretary	
Stephen Mikkelsen	Chief Financial Officer	
Mike Moraza	Group General Manager Gas and Power Development	Appointed 29 January 2008

(a) Mr Fraser was Group General Manager Merchant Energy prior to being appointed Managing Director and Chief Executive Officer on 22 October 2007.

Total remuneration for key management personnel of the consolidated entity and the Parent Entity during the financial year is set out below:

Remuneration category	Consolidated 2008 $	Consolidated 2007 $	Parent Entity 2008 $	Parent Entity 2007 $
Short-term employee benefits	8,001,213	9,904,975	8,001,213	9,904,975
Post employment benefits	722,803	900,124	722,803	900,124
Termination benefits	6,168,840	3,582,736	6,168,840	3,582,736
Share-based payments	2,424,857	8,779,238	2,424,857	8,779,238
	17,317,713	**23,167,073**	**17,317,713**	**23,167,073**

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:

2008 Share performance rights	Balance at 1 July 2007	Granted during the year	Vested during the year	Lapsed/ forfeited during the year	Balance at 30 June 2008	Vested and exercisable at 30 June 2008	Vested but not exercisable at 30 June 2008
Directors							
Paul Anthony	187,801	–	(46,950)	(140,851)	–	–	–
Michael Fraser (b)	13,209	103,915	–	–	117,124	–	–
Executives							
Jeff Dimery (a)	6,918	12,188	–	–	19,106	–	–
Phil James	10,725	–	–	–	10,725	–	–
Paul McWilliams (a)	3,423	6,140	–	–	9,563	–	–
Stephen Mikkelsen (a)	16,285	19,647	–	–	35,932	–	–
Mike Moraza (a)	2,859	5,294	–	–	8,153	–	–
	241,220	**147,184**	**(46,950)**	**(140,851)**	**200,603**	**–**	**–**

Details of SPRs granted to key management personnel during the 2008 financial year are as follows:

Date granted	Number of SPRs	Performance period	Vesting date	Fair value
11 January 2008 (a)	43,269	26 October 2007 – 30 June 2010	1 September 2010	$9.16
25 February 2008 (b)	103,915	26 October 2007 – 30 June 2010	1 September 2010	$7.66

No SPR's have been granted since the end of the financial year. The SPR's have been provided at no cost to the recipients.

For further details, including the key terms and conditions, grant and vesting dates for SPR's granted to key management personnel, refer Note 52.

2007 Share performance rights	Balance at 1 July 2006	Granted during the year	Vested during the year	Lapsed/ forfeited during the year	Balance at 30 June 2007	Vested and exercisable at 30 June 2007	Vested but not exercisable at 30 June 2007
Directors							
Paul Anthony (a)	–	187,801	–	–	187,801	–	–
Michael Fraser (c)	–	13,209	–	–	13,209	–	–
Executives							
Phil James (c)	–	10,725	–	–	10,725	–	–
Paul McWilliams (c)	–	3,423	–	–	3,423	–	–
Stephen Mikkelsen (b)	–	16,285	–	–	16,285	–	–
	–	**231,443**	**–**	**–**	**231,443**	**–**	**–**

Note 50 – Key management personnel disclosures (continued)

Details of SPRs granted to key management personnel during the 2007 financial year are as follows:

Date granted	Number of SPRs	Performance period	Vesting date	Fair value
8 November 2006 (a)	140,851	26 October 2006 – 30 June 2007	1 September 2007	$4.88
8 November 2006 (a)	46,950	26 October 2006 – 30 June 2008	1 September 2008	$6.02
8 November 2006 (b)	16,285	8 November 2006 – 30 June 2009	1 September 2009	$6.60
1 April 2007 – tranche 1 (c)	13,680	26 October 2006 – 30 June 2008	1 September 2008	$5.81
1 April 2007 – tranche 2 (c)	13,677	26 October 2006 – 30 June 2009	1 September 2009	$6.71

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:

2008 Ordinary shares	Balance at 1 July 2007	AGL Share Purchase Plan (a)	Dividend Reinvest-ment Plan (b)	Received on vesting of SPRs	Net change other	Balance at 30 June 2008	Balance held nominally
Directors							
Mark Johnson	210,068	20,754	8,624	–	–	239,446	–
Paul Anthony (c)	309,230	–	–	46,950	–	–	–
Michael Fraser (d)	190,128	74,740	–	–	–	264,868	–
Charles Allen AO (e)	82,881	–	–	–	–	–	–
Carolyn Hewson	52,899	–	–	–	–	52,899	–
Jeremy Maycock	16,381	7,866	692	–	9,527	34,466	–
Sandra McPhee	3,200	–	–	–	–	3,200	–
Max Ould	14,944	3,612	559	–	3,000	22,115	–
Bruce Phillips	–	–	–	–	29,000	29,000	–
Graham Reaney	92,906	4,305	–	–	–	97,211	–
Executives							
Greg Conway (f)(g)	–	15,644	–	–	–	–	–
Jeff Dimery	43,108	426	115	–	2,000	45,649	–
Phil James	138,211	–	–	–	(138,211)	–	–
Paul McWilliams	7,196	–	–	–	(7,196)	–	–
Stephen Mikkelsen	–	–	–	–	–	–	–
Mike Moraza	14,972	–	–	–	(7,000)	7,972	–

(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) Mr Anthony resigned from the position of Managing Director and Chief Executive Officer on 21 October 2007 and the number of shares represent those held at the date of cessation of employment.

(d) Under Mr Fraser's prior service agreement, 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 3 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 were acquired under the AGL Share Purchase Plan.

(e) Mr Allen retired as a Director on 28 February 2008 and the number of shares represent those held at the date of leaving office.

(f) Mr Conway received a sign-on allocation of 15,644 shares under the AGL Share Purchase Plan.

(g) Mr Conway resigned from the position of Group General Manager Retail Energy on 7 December 2007 and the number of shares represent those held at the date of cessation of employment.

Shareholdings of key management personnel

2007 Ordinary shares	Balance at 1 July 2006	AGL Scheme of Arrangement (a)	AGL Share Purchase Plan (b)	Received on vesting of SPRs	Net change other	Balance at 30 June 2007	Balance held nominally
Directors							
Mark Johnson	–	204,003	6,065	–	–	210,068	–
Paul Anthony	–	309,230	–	–	–	309,230	–
Michael Fraser	–	190,128	–	–	–	190,128	–
Charles Allen AO	–	72,881	–	–	10,000	82,881	–
David Craig (c)	–	3,645	–	–	–	–	–
Carolyn Hewson	–	52,899	–	–	–	52,899	–
Jeremy Maycock	–	4,100	640	–	11,641	16,381	–
Sandra McPhee	–	1,200	–	–	2,000	3,200	–
Max Ould	–	14,365	579	–	–	14,944	–
Graham Reaney	–	91,839	1,067	–	–	92,906	–
Executives							
Phil James	–	138,211	–	–	–	138,211	–
Paul McWilliams	–	7,196	–	–	–	7,196	–
Stephen Mikkelsen	–	–	–	–	–	–	–

(a) Entitlement to ordinary shares under the AGL Scheme of Arrangement which became effective on 11 October 2006.

(b) Shares acquired under the AGL Share Purchase Plan in lieu of remuneration non-executive Directors would have received. Beneficial interest held subject to the conditions of the Plan.

(c) Mr Craig resigned as a Director on 9 October 2006 and the number of shares represent those held at the date of leaving office.

Loans to key management personnel

There are no loans between key management personnel and the Parent Entity or with any of its subsidiaries.

Other transactions with key management personnel and their personally related entities

There are no other transactions between key management personnel and the Parent Entity or with any of its subsidiaries other than the provision of gas and electricity.

Note 51 – Defined benefit superannuation plans

The consolidated entity and the Parent Entity operate 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 percentages 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).

On 2 July 2007, the consolidated entity acquired AGL Torrens Island Pty Limited. Certain employees in this entity are members of a separate defined benefit section of the Electricity Industry Superannuation Scheme.

The Parent Entity, as the sponsoring employer for the consolidated entity, recognises the defined benefit obligations and expenses for all the plans with the exception of the section within the EISS relating to AGL Torrens Island Pty Limited. 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.

Note 51 – Defined benefit superannuation plans (continued)

	Consolidated 2008 $m	Consolidated 2007 $m	Parent Entity 2008 $m	Parent Entity 2007 $m
Amounts recognised in the statement of recognised income and expense				
Actuarial (loss)/gain incurred during the year and recognised in the statement of recognised income and expense				
Actuarial (loss)/gain	(13.9)	9.9	(9.8)	9.9
Tax effect	4.2	(3.0)	2.9	(3.0)
Actuarial (loss)/gain, net of tax	**(9.7)**	**6.9**	**(6.9)**	**6.9**
Cumulative actuarial (loss)/gain recognised in the statement of recognised income and expense	**(2.8)**	**6.9**	**–**	**6.9**
Amounts recognised in the income statement				
Current service cost	4.9	3.7	2.7	3.7
Interest cost	8.3	2.6	3.3	2.6
Expected return on plan assets	(11.0)	(4.0)	(5.3)	(4.0)
Effect of curtailments and settlements	–	1.1	–	1.1
Expense recognised in the income statement as part of employee benefits expense (Note 8)	**2.2**	**3.4**	**0.7**	**3.4**
Actual return on plan assets	**(4.1)**	**10.2**	**(4.5)**	**10.2**
Movements in the present value of the defined benefit obligations				
Opening defined benefit obligations	62.9	–	62.9	–
Liabilities assumed through an internal restructure	–	90.5	–	90.5
Liabilities assumed in a business combination	95.8	–	–	–
Current service cost	4.9	3.7	2.7	3.7
Interest cost	8.3	2.6	3.3	2.6
Contributions by plan participants	4.0	0.7	1.6	0.7
Actuarial loss/(gain)	(1.2)	(3.9)	–	(3.9)
Benefits paid	(15.2)	(21.5)	(11.7)	(21.5)
Taxes and premiums paid	(1.4)	–	–	–
Net transfers in/(out)	0.4	0.1	0.1	0.1
Contributions to accumulation section	–	0.1	–	0.1
Curtailments	–	1.1	–	1.1
Settlements	(3.8)	(10.5)	(3.8)	(10.5)
Closing defined benefit obligations	**154.7**	**62.9**	**55.1**	**62.9**
Movements in the fair value of plan assets				
Opening fair value of plan assets	83.0	–	83.0	–
Assets acquired through an internal restructure	–	103.1	–	103.1
Assets acquired in a business combination	87.9	–	–	–
Expected return on plan assets	11.0	4.0	5.3	4.0
Actuarial gain/(loss)	(15.1)	6.0	(9.8)	6.0
Employer contributions	7.7	1.0	1.1	1.0
Contributions by plan participants	4.0	0.7	1.6	0.7
Benefits paid	(15.2)	(21.5)	(11.7)	(21.5)
Taxes and premiums paid	(1.4)	–	–	–
Net transfers in/(out)	0.4	0.1	0.1	0.1
Contributions to accumulation section	–	0.1	–	0.1
Settlements	(3.8)	(10.5)	(3.8)	(10.5)
Closing fair value of plan assets	**158.5**	**83.0**	**65.8**	**83.0**

	Consolidated 2008 $m	Consolidated 2007 $m	Parent Entity 2008 $m	Parent Entity 2007 $m
Assets and liabilities recognised in the balance sheet				
Fair value of plan assets	158.5	83.0	65.8	83.0
Present value of the defined benefit obligations	(154.7)	(62.9)	(55.1)	(62.9)
Net asset/(liability) at end of year	**3.8**	**20.1**	**10.7**	**20.1**
Defined benefit superannuation plan asset (Note 26)	10.7	20.1	10.7	20.1
Defined benefit superannuation plan liability (Note 37)	(6.9)	–	–	–
Net asset/(liability) at end of year	**3.8**	**20.1**	**10.7**	**20.1**
Net asset/(liability) at beginning of year	20.1	–	20.1	–
Net asset acquired through internal restructure	–	12.6	–	12.6
Net liabilities assumed in a business combination	(7.9)	–	–	–
Expense recognised in the income statement	(2.2)	(3.4)	(0.7)	(3.4)
Amount recognised in retained earnings	(13.9)	9.9	(9.8)	9.9
Employer contributions	7.7	1.0	1.1	1.0
Net asset/(liability) at end of year	**3.8**	**20.1**	**10.7**	**20.1**
Historical information				
Present value of the defined benefit obligations	(154.7)	(62.9)	(55.1)	(62.9)
Fair value of plan assets	158.5	83.0	65.8	83.0
Surplus/(deficit) in plan	**3.8**	**20.1**	**10.7**	**20.1**
Experience adjustments on plan assets	(15.2)	6.0	(9.9)	6.0
Experience adjustments on plan liabilities	(4.2)	5.0	(3.3)	5.0

The consolidated entity expects to contribute $7.3 million (2007: $1.4 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 2008 %	SSMT 2007 %	EF 2008 %	EF 2007 %	EISS 2008 %	EISS 2007 %
Australian equities	31.0	33.0	35.0	39.0	29.0	34.0
International equities	29.0	30.0	22.0	23.0	19.0	21.0
Fixed interest securities	27.0	24.0	13.0	17.0	14.0	13.0
Property	6.0	8.0	14.0	13.0	16.0	14.0
Cash	4.0	2.0	8.0	8.0	5.0	18.0
Other	3.0	3.0	8.0	–	17.0	–

Note 51 – Defined benefit superannuation plans (continued)

Principal actuarial assumptions

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

	SSMT		EF		EISS	
	2008 %	2007 %	2008 %	2007 %	2008 %	2007 %
Discount rate (after tax) active members	5.9	5.3	5.9	5.3	5.9	5.3
Discount rate (after tax) pensioners	–	–	–	–	6.4	6.3
Expected return on plan assets – active members	7.5	6.5	7.0	7.0	6.4	6.4
Expected return on plan assets – pensioners	–	–	–	–	6.9	6.9
Expected salary increase rate	4.0	4.0	4.0	4.0	4.0	4.0
Expected pension increase rate	–	–	–	–	3.0	2.5

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 2008 was $8.4 million (2007: $7.1 million).

Note 52 – Share-based payment plans

The Parent Entity 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 the Parent Entity 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 the Parent Entity 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 the Parent Entity's ordinary shares are traded on the ASX during the 5 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 the at end of year Number
2008					
20 September 2007	–	72,576	$15.87	(7,938)	64,638
2007	–	–	–	–	–

During the year, there were 1,152 eligible employees (2007: nil) who were each granted 63 ordinary shares in the Parent Entity. 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:

	Consolidated		Parent Entity	
	2008 $m	2007 $m	2008 $m	2007 $m
Employee benefits expense	1.2	–	1.2	–

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 the Parent Entity with funds provided in lieu of remuneration they would have received. Directors of the Parent Entity 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 the Parent Entity's ordinary shares are traded on the ASX during the 5 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 ten 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 the year of Number
2008					
Non-executive Directors	8,351	36,537	$13.12	–	44,888
Managing Director and Chief Executive Officer (a)	–	74,740	$13.19	–	74,740
Employees	–	35,589	$13.44	(17,427)	18,162
	8,351	**146,866**		**(17,427)**	**137,790**
2007					
Non-executive Directors	–	8,351	$15.00	–	8,351

(a) Under Mr Fraser's prior service agreement, he was entitled to certain retention payments. In lieu of these retention arrangements Mr Fraser either has been, or will be, allocated shares in 3 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 were acquired under the AGL Share Purchase Plan.

At the reporting date, there were 4 non-executive Directors (2007: 4) and 49 employees (2007: nil) 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 share purchased under the Plan as they are acquired out of salary sacrificed remuneration.

Note 52 – Share-based payment plans (continued)

AGL Long-Term Incentive Plan

The AGL Energy Limited Board of Directors approved the AGL Long-Term Incentive Plan (LTIP) on 5 October 2006. The LTIP is designed to align the interests of AGL executives and the strategic goals of AGL with those of AGL shareholders. The LTIP forms an integral component of AGL's compensation remuneration strategy.

Under the LTIP, executives are granted Share Performance Rights (SPRs) that vest to the executive after three years providing (and to the extent that) performance conditions applicable to the SPRs are met. A SPR is an entitlement to one fully paid ordinary share in the Parent Entity. SPRs do not carry dividend or voting rights. However, SPRs will participate in bonus issues, rights issues and reconstructions and reorganisations of the capital of the Parent Entity in the same manner as ordinary shares. On vesting, SPR's are exercised and converted to fully paid ordinary shares in the Parent Entity.

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 the SPRs can vest and the period over which the SPRs vest.

During the financial year, 139,266 SPRs were granted to eligible executives. The number of SPRs issued was determined by taking the participant's Total Fixed Remuneration (TFR) as at 1 September 2007 multiplied by their pre-agreed percentage LTI component, then divided by $13.03 (being the Volume Weighted Average Price (VWAP) at which AGL shares traded on the ASX during the 10 days up to and including 26 October 2007).

SPRs are subject to a performance condition based on Total Shareholder Return (TSR, growth in share price plus dividends reinvested) with the level of vesting dependent upon AGL's TSR performance measured against a comparable group of ASX listed companies. The comparator group is determined by the Board at the time of each grant of SPRs.

For all of the SPRs that have been granted, the Board determined that the performance condition will be based on the TSR of the Parent Entity's ordinary shares measured against the comparator group of the ASX100.

The following table sets out details of SPRs that have been granted to executives and remain outstanding under the LTIP at the reporting date:

SPRs grant	Number of SPRs	Performance period	Vesting date	Fair value
8 November 2006	16,285	8 November 2006 – 30 June 2009	1 September 2009	$6.60
1 April 2007 – tranche 1	32,073	26 October 2006 – 30 June 2008	1 September 2008	$5.81
1 April 2007 – tranche 2	32,054	26 October 2006 – 30 June 2009	1 September 2009	$6.71
11 January 2008	139,266	26 October 2007 – 30 June 2010	1 September 2010	$9.16

The following table sets out the vesting schedule for the SPRs:

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 SPRs will vest to the extent to which the performance condition is either satisfied or waived by the Board. TSR performance is assessed by an independent third party provider to ensure accuracy and independence of calculation.

The Board is continuing to review the terms on which future grants of SPRs will be made under the LTIP. The performance conditions applicable to future SPRs granted under the LTIP will be determined by the Board at the time of each grant. The Board has the discretion to vary the terms of the vesting period applying to SPRs.

If, before the expiry of the vesting period applicable to a grant of SPRs, a plan participant ceases employment as a result of death, total and permanent disablement, redundancy, retirement 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 the Parent Entity occurs, subject to the satisfaction of performance conditions applicable to those SPRs unless the Board, in its discretion, determines that it is appropriate to waive the satisfaction of the performance conditions.

The Parent Entity may issue shares or purchase shares in the ordinary course of trading on the ASX to satisfy SPRs which have vested.

Any SPRs that do not vest when performance conditions are applied to them will automatically lapse.

The Board may in its discretion include in the terms and conditions attached to an offer of SPRs, a right of a plan participant to elect to be bound by restrictions in relation to shares acquired on vesting of SPRs. If a plan participant has made an election, the shares allocated on vesting of SPRs will be subject to a restriction on dealing up to a maximum of ten years after the date the SPRs are granted.

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
2008						
8 November 2006	16,285	–	–	–	16,285	–
1 April 2007 – tranche 1	40,281	–	–	(8,208)	32,073	–
1 April 2007 – tranche 2	40,255	–	–	(8,201)	32,054	–
11 January 2008	–	139,266	–	–	139,266	–
	96,821	**139,266**	**–**	**(16,409)**	**219,678**	**–**
2007						
8 November 2006	–	16,285	–	–	16,285	–
1 April 2007 – tranche 1	–	44,187	–	(3,906)	40,281	–
1 April 2007 – tranche 2	–	44,160	–	(3,905)	40,255	–
	–	104,632	–	(7,811)	96,821	–

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 Monte Carlo simulation method. 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 2 years.

SPRs grant	2008 11 Jan 08	8 Nov 06	2007 1 Apr 07 tranche 1	1 Apr 07 tranche 2
Fair value at grant date	$9.16	$6.60	$5.81	$6.71
Share price at grant date	$13.05	$14.74	$16.13	$16.13
Expected volatility	21.0%	18.0%	20.0%	20.0%
SPR life	2.6 years	2.8 years	1.4 years	2.4 years
Expected dividend yield	3.5%	2.9%	3.1%	3.1%
Risk free interest rate (based on government bonds)	6.6%	5.9%	6.2%	6.1%

The total expense recognised in the income statement as part of employee benefits expense during the year in relation SPRs granted to executives in the AGL Long-Term Incentive Plan was:

	Consolidated		Parent Entity	
	2008 $m	2007 $m	2008 $m	2007 $m
Employee benefits expense	0.5	1.2	0.5	1.2

Note 52 – 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 is entitled to a grant of SPRs annually from 1 September 2008 with a face value equivalent to up to 100% of his Total Fixed Remuneration (TFR) as determined in the absolute discretion of the Board, subject to any applicable approval requirements.

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. The number of SPRs issued was determined by taking Mr Fraser's TFR as at 1 September 2007 multiplied by his pre-agreed percentage LTI component, then divided by $13.03 (being the Volume Weighted Average Price (VWAP) at which AGL shares traded on the ASX during the 10 days up to and including 26 October 2007).

Subject to the satisfaction of applicable performance conditions (outlined below) and scaled in accordance with them, the above SPRs will vest at no cost to Mr Fraser and are issued on the terms and conditions specified in the LTIP.

SPRs are subject to a performance condition based on Total Shareholder Return with the level of vesting dependent upon AGL's TSR performance measured against a comparable group of ASX listed companies. The comparator group is determined by the Board at the time of each grant of SPRs.

For the SPRs that have been granted to Mr Fraser, the Board determined that the performance condition will be based on the TSR of the Parent Entity's ordinary shares measured against the comparator group of the ASX100.

The following table sets out details of SPRs that have been granted to the Managing Director under the LTIP:

SPRs grant	Number of SPRs	Performance period	Vesting date	Fair value
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

The following table sets out the vesting schedule for the SPRs:

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%

Details of movements in SPRs in the AGL Long-Term Incentive Plan for the Managing Director are set out below:

2008 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
8 November 2006 – tranche 1	140,851	–	–	(140,851)	–	–
8 November 2006 – tranche 2	46,950	–	(46,950)	–	–	–
25 February 2008	–	80,584	–	–	80,584	–
25 February 2008	–	23,331	–	–	23,331	–
	187,801	**103,915**	**(46,950)**	**(140,851)**	**103,915**	**–**
2007						
8 November 2006 – tranche 1	–	140,851	–	–	140,851	–
8 November 2006 – tranche 2	–	46,950	–	–	46,950	–
	–	187,801	–	–	187,801	–

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 Monte Carlo simulation method. 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 2 years.

	Managing Director SPRs		
SPRs grant	25 Feb 08	8 Nov 06 tranche 1	8 Nov 06 tranche 2
Fair value at grant date	$7.66	$4.88	$6.02
Share price at grant date	$11.60	$14.74	$14.74
Expected volatility	21.0%	18.0%	18.0%
SPR life	2.5 years	0.8 years	1.8 years
Expected dividend yield	3.5%	2.9%	2.9%
Risk free interest rate (based on government bonds)	6.8%	6.1%	6.0%

The total expense arising from share-based payment transactions recognised in the income statement as part of employee benefits expense during the financial year in relation to the Managing Director's SPRs was:

	Consolidated		Parent Entity	
	2008 $m	2007 $m	2008 $m	2007 $m
Employee benefits expense	0.4	0.6	0.4	0.6

Note 53 – Related party disclosures

Parent entity
AGL Energy Limited is the parent entity of the consolidated entity.

Equity interests in subsidiaries
Details of interests in subsidiaries are disclosed in Note 46.

Equity interests in associates and jointly controlled entities
Details of interests in associates and jointly controlled entities are disclosed in Note 20.

Key management personnel
Disclosures relating to key management personnel are set out in Note 50 and in the Directors' Report.

Amounts owing by associates and jointly controlled entities
Amounts owing by associates and jointly controlled entities are disclosed in Note 13.

Loans to subsidiaries
Loans to subsidiaries are disclosed in Note 25.

Loans to associates
The Parent Entity has provided a loan of $99.3 million (2007: $99.3 million) to Greater Energy Alliance Corporation Pty Limited (GEAC) (refer Note 25). Interest is charged at 10% p.a. and payments are due in August and February. Interest of $10.1 million (2007: $7.6 million) was accrued during the year. Interest and principal repayments of $10.1 million (2007: $9.5 million) were received from GEAC during the year. At the reporting date, interest accrued but not yet receivable totals $3.7 million (2007: $3.7 million). The outstanding loan principal including any capitalised interest must be repaid on or before 7 April 2024.

In the 2007 financial year, the Parent Entity provided a loan of $247.0 million to AlintaAGL Pty Limited (refer Note 25). Interest was charged at 9.8% p.a. and $11.7 million (2007: $16.8 million) was accrued during the year. On 12 December 2007, $275.5 million was received from AlintaAGL Pty Limited for repayment of the loan principal and all accrued interest.

Loans from subsidiaries
Loans from subsidiaries are disclosed in Notes 30 and 36.

Dividends received from related parties
The Parent Entity received dividends of $110.0 million (2007: $265.3 million) from its subsidiaries.

The Parent Entity received dividends of $13.6 million (2007: $13.9 million) from its jointly controlled entity, Auscom Holdings Pty Limited.

Note 53 – Related party disclosures (continued)

Interest income received from subsidiaries

The Parent Entity received interest income of $388.4 million (2007: $219.6 million) on loans to its subsidiaries.

Interest expense paid to subsidiaries

The Parent Entity paid interest expense of $102.0 million (2007: $29.5 million) on loans from its subsidiaries.

Other transactions between the Parent Entity and its subsidiaries

The Parent Entity advanced funds to and received funds from its wholly-owned subsidiaries as interest-bearing loans in the ordinary course of business on normal commercial terms and conditions.

The Parent Entity sold natural gas of $0.7 million (2007: $128.1 million) on normal commercial terms and conditions to certain wholly-owned subsidiaries for eventual sale to consumers.

	Consolidated	
	2008 $m	2007 $m
Other transactions between the consolidated entity and its related parties		
ActewAGL Retail Partnership		
Certain subsidiaries are contracted to provide management and retail services to the retail partnership on normal commercial terms and conditions.	5.9	4.3
Certain subsidiaries supplied electricity and gas to the retail partnership on normal commercial terms and conditions.	226.9	25.5
Queensland Gas Company Limited		
The Parent Entity has entered into a gas sale agreement with an associate, Queensland Gas Company Limited (QGC) whereby the consolidated entity will purchase a total volume of at least 540 petajoules (PJ) of gas over 20 years from 1 January 2008 on normal commercial terms and conditions. QGC has also granted the Parent Entity two options to purchase a further 200 PJ. At the reporting date, the Parent Entity has exercised one of these options for 100 PJ. During the year, the consolidated entity purchased 2.3 PJ (2007: nil).	6.0	–
The Parent Entity has also entered into a gas market development services agreement with QGC whereby the consolidated entity will provide market development services to QGC and QGC has acquired rights to utilise the consolidated entity's excess pipeline capacity for a term of three years from 1 January 2008. QGC will pay a total service fee of $22.5 million to the consolidated entity over the term of the agreement. The first payment was received on 1 July 2007 and thereafter are payable by QGC at the end of each calendar quarter for a total of 12 equal payments.	9.4	–
During the year, the Parent Entity entered into an agreement with QGC to secure 66% of the output for the first three years commencing in the first quarter of calendar 2009 from the 130MW Condamine gas power station in Queensland currently under construction. The transaction has been structured as a financial derivative with no upfront capital requirements. The transaction provides a near base load hedge and complements the consolidated entity's existing Queensland portfolio.	–	–
Greater Energy Alliance Corporation Pty Limited		
Certain subsidiaries received difference receipts from the settlement of electricity hedges on normal commercial terms and conditions.	163.5	80.3

Note 54 – Cash flow information

	Consolidated		Parent Entity	
	2008 $m	2007 $m	2008 $m	2007 $m
(a) Reconciliation of profit for the period to net cash flows from operating activities				
Profit for the period	229.0	410.5	239.1	233.3
Share of profits of associates and jointly controlled entities	(99.8)	(36.1)	–	–
Dividends received from associates and jointly controlled entities	33.5	26.4	–	–
Depreciation and amortisation	168.6	163.5	14.7	12.1
Impairment of non-current assets	100.8	23.2	114.1	82.1
Share-based payments expense	2.1	0.7	2.1	0.7
Net fair value movements on derivatives	608.4	(371.5)	11.6	–
Gain on disposal of investments	(146.0)	–	(124.3)	–
Loss on disposal of subsidiaries	3.0	–	51.9	–
Net loss/(gain) on disposal of property, plant and equipment	2.1	(0.1)	–	–
Net foreign exchange losses/(gains)	42.0	59.0	43.1	(17.3)
Non-cash finance costs	17.1	21.8	2.7	6.6
Capitalised finance costs	(12.8)	–	–	–
Changes in assets and liabilities				
(Increase)/decrease in trade and other receivables	537.7	11.4	(12.8)	(43.7)
(Increase)/decrease in inventories	(12.9)	(2.1)	(0.2)	(0.9)
(Increase)/decrease in other assets	(95.5)	10.1	(1.3)	33.7
Increase/(decrease) in trade and other payables	(879.6)	(119.4)	(70.0)	43.8
Increase/(decrease) in provisions	0.4	(16.5)	0.7	0.1
(Increase)/decrease in other liabilities	23.9	–	(17.7)	–
Increase/(decrease) in tax assets and liabilities	(167.3)	108.7	35.9	42.3
Net cash provided by operating activities	**354.7**	**289.6**	**289.6**	**392.8**
(b) Subsidiaries and businesses acquired				
Net cash outflow on acquisition of subsidiaries and businesses (Note 47)	620.1	1,308.9	141.8	–
(c) Subsidiaries and businesses disposed				
Net cash inflow on disposal of subsidiaries (Note 10)	**57.5**	**–**	**70.4**	**–**
(d) Reconciliation of cash and cash equivalents				
Cash and cash equivalents at the end of the financial year as shown in the cash flow statement is reconciled to the related items in the balance sheet as follows:				
Cash at bank and on hand	63.7	203.2	33.0	171.1
Short-term money market deposits	0.1	76.7	0.1	9.7
Bank overdrafts	–	(0.7)	–	–
Cash and cash equivalents attributable to discontinued operations (Note 10)	9.4	–	–	–
	73.2	**279.2**	**33.1**	**180.8**

Note 54 – Cash flow information (continued)

	Consolidated		Parent Entity	
	2008	2007	2008	2007
	$m	$m	$m	$m
(e) Non-cash financing and investing activities				
Dividends satisfied by the issue of shares under the AGL Dividend Reinvestment Plan (Note 38)	112.9	–	112.9	–
Acquisition of subsidiaries as a consequence of the internal restructuring that took place in preparation for the demerger of AGL Energy Limited from The Australian Gas Light Company	–	561.0	–	
(f) Financing facilities				
The consolidated entity has access to the following committed bank facilities:				
Total facilities				
Bank loans – unsecured	3,314.2	3,651.5	3,314.2	3,621.1
Bank overdrafts	3.0	3.0	3.0	3.0
	3,317.2	**3,654.5**	**3,317.2**	**3,624.1**
Amounts used				
Bank loans – unsecured	2,077.5	2,399.9	2,077.5	2,369.5
Bank overdrafts	–	0.7	–	–
Bank guarantees	714.3	819.9	714.3	819.9
	2,791.8	**3,220.5**	**2,791.8**	**3,189.4**
Amounts unused	**525.4**	**434.0**	**525.4**	**434.7**

Details of major financing facilities

Amortising Syndicated Subscription Facility – $1,742.5 million (2007: $1,900.0 million) fully underwritten facility provided by a syndicate of international banks. The borrower under this facility is AGL Energy Limited. The facility consists of 3 tranches of which $633.3 million matures in October 2009, $222.5 million matures in October 2010 and $886.7 million matures in October 2011. As at 30 June 2008 the facility was fully utilised.

Revolving Syndicated Facility – $500.0 million (2007: $500.0 million) fully underwritten facility provided by a syndicate of international banks. The borrower under this facility is AGL Energy Limited and the facility has a fixed maturity date of October 2009. As at 30 June 2008, $340.0 million was utilised.

Syndicated Working Capital Facility – $327.5 million (2007: $nil) fully underwritten facility provided by a syndicate of banks. The borrower under this facility is AGL Energy Limited and the facility has a fixed maturity date of October 2010. Bank guarantees can be issued under this facility. As at 30 June 2008, this facility was undrawn.

Bridging Facility Agreement – $nil (2007: $300.0 million) fully underwritten facility provided jointly by two international banks. The borrower under this facility was AGL Energy Limited and the facility was repaid and cancelled in June 2008. As at 30 June 2007, this facility was un-drawn.

Bilateral Facility Agreements – $744.2 million (2007: $921.1 million) fully underwritten facilities provided by 6 international banks. The borrower under these facilities is AGL Energy Limited. Of these facilities $195.0 million matures in October 2008, $121.1 million matures in October 2009, $120.0 million matures in May 2010 and $308.1 million matures in October 2011. As at 30 June 2008, $714.3 million of bank guarantees were issued.

Note 55 – 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 56 – 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 2007.

The consolidated entity has publicly stated that it has commenced an active program to reduce debt by approximately $600 to $700 million in order to return funds from operations (FFO) to interest expense cover to at least 5.0 times. This is being achieved by using a mix of the AGL Dividend Reinvestment Plan and disposal of non core assets.

The capital structure of the consolidated entity consists of debt, which includes the borrowings disclosed in Notes 28 and 34, cash and cash equivalents disclosed in Notes 10 and 12 and total equity, comprising issued capital, reserves and retained earnings as disclosed in Notes 38, 39 and 40 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:

	Consolidated	
	2008	2007
	$m	$m
Total borrowings	2,101.7	2,447.7
Cash and cash equivalents	(63.8)	(279.9)
Cash and cash equivalents attributable to discontinued operations	(9.4)	–
Net debt	**2,028.5**	**2,167.8**
Total equity	4,979.9	6,517.6
Less: hedging reserve	(524.9)	(2,144.3)
Adjusted equity	4,455.0	4,373.3
Net debt	2,028.5	2,167.8
Adjusted total capital	**6,483.5**	**6,541.1**
Gearing ratio	**31.3%**	**33.1%**

Note 56 – Financial instruments (continued)

Funds from operations (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:

	Consolidated 2008 $m
Profit before net financing costs	318.7
Depreciation and amortisation	168.6
Finance income included in EBITDA	24.0
EBITDA	511.3
Significant expense items	97.6
Changes in fair value of financial instruments	262.9
Operating EBITDA	871.8
Share of profits of associates and jointly controlled entities	(47.0)
Dividends from equity accounted investments	33.5
Income tax paid	(104.6)
Funds from operations (FFO)	**753.7**
Net financing costs	151.9
Finance income included in EBITDA	24.0
Finance costs capitalised	12.8
Unwinding of discounts on provisions	(14.6)
Net interest expense	**174.1**
FFO to interest expense cover (times)	**4.3**

(b) Categories of financial assets and financial liabilities

The following tables detail the carrying amounts and fair values of the consolidated entity's and the Parent Entity's financial assets and financial liabilities:

	2008		2007	
	Carrying amount $m	Fair value $m	Carrying amount $m	Fair value $m
Consolidated				
Financial assets – current				
Cash and cash equivalents	63.8	63.8	279.9	279.9
Cash and cash equivalents attributable to discontinued operations	9.4	9.4	–	–
Trade and other receivables	1,171.0	1,171.0	1,702.3	1,702.3
Other deposits	–	–	238.3	238.3
Futures deposits and margin calls	13.6	13.6	(271.4)	(271.4)
Derivative financial instruments				
Forward foreign exchange contracts – net investment hedges	–	–	5.1	5.1
Energy derivatives – cash flow hedges	475.8	475.8	2,402.3	2,402.3
Energy derivatives – economic hedges	721.5	721.5	2,728.2	2,728.2
	2,455.1	**2,455.1**	**7,084.7**	**7,084.7**
Financial assets – non current				
Trade and other receivables	0.8	0.8	1.4	1.4
Loans to associates	99.3	99.3	346.3	346.3
Derivative financial instruments				
Interest rate swap contracts – cash flow hedges	21.5	21.5	6.7	6.7
Energy derivatives – cash flow hedges	343.3	343.3	1,039.2	1,039.2
	464.9	464.9	1,393.6	1,393.6
Total financial assets	**2,920.0**	**2,920.0**	**8,478.3**	**8,478.3**
Financial liabilities – current				
Trade and other payables	852.0	852.0	1,482.3	1,482.3
Bank overdrafts	–	–	0.7	0.7
Bank loans	–	–	380.7	380.7
Finance lease liabilities	–	–	0.3	0.3
Customer deposits	–	–	24.6	24.6
Derivative financial instruments				
Forward foreign exchange contracts – cash flow hedges	1.5	1.5	0.8	0.8
Forward foreign exchange contracts – net investment hedges	0.7	0.7	–	–
Energy derivatives – cash flow hedges	101.8	101.8	14.8	14.8
Energy derivatives – economic hedges	666.4	666.4	2,177.1	2,177.1
	1,622.4	**1,622.4**	**4,081.3**	**4,081.3**
Financial liabilities – non current				
Trade and other payables	38.2	38.2	–	–
Bank loans	2,077.5	2,077.5	2,019.2	2,019.2
Finance lease liabilities	8.8	8.8	8.8	8.8
Customer deposits	12.1	12.1	13.4	13.4
Other loans	3.3	3.3	–	–
Derivative financial instruments				
Forward foreign exchange contracts – cash flow hedges	0.3	0.3	1.3	1.3
Energy derivatives – cash flow hedges	12.5	12.5	34.3	34.3
	2,152.7	**2,152.7**	**2,077.0**	**2,077.0**
Total financial liabilities	**3,775.1**	**3,775.1**	**6,158.3**	**6,158.3**
Parent Entity				
Financial assets – current				
Cash and cash equivalents	33.1	33.1	180.8	180.8
Trade and other receivables	18.3	18.3	40.2	40.2
Derivative financial instruments				
Forward foreign exchange contracts – net investment hedges	–	–	5.1	5.1
Energy derivatives – cash flow hedges	247.5	247.5	32.3	32.3
Energy derivatives – economic hedges	42.1	42.1	–	–
	341.0	**341.0**	**258.4**	**258.4**

Note 56 – Financial instruments (continued)

	2008		2007	
	Carrying amount $m	Fair value $m	Carrying amount $m	Fair value $m
Financial assets – non current				
Loans to subsidiaries	5,195.2	5,195.2	4,623.5	4,623.5
Loans to associates	99.3	99.3	346.3	346.3
Derivative financial instruments				
Interest rate swap contracts – cash flow hedges	21.5	21.5	6.7	6.7
Energy derivatives – cash flow hedges	–	–	3.4	3.4
	5,316.0	**5,316.0**	**4,979.9**	**4,979.9**
Total financial assets	**5,657.0**	**5,657.0**	**5,238.3**	**5,238.3**
Financial liabilities – current				
Trade and other payables	40.0	40.0	45.4	45.4
Bank loans	–	–	380.0	380.0
Customer deposits	–	–	9.7	9.7
Loans from subsidiaries	480.0	480.0	480.0	480.0
Derivative financial instruments				
Forward foreign exchange contracts – cash flow hedges	1.5	1.5	0.8	0.8
Forward foreign exchange contracts – net investment hedges	0.7	0.7	–	–
Energy derivatives – cash flow hedges	–	–	15.9	15.9
Energy derivatives – economic hedges	318.3	318.3	–	–
	840.5	**840.5**	**931.8**	**931.8**
Financial liabilities – non current				
Bank loans – at amortised cost	2,077.5	2,077.5	1,989.5	1,989.5
Customer deposits	0.6	0.6	0.6	0.6
Loans from subsidiaries	948.7	948.7	591.9	591.9
Derivative financial instruments				
Forward foreign exchange contracts – cash flow hedges	0.3	0.3	1.3	1.3
Energy derivatives – cash flow hedges	–	–	19.8	19.8
	3,027.1	**3,027.1**	**2,603.1**	**2,603.1**
Total financial liabilities	**3,867.6**	**3,867.6**	**3,534.9**	**3,534.9**

(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 co-operation 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 2008, $1,100.0 million (2007: $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 reporting date, the consolidated entity had the following financial assets and liabilities (other than derivatives) exposed to floating interest rate risk:

	Consolidated		Parent Entity	
Floating rate instruments	2008 $m	2007 $m	2008 $m	2007 $m
Financial assets				
Cash and cash equivalents	63.8	279.9	33.1	180.8
Cash and cash equivalents attributable to discontinued operations	9.4	–	–	–
Other deposits	–	238.3	–	–
	73.2	**518.2**	**33.1**	**180.8**
Financial liabilities				
Bank overdrafts	–	0.7	–	–
Bank loans	2,077.5	2,399.9	2,077.5	2,369.5
Other loans	3.3	–	–	–
Interest rate swap contracts	(1,100.0)	(1,100.0)	(1,100.0)	(1,100.0)
	980.8	**1,300.6**	**977.5**	**1,269.5**

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 rate and floating rate interest amounts calculated by reference to the 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 reporting date is determined by discounting the future cash flows using the yield curves at reporting date and the credit risk inherent in the contract, and are disclosed below. The average interest rate is based on the outstanding balances at the end of the financial year.

The following table details the notional principal amounts and remaining terms of interest rate swap contracts outstanding as at reporting date:

Note 56 – Financial instruments (continued)

Outstanding floating for fixed contracts	Average contracted fixed interest rate 2008 %	2007 %	Notional principal amount 2008 $m	2007 $m	Fair value 2008 $m	2007 $m
Consolidated						
Less than 1 year	–	–	–	–	–	–
1 to 2 years	6.5	–	1,100.0	–	21.5	–
2 to 3 years	–	6.5	–	1,100.0	–	6.7
			1,100.0	**1,100.0**	**21.5**	**6.7**
Parent Entity						
Less than 1 year	–	–	–	–	–	–
1 to 2 years	6.5	–	1,100.0	–	21.5	–
2 to 3 years	–	6.5	–	1,100.0	–	6.7
			1,100.0	**1,100.0**	**21.5**	**6.7**

The interest rate swap contracts require settlement of net interest receivable or payable 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 interest amounts for fixed 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 deferred in equity in the hedging reserve, to the extent that the hedge is effective, and transferred to profit or loss and included in finance costs when the hedged interest expense is recognised. The gain or loss relating to the ineffective portion of the hedge is recognised immediately in profit or loss as part of finance costs.

When a forecast transaction is no longer expected to occur, the cumulative gain or loss on the hedging instrument that was deferred in equity is transferred immediately to profit and 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	Consolidated 2008 $m	2007 $m	Parent Entity 2008 $m	2007 $m
Balance at beginning of financial year	4.7	–	4.7	–
Gain from cash flow hedges taken to equity	17.9	5.9	17.9	5.9
(Gain)/loss transferred to finance costs	(3.1)	0.8	(3.1)	0.8
Income tax on items taken directly to or transferred from equity	(4.5)	(2.0)	(4.5)	(2.0)
Balance at end of financial year	**15.0**	**4.7**	**15.0**	**4.7**
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 reporting date and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period.

At reporting date, if interest rates had been 50 basis points higher or lower, with all other variables held constant, profit after tax and equity would have been affected as follows:

	Profit after tax Increase/(decrease) 2008 $m	2007 $m	Equity (Hedging reserve) Increase/(decrease) 2008 $m	2007 $m
Consolidated				
Interest rates +0.5% (50 basis points)	(3.4)	(4.5)	3.8	8.3
Interest rates -0.5% (50 basis points)	3.4	4.5	(5.3)	(7.6)
Parent Entity				
Interest rates +0.5% (50 basis points)	(3.4)	(4.5)	3.8	8.3
Interest rates -0.5% (50 basis points)	3.4	4.0	(5.3)	(7.6)

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 equity 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 and Japanese yen. The consolidated entity uses forward foreign exchange contracts to hedge its currency exposure.

Foreign currency risk also arises on translation of the net assets of the consolidated entity's foreign operations from their functional currency to Australian dollars. The consolidated entity hedges its material investments in foreign operations to mitigate exposure to this risk using forward foreign exchange contracts in the relevant currency of the investment.

The following table details the forward foreign exchange contracts outstanding as at reporting date:

Outstanding contracts	Average exchange rate 2008	2007	Foreign currency 2008 FCm	2007 FCm	Contract value 2008 $m	2007 $m	Fair value 2008 $m	2007 $m
Consolidated								
Buy US Dollars								
Less than 6 months	0.8357	–	1.0	–	1.2	–	(0.1)	–
Buy Japanese Yen								
Less than 6 months	86.43	–	110.9	–	1.3	–	(0.2)	–
6 to 12 months	84.15	88.9	805.8	627.1	9.6	7.1	(1.2)	(0.8)
1 to 2 years	81.99	84.50	197.2	955.0	2.4	11.3	(0.3)	(1.1)
2 to 3 years	–	81.99	–	197.2	–	2.4	–	(0.2)
Net investment hedges								
Sell US Dollars								
Less than 6 months	0.9369	0.8371	280.0	390.0	298.8	465.9	(0.7)	5.1
							(2.5)	**3.0**

Note 56 – Financial instruments (continued)

	Average exchange rate		Foreign currency		Contract value		Fair value	
	2008	2007	2008	2007	2008	2007	2008	2007
Outstanding contracts			FCm	FCm	$m	$m	$m	$m
Parent Entity								
Buy US Dollars								
Less than 6 months	0.8357	–	1.0	–	1.2	–	(0.1)	–
Buy Japanese Yen								
Less than 6 months	86.43	–	110.9	–	1.3	–	(0.2)	–
6 to 12 months	84.15	88.9	805.8	627.1	9.6	7.1	(1.2)	(0.8)
1 to 2 years	81.99	84.50	197.2	955.0	2.4	11.3	(0.3)	(1.1)
2 to 3 years	–	81.99	–	197.2	–	2.4	–	(0.2)
Net investment hedges								
Sell US Dollars								
Less than 6 months	0.9369	0.8371	280.0	390.0	298.8	465.9	(0.7)	5.1
							(2.5)	**3.0**

Forward foreign exchange contracts – cash flow hedges

The consolidated entity's Corporate Treasury policy requires the hedging of foreign currency risk using forward foreign exchange contracts. The Corporate Treasury's policy is to hedge currency exposures of anticipated cash flows in excess of $0.5 million and to not enter into forward foreign exchange contracts until a firm commitment is in place.

The consolidated entity has entered into contracts to purchase plant and equipment denominated in United States dollars and Japanese yen. 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 1 month to 2 years from the reporting date. The contracts are timed to mature when payments for the purchases are scheduled to be made. When necessary, forward foreign exchange contracts are rolled over at maturity.

The gain or loss from remeasuring the hedging instruments at fair value is deferred in equity in the hedging reserve, to the extent that the hedge is effective. When the anticipated purchase occurs, the amount deferred in equity will be transferred and included in the initial measurement of the cost of plant and equipment. 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 a forecast transaction is no longer expected to occur, the cumulative gain or loss on the hedging instrument that was deferred in equity is transferred immediately to profit and 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 forward foreign exchange contracts:

	Consolidated		Parent Entity	
	2008	2007	2008	2007
Hedging reserve	$m	$m	$m	$m
Balance at beginning of financial year	(1.5)	–	(1.5)	–
Gain/(loss) from cash flow hedges taken to equity	0.4	(2.1)	0.4	(2.1)
(Gain)/loss transferred to plant and equipment	–	–	–	–
Income tax on items taken directly to or transferred from equity	(0.1)	0.6	(0.1)	0.6
Balance at end of financial year	**(1.2)**	**(1.5)**	**(1.2)**	**(1.5)**
Cash flow ineffectiveness recognised immediately in profit or loss	**–**	**–**	**–**	**–**

Hedges of net investments in foreign operations

The consolidated entity has exposure to foreign currency risk as a result of its investment in operations in Papua New Guinea. This risk is created by the translation of the net assets of this entity from its functional currency of United States dollars to Australian dollars. As a result, the consolidated entity's balance sheet can be affected significantly by movements in the US$/A$ exchange rates. The consolidated entity manages this foreign currency translation risk with forward foreign exchange contracts denominated in United States dollars. These hedging instruments are designated as hedges of the net investment in the Papua New Guinea operations.

The gain or loss from remeasuring the hedging instruments at fair value is recognised directly in equity in the foreign currency translation reserve, 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.

The cumulative amount of the gain or loss recognised in equity is transferred into profit and loss when the foreign operation is disposed of.

During the year net losses after tax of $17.6 million (2007: gains of $50.2 million) on net investment hedges have been deferred in the foreign currency translation reserve in the consolidated balance sheet. The ineffectiveness recognised in profit or loss from net investment hedges was $nil (2007: $nil).

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 in a currency different to their functional currency and adjusts their translation at the reporting date for a 10% change in foreign currency rates. The sensitivity analysis for the Parent Entity also includes a loan to a subsidiary denominated in United States dollars.

At reporting date, if the Australian dollar had been 10% higher or lower, with all other variables held constant, profit after tax and equity would have been affected as follows:

	Profit after tax Increase/(decrease)		Equity (Foreign currency translation reserve) Increase/(decrease)		Equity (Hedging reserve) Increase/(decrease)	
	2008	2007	2008	2007	2008	2007
	$m	$m	$m	$m	$m	$m
Consolidated						
US dollar +10%	–	–	18.3	28.9	(0.1)	–
US dollar -10%	–	–	(22.4)	(35.2)	0.1	–
Japanese yen +10%	–	–	–	–	(0.6)	(1.1)
Japanese yen -10%	–	–	–	–	0.8	1.3
Parent Entity						
US dollar +10%	(3.0)	(3.2)	–	–	(0.1)	–
US dollar -10%	3.7	4.1	–	–	0.1	–
Japanese yen +10%	–	–	–	–	(0.6)	(1.1)
Japanese yen -10%	–	–	–	–	0.8	1.3

The movement in profit after tax for the Parent Entity results from the hedging instruments used to hedge net foreign investments. This amount is transferred to the foreign currency translation reserve on consolidation and hence there is no impact on profit for the consolidated entity. The movement in equity in the hedging reserve 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, environmental products and oil.

The consolidated entity's risk management policy for energy price risk is to hedge forecast future transactions for up to 5 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, and requirements for delegations of authority on trading, regular reporting of exposures and segregation of duties.

Exposures to fluctuations in the wholesale market electricity prices and the sales price of oil are managed through the use of various types of derivative financial instruments.

It is the policy of the consolidated entity to actively manage the electricity price exposure arising from both forecast electricity generation and retail customer electricity load. The consolidated entity enters into contracts on both the Sydney Futures Exchange and with individual market participants achieving a fixed price for specific volumes of electricity. This hedging portfolio consists predominantly of swaps and caps. Any unhedged position exposes the consolidated entity to the potential volatility of the Regional spot prices in the Australian National Electricity Market.

The consolidated entity sells oil denominated in United States dollars to international markets based upon the Tapis crude oil spot price and hence has exposure to fluctuations in oil prices. Forward contracts are used by the consolidated entity to manage its oil price risk. The consolidated entity's policy is to hedge the sale of forecast oil production utilising a combination of swaps and options.

The following table details the fair value of electricity and oil derivatives outstanding as at reporting date:

	Consolidated		Parent Entity	
	2008	2007	2008	2007
	$m	$m	$m	$m
Energy derivative financial assets – current				
Electricity derivatives – cash flow hedges	475.8	2,398.8	–	–
Electricity derivatives – economic hedges	721.5	2,728.2	42.1	–
Oil derivatives – cash flow hedges	–	3.5	95.1	32.3
Oil derivatives – economic hedges	–	–	152.4	–
	1,197.3	**5,130.5**	**289.6**	**32.3**
Energy derivative financial assets – non current				
Electricity derivatives – cash flow hedges	343.3	1,035.8	–	–
Oil derivatives – cash flow hedges	–	3.4	–	3.4
	343.3	**1,039.2**	**–**	**3.4**
Energy derivative financial liabilities – current				
Electricity derivatives – cash flow hedges	6.7	5.9	–	–
Electricity derivatives – economic hedges	514.0	2,177.1	70.8	–
Oil derivatives – cash flow hedges	95.1	8.9	95.1	15.9
Oil derivatives – economic hedges	152.4	–	152.4	–
	768.2	**2,191.9**	**318.3**	**15.9**
Energy derivative financial liabilities – non current				
Electricity derivatives – cash flow hedges	12.5	14.5	–	–
Oil derivatives – cash flow hedges	–	19.8	–	19.8
	12.5	**34.3**	**–**	**19.8**

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 2008 were 92.3 million MWhs (2007: 119.2 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 5 years from the reporting date 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 equity in the hedging reserve. The gain or loss deferred in equity will be transferred to profit or loss and included in cost of sales in each period in which the underlying purchase or sale transactions are recognised. 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.

When a forecast transaction is no longer expected to occur, the cumulative gain or loss on the hedging instrument that was deferred in equity is transferred immediately to profit and 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 $266.4 million (2007: gain of $403.2 million) was recognised in profit or loss by the consolidated entity and loss of $11.6 million (2007: $nil) was recognised by the Parent Entity.

Oil 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 oil prices. The aggregate notional volumes of the outstanding oil derivatives at 30 June 2008 were 3.1 Mbbl (2007: 5.2 Mbbl).

In May 2008, the consolidated entity announced its intention to proceed with the sale of its PNG oil and gas assets and expects the sale to be completed by the end of December 2008. Oil derivative swaps are only designated in cash flow hedge relationships for anticipated oil sale transactions that are expected to occur up to 31 December 2008.

The effective portion of changes in the fair value of oil derivatives that are designated and qualify as cash flow hedges is recognised in equity in the hedging reserve. The gain or loss deferred in equity will be transferred to profit or loss and included in revenue from the sale of goods in each period in which the underlying sale transactions are recognised.

When a forecast transaction is no longer expected to occur, the cumulative gain or loss on the hedging instrument that was deferred in equity is transferred immediately to profit and loss. During the year, hedges maturing after 31 December 2008 were de-designated as the underlying forecast transactions are no longer expected to occur as originally forecast. Oil derivatives with a fair value loss of $154.7 million at the date of de-designation was transferred from equity and recognised in profit and loss and included in other expenses.

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

	Consolidated		Parent Entity	
	2008	2007	2008	2007
Hedging reserve	$m	$m	$m	$m
Balance at beginning of financial year	2,314.8	(25.6)	–	–
Adjustment on acquisition of subsidiaries in respect of the AGL Energy Limited demerger	–	90.4	–	–
Gain/(loss) from cash flow hedges taken to equity	(1,280.5)	3,477.6	–	–
(Gain)/loss transferred to cost of sales	(1,508.3)	(240.2)	–	–
(Gain)/loss transferred to revenue from sale of goods	62.5	(17.7)	–	–
Loss transferred to other expenses	154.7	–	–	–
Income tax on items taken directly to or transferred from equity	778.9	(969.7)	–	–
Balance at end of financial year	**522.1**	**2,314.8**	**–**	**–**
Cash flow ineffectiveness (loss)/gain recognised immediately in profit or loss	**(7.2)**	**9.8**	**–**	**–**

Energy price sensitivity
The following table details the sensitivity to a 10% increase or decrease in the relevant forward prices for both electricity and oil. 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 and oil commodity prices.

At reporting date, if the relevant forward prices for both electricity and oil had been 10% higher or lower, with all other variables held constant, profit after tax and equity would have been affected as follows:

Note 56 – Financial instruments (continued)

	Profit after tax Increase/(decrease)		Equity (Hedging reserve) Increase/(decrease)	
	2008 $m	2007 $m	2008 $m	2007 $m
Consolidated				
Electricity forward price +10%	62.4	60.1	221.4	457.9
Electricity forward price -10%	(63.2)	(60.1)	(220.7)	(457.9)
Oil forward price +10%	(92.7)	(1.0)	(38.9)	(33.4)
Oil forward price -10%	(64.6)	3.5	(27.0)	4.3
Parent Entity				
Electricity forward price +10%	(5.1)	–	–	–
Electricity forward price -10%	5.1	–	–	–
Oil forward price +10%	–	–	–	–
Oil forward price -10%	–	–	–	–

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 equity is due to an increase/decrease in the fair value of energy hedging instruments designated as cash flow hedges.

(h) 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 amongst 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 reporting date, 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 maximum exposure to credit risk at the reporting date is the carrying amount of the financial assets recorded in the financial statements.

(i) 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. Included in Note 54(f) are details of undrawn financing facilities that the consolidated entity and the Parent Entity have access to at the reporting date.

The following tables detail the consolidated entity's and the Parent Entity's remaining contractual maturity for its non-derivative financial liabilities. The amounts disclosed in the tables are the contractual undiscounted principal and interest cash flows and therefore do not equate to the values shown in the table found in section (b) of this Note. For floating rate instruments, the amount disclosed has been determined by reference to the projected interest rates as illustrated by the yield curves existing at the reporting date.

Consolidated	Less than 6 months $m	6 – 12 months $m	1 – 2 years $m	2 – 5 years $m	More than 5 years $m
2008					
Non-derivative financial liabilities					
Trade and other payables	852.0	–	38.2	–	–
Bank loans – unsecured	88.2	88.7	1,108.9	1,230.8	–
Finance lease liabilities	–	–	–	–	178.4
Customer deposits	–	–	12.1	–	–
Other loans	–	–	–	4.0	–
	940.2	**88.7**	**1,159.2**	**1,234.8**	**178.4**
2007					
Non-derivative financial assets					
Trade and other payables	1,482.3	–	–	–	–
Bank overdrafts	0.7	–	–	–	–
Bank loans – unsecured	462.5	72.2	172.1	2,197.0	–
Finance lease liabilities	0.2	0.2	0.3	1.0	178.4
Customer deposits	12.3	12.3	13.4	–	–
	1,958.0	**84.7**	**185.8**	**2,198.0**	**178.4**
Parent Entity					
2008					
Non-derivative financial liabilities					
Trade and other payables	40.0	–	–	–	–
Bank loans – unsecured	88.2	88.7	1,108.9	1,230.8	–
Customer deposits	–	–	0.6	–	–
	128.2	**88.7**	**1,109.5**	**1,230.8**	**–**
2007					
Non-derivative financial liabilities					
Trade and other payables	45.4	–	–	–	–
Bank loans – unsecured	461.8	72.2	142.4	2,197.0	–
Customer deposits	9.7	–	–	0.6	–
	516.9	**72.2**	**142.4**	**2,197.6**	**–**

The Parent Entity's remaining contractual maturity for its non-derivative financial liabilities disclosed in the table above excludes amounts due to subsidiaries.

The following tables detail the consolidated entity's and the Parent Entity's liquidity analysis of its derivative financial instruments. The amounts disclosed in the tables are the undiscounted net cash inflows/(outflows) on the derivative 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 existing at the reporting date.

Note 56 – Financial instruments (continued) **Consolidated**	Less than 6 months $m	6 – 12 months $m	1 – 2 years $m	2 – 5 years $m	More than 5 years $m
2008					
Derivative financial instruments					
Net settled					
Forward foreign exchange contracts	(1.0)	(1.2)	(0.3)	–	–
Electricity derivatives	(185.5)	(97.8)	(65.9)	(65.4)	–
Oil derivatives	(70.8)	(58.6)	(88.6)	(22.5)	–
	(257.3)	**(157.6)**	**(154.8)**	**(87.9)**	**–**
2007					
Derivative financial instruments					
Net settled					
Forward foreign exchange contracts	5.1	(0.8)	(1.1)	(0.2)	–
Electricity derivatives	(1,054.3)	(437.1)	(271.1)	(28.1)	–
Oil derivatives	(4.1)	(5.2)	(11.1)	(10.6)	–
	(1,053.3)	**(443.1)**	**(283.3)**	**(38.9)**	**–**
Parent Entity					
2008					
Derivative financial instruments					
Net settled					
Forward foreign exchange contracts	(1.0)	(1.2)	(0.3)	–	–
Electricity contracts	(6.3)	(9.6)	(13.7)	(41.2)	–
	(7.3)	**(10.8)**	**(14.0)**	**(41.2)**	**–**
2007					
Derivative financial instruments					
Net settled					
Forward foreign exchange contracts	5.1	(0.8)	(1.1)	(0.2)	–
	5.1	**(0.8)**	**(1.1)**	**(0.2)**	**–**

(j) Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes. Fair value is the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Quoted prices or rates are used to determine fair value where an active market exists. If the market for a financial instrument is not active, fair values are estimated using present value or other valuation techniques, using inputs based on market conditions existing at the reporting date.

The fair values of interest rate swaps are calculated using the present value of the estimated future cash flows of these instruments.

The fair values of forward foreign exchange contracts are determined using quoted forward exchange rates at the reporting date.

The fair values of energy commodity swaps are calculated using the present value of the estimated future cash flows using available market forward prices.

The fair values of energy commodity option contracts which are regularly traded are determined based on the most recent available transaction prices for the same instruments.

The fair values of energy commodity option contracts which are not regularly traded are calculated using the present value of the estimated future cash flows of these instruments.

Where the fair value of a derivative is calculated as the present value of the estimated future cash flows of the instrument, there are two key variables used:

- appropriate market pricing data (for the relevant underlying interest rates, foreign exchange rates or commodity prices)
- discount rates.

For derivative instruments, both of these variables are taken from observed market pricing data at the valuation date and therefore these variables represent those which would be used by market participants to execute and value the instruments.

The carrying value of cash and cash equivalents approximate their fair value.

The carrying value of trade and other receivables (less allowance for doubtful debts) and trade payables approximate their fair values due to their short-term nature.

Note 57 – 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.

Directors' declaration
for the year ended 30 June 2008

The directors of AGL Energy Limited declare that the accompanying financial statements and the notes to the financial statements:

(a) comply with accounting standards; and

(b) give a true and fair view of the financial position and performance of the consolidated entity.

The directors also 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 accompanying financial statements and the notes thereto are in accordance with the Corporations Act 2001; and

(c) in their opinion, there are reasonable grounds to believe that the Parent Entity and the subsidiaries identified in Note 46 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.

(d) they have been given the declarations required by s.295A of the Corporations Act 2001.

This declaration is made in accordance with a resolution of the directors.

Mark Johnson
Chairman
Sydney, 2 September 2008

Deloitte.

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Independent Auditor's Report to the Members of AGL Energy Limited

Report on the Financial Report

We have audited the accompanying financial report of AGL Energy Limited, which comprises the balance sheet as at 30 June 2008, and the income statement, cash flow statement and statement of recognised income and expense for the year ended on that date, a summary of significant accounting policies, other explanatory notes 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 50 to 136.

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 company's and consolidated entity's financial position as at 30 June 2008 and of their 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.

Independent Auditor's Report to the members of AGL Energy Limited cont.

Report on the Remuneration Report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2008. 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 2008, complies with section 300A of the *Corporations Act 2001*.

Deloitte Touche Tohmatsu

G Couttas
Partner
Chartered Accountants
2 September 2008

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Deloitte.

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Dear Board Members,

Auditor's Independence Declaration to the Directors of 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 year ended 30 June 2008, I declare that to the best of my knowledge and belief, there have been no contraventions of:

> the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

> any applicable code of professional conduct in relation to the audit.

Yours faithfully,

Deloitte Touche Tohmatsu

G Couttas
Partner
Chartered Accountants
2 September 2008

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Shareholding Information

The following information is provided regarding the Issued Capital of AGL as at 11 August 2008:

1. The Issued Capital consisted of 443,354,097 fully-paid ordinary shares.
2. There were 111,833 holders of these ordinary shares.
3. There were 1,353 holders of less than a marketable parcel of 36 shares.
4. The distribution of holders was:

	No. of Holders	%
1 – 1,000 shares	55,222	49.38
1,001 – 5,000 shares	47,696	42.65
5,001 – 10,000 shares	5,935	5.31
10,001 – 100,000 shares	2,863	2.56
100,001 shares and over	117	0.10
	111,833	**100**

5. The location of holders was:

Location	No. of Holders	%	No. of Shares	%
Australia	108,082	96.65	434,725,202	98.05
USA and Canada	484	0.43	405,552	0.09
United Kingdom	333	0.30	750,622	0.17
New Zealand	2,711	2.42	6,920,344	1.56
Others	223	0.20	552,377	0.13
	111,833	**100**	**443,354,097**	**100**

6. The class of holders was:

Class of Holder	No. of Holders	%	No. of Shares	%
Individuals	62,070	55.50	112,088,079	25.28
Companies and other	49,763	44.50	331,266,018	74.72
	111,833	**100**	**443,354,097**	**100**

Shareholding information (continued)

7. The twenty largest holders held 43.95% of the Issued Capital:

Twenty Largest Holders as at 11 August 2008	Fully-Paid Ordinary Shares	% of Total Issued Shares
National Nominees Limited	48,048,174	10.84
HSBC Custody Nominees (Australia) Limited	39,142,316	8.83
J P Morgan Nominees Australia	33,809,891	7.62
Citicorp Nominees Pty Limited	16,463,805	3.71
ANZ Nominees Limited	11,604,985	2.62
Queensland Investment Corporation	6,994,344	1.58
Cogent Nominees Pty Limited,	6,249,287	1.41
AMP Life Limited	4,417,295	1.00
Australian Foundation Investment Company Limited	4,286,991	0.97
UBS Nominees Pty	3,659,535	0.82
RBC Dexia Investor Services Australia Nominees Pty Ltd	3,384,723	0.76
Bond Street Custodians Limited	2,869,055	0.65
Argo Investments Limited	2,453,787	0.55
Australian Reward Investment	2,288,890	0.52
UBS Wealth Management Australia Nominees Pty Ltd	2,097,521	0.47
Invia Custodian Pty Ltd	1,550,809	0.35
Custodial Services Limited	1,533,965	0.35
Questor Financial Services Limited	1,418,365	0.32
Merrill Lynch (Australia) Nominees Pty Ltd	1,318,034	0.30
Gwynvill Investments Pty Ltd	1,263,150	0.28
	194,854,922	**43.95**

Shareholder Information

Share Registry

Shareholders with enquiries about their shareholdings are invited to 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 NSW 1235)

Tel: 1800 824 513
(within Australia)
+61 2 8280 7115
(International)

Fax: 02 9287 0303
(within Australia)
+61 2 9287 0303
(International)

Email: aglenergy@linkmarketservices.com.au
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 27.0 cents per share, 100% franked, will be paid on Friday 26 September 2008. Shareholders may nominate a bank, building society or credit union account within Australia for the payment of dividends for direct credit. 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.

AGL has a Dividend Reinvestment Plan. Shareholders who have lodged applications with the Share Registry by 4 September 2008 will participate for the final dividend.

AGL website

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

Reporting to Shareholders

Recent changes to the Corporations Act mean that AGL need only provide shareholders with access to this Annual Report on AGL's website, unless they have specifically requested to be sent a printed or electronic copy. Shareholders seeking a copy of the Annual Report should subscribe online or contact the Share Registry. The Annual Report is also available on the AGL website.

Change of name, address or banking details

Shareholders who are issuer sponsored should advise the Share Registry immediately of a change of name, address or banking details for dividends electronically credited to a bank account. All such changes must be advised online or in writing and cannot be accepted by telephone. For a change of name, supporting documentation must accompany your written advice. Appropriate forms can also be downloaded from the Share Registry's website.

Shareholders who are CHESS Sponsored should instruct their sponsoring broker in writing to notify the Share Registry of any change.

Tax File Number (TFN)/Australian Business Number (ABN)

It is not compulsory to provide a TFN or ABN. However AGL will be required to deduct tax at the top marginal rate from the unfranked portion of any dividend paid to shareholders who have not provided either a TFN/ABN or details of a relevant TFN exemption. TFN/ABN notification forms can be obtained by contacting the Share Registry, 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 ACA, MApFin

Directory of Offices

Head Office, Gas and Power Development
Level 22, 101 Miller Street
North Sydney NSW 2060

Tel: 02 9921 2999
Fax: 02 9921 2552

Retail Energy and Merchant Energy
Level 22, 120 Spencer Street
Melbourne VIC 3001

Tel: 03 8633 6000
Fax: 03 8633 6002

Retail Energy
226 Greenhill Road
Eastwood SA 5063

Tel: 08 8299 5666
Fax: 08 8299 5001

Important dates

29 August 2008: Shares began trading ex-dividend.

04 September 2008: Record date for final dividend.

26 September 2008: Final dividend payable.

15 October 2008: Annual General Meeting. The Annual General Meeting of AGL will be held in the City Recital Hall commencing at 10.30am.

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 soya oil) obtained from non-genetically modified plants and trees.

It was designed by Cobé Design and printed by Lilyfield Printing.

All individuals who kindly appear in this report are staff, family and friends of AGL.

AGL Energy Limited
ABN 74 115 061 375

Level 22, 101 Miller St
North Sydney NSW 2060

NOTICE OF ANNUAL GENERAL MEETING OF SHAREHOLDERS

11 September 2008

Dear shareholder,

I am pleased to invite you to attend the 2008 Annual General Meeting of shareholders (AGM), which has been scheduled as follows:

Date: Wednesday, 15 October 2008
Time: 10.30am (Sydney time)
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 proxy 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 proxy form and returning it in the envelope provided. Instructions on how to appoint a proxy are detailed on the back of the proxy form. Proxies must be received no later than 10.30am (Sydney time) on Monday, 13 October 2008 to be valid for the AGM. Proxies may be lodged online or returned by mail or by fax on 02 9287 0309.

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 CAR

There are many car parks located within walking distance.

BY BUS

Major bus interchanges are nearby at George and York Streets.

BY TAXI

Your taxi can enter Angel Place from George Street.

For more specific information about public transport routes and timetable, contact the **State Transit Authority** on **131500** or visit **www.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 2008.

2. To adopt the Remuneration Report for the financial year ended 30 June 2008, 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:

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

   'That Mr J C R Maycock, 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.'

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

   'That Ms S V McPhee, 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 amend the constitution to permit direct voting:

   To consider and, if thought fit, to pass the following resolution as a special resolution:

   'That the constitution of AGL Energy Limited is amended, with effect from the day after the close of the Meeting, as set out in the Annexure to the Notice convening the Meeting.'

5. 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 2009, the aggregate maximum sum available for the remuneration of non-executive Directors be increased by $250,000 per year to $1,750,000 per year.'

6. To grant share performance rights under the Company's Long-Term Incentive Plan (**LTIP**) to Mr Michael Fraser:

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

   'That, in accordance with ASX Listing Rule 10.14, approval be given for the grant of share performance rights under the LTIP to Mr Michael Fraser, the Managing Director and Chief Executive Officer of the Company, in respect of the financial years ending 30 June 2009, 30 June 2010 and 30 June 2011, on the terms described in the Explanatory Notes to the Notice convening the Meeting'.

By Order of the Board

Paul McWilliams
Company Secretary
11 September 2008

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 **Monday, 13 October 2008**.

VOTING EXCLUSION

The Company will disregard any votes cast on **Item 5** by any of the Directors or by any associate of a Director.

The Company will disregard any votes cast on **Item 6** by Mr Fraser or by any associate of Mr Fraser.

However, the Company need not disregard a vote cast on **Items 5 or 6** if:

(i) it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or

(ii) it is cast by the Chairman of the Meeting as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form to vote as the proxy decides

PROXIES

Each shareholder who is entitled 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.

A proxy form and, if the proxy form is not signed by the shareholder, the power of attorney or other authority (if any) under which the proxy 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 **Monday, 13 October 2008**. 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 0309; 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 2008.

Shareholders have been notified that the AGL Annual Report 2008 can be found on the Company's website (www.agl.com.au) under 'Investor Centre' and have been given the option of having a hard 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 2008.

The Company is required under the Corporations Act 2001 (Cth) to include, in the business of its Annual General Meeting, a resolution that its Remuneration Report for the financial year ended 30 June 2008 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 2008. 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.

(a) Mr Jerry C R Maycock

Jerry Maycock BEng (Mech) (Hons), FAICD, FIPENZ – **Age 56**

Term: Non-executive Director since October 2006.

Independent: Yes.

Committees: Member of the Audit and Risk Management Committee.

Directorships: Managing Director of CSR Limited (commenced on 1 April 2007).

Experience: Previously Managing Director of Hastie Group Limited (commenced in 2003 and retired in 2007), inaugural Chairman of Cement Australia Pty Limited and CEO of Swiss-based Holcim Ltd in New Zealand and Australia. His commercial experience spans 34 years, with his early career being with Shell Oil in the UK and in New Zealand.

The Directors (excluding Mr Jerry Maycock) recommend that shareholders vote in favour of Item 3(a).

(b) Ms Sandra V McPhee

Sandra McPhee Dip Ed, FAICD – **Age 62**

Term: Non-executive Director since October 2006.

Independent: Yes.

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

Directorships: Director of Australia Post (commenced in 2001), St Vincent's & Mater Health Sydney Limited (commenced in 2003) and Vice President of The Art Gallery of New South Wales (commenced in 2003).

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

The Directors (excluding Ms Sandra McPhee) recommend that shareholders vote in favour of Item 3(b).

SPECIAL BUSINESS

ITEM 4

Amending the constitution to permit direct voting.

The Company's constitution presently permits a shareholder to appoint proxies to attend general meetings and vote on the shareholder's behalf. An appointment may specify how the shareholder wishes his or her proxy to vote. However, those wishes may not be given effect unless the proxy actually votes on behalf of the shareholder.

To reduce the risk of shareholders' wishes being ineffective, the Directors are proposing an amendment to the Company's constitution to allow shareholders, in certain circumstances, to have a direct vote.

When will the changes be effective?

The changes will, if passed, have effect from the day after the close of the Meeting and will therefore apply to all future general meetings of the Company.

How will direct votes be cast?

Direct votes will, if the changes are passed, be cast by appointing a proxy in the usual way, but indicating on the proxy form that directions on the proxy form are to be regarded as direct votes. (Shareholders casting direct votes will be counted for the purpose of determining whether there is a quorum present at the meeting.)

At present, the Directors intend that direct voting will apply to all future general meetings of the Company and propose to add wording to future proxy forms so that all directions will give rise to direct votes. You will be free, however, to indicate on the proxy form that you do not wish to cast a direct vote and that your proxy is appointed to vote on your behalf.

Will direct voting apply to all future votes?

Direct votes will not necessarily apply to all future votes. For direct votes to be cast, the proxy form must indicate that directions are to be regarded as direct votes (see above). In addition, the Directors will be given the power to prevent direct voting in relation to particular resolutions. The Directors have no present intention to use this power but may do so if, for example, there is a future legal challenge to the validity of direct voting or if they believe that votes on a particular resolution should only be cast after consideration of the discussion at the general meeting.

Will direct votes be recognised on a show of hands?

Direct votes will not be counted on a show of hands but only on a poll. However, to ensure that shareholders' wishes are carried out, the changes will, if passed, also place a duty on the chairperson to call a poll if direct votes and directions to proxies could change the outcome of a vote. The proxy you appoint will retain the proxy's existing rights to vote on a show of hands on your behalf.

What if the resolution is amended?

Direct votes will apply to the primary resolution as amended by the meeting. However, on the question of whether to amend a primary resolution, a proxy form would normally give no direction and, therefore, the proxy you appoint in order to give effect to your direct vote would be authorised to vote on your behalf as the proxy thinks fit. (The proxy would also be authorised to vote on all procedural motions in these circumstances.)

Shareholders' wishes in relation to amendment of direct votes will be protected by the chairperson's discretion to reject amendments which change the fundamental nature of the resolution.

Are there disadvantages in allowing direct voting?

The Directors are not aware of any disadvantages in permitting direct voting in the form proposed.

Directors' recommendation

The Directors recommend that shareholders vote in favour of Item 4.

ITEM 5

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 $1,500,000 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 Australian Gas Light Company (ABN 95 052 167 405) three years ago at its annual general meeting in October 2005.

Current annual remuneration for non-executive Directors totals $1,272,600, reflecting increases in Directors' fees over the past three years in line with market conditions.

The Company seeks to adequately remunerate non-executive Directors at market levels for their time, commitment and responsibilities. The Board has taken independent external advice from remuneration advisers, including a review of the current and expected level of non-executive Director remuneration in Australian companies of comparable size and complexity to the Company.

Market commentary indicated that, as a result of a range of factors such as increasing time commitments, responsibilities and risk and a reduction in the number of boards on which Directors sit, upward pressure continues to apply to the remuneration of non-executive Directors.

Based on the prevailing market conditions, the People and Performance Committee of the Board has recommended an increase to the remuneration of non-executive Directors of 8%, effective 1 January 2009. This will increase the current aggregate remuneration of non-executive Directors to $1,374,408 per year.

The cap also needs to accommodate fees for an additional non-executive Director to assist in 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 $1,750,000 per year (representing an increase of $250,000 per year). 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 by permitting effective transition arrangements; and
- attract and maintain high-calibre individuals in a marketplace where there is very strong competition for talented, highly competent Directors.

As each of the non-executive Directors has a personal interest in Item 5, it is not appropriate for them to make any recommendation as to how shareholders should vote on this resolution.

ITEM 6

Grant of share performance rights under the LTIP to Mr Michael Fraser.

Shareholder approval is sought for the Board's proposal to grant share performance rights to Mr Fraser under the LTIP, on the terms and conditions outlined below.

As part of Mr Fraser's service contract, the Board agreed to provide Mr Fraser with an entitlement to receive in respect of the financial years ending 30 June 2009, 30 June 2010 and 30 June 2011 a maximum LTIP entitlement of up to 100% of his total fixed remuneration for each respective year, to be satisfied by the grant of share performance rights.

Mr Fraser's total annual fixed remuneration from 1 September 2008 is $1,550,000. While Mr Fraser's total fixed remuneration is subject to review annually, it may not be decreased without Mr Fraser's consent.

(a) Share performance rights.

A share performance right is a right, subject to satisfaction of performance conditions, to acquire an ordinary share in the Company for no consideration, unless the Board, in its absolute discretion, determines that consideration should be paid.

Share performance rights do not carry dividend or voting rights. However, share performance rights will participate in bonus issues, rights issues and reconstructions and reorganisations of the capital of the Company in the same manner as ordinary shares.

If approved by shareholders, the share performance rights will be granted to Mr Fraser on the terms and conditions specified in the LTIP.

(b) Maximum number of share performance rights.

The maximum number of share performance rights to be granted to Mr Fraser in respect of each of the financial years ending 30 June 2009, 30 June 2010 and 30 June 2011 will be determined by dividing Mr Fraser's total fixed remuneration for each of those years by the volume weighted average price (**VWAP**) of the Company's shares traded on ASX during the 30 calendar days immediately following release of the Company's financial results for the preceding financial year. For example, based on Mr Fraser's total fixed remuneration of $1,550,000 from 1 September 2008 and assuming the VWAP for the Company's shares over the 30 day period following the release of the Company's financial results for the year ended 30 June 2008 was $15.50, the maximum number of share performance rights to be allocated to Mr Fraser for the year ending 30 June 2009 would be 100,000.

(c) Performance conditions.

Under the LTIP the Board has an absolute discretion to determine the performance conditions which must be satisfied before share performance rights can vest and the period over which share performance rights vest.

The actual number of share performance rights granted to Mr Fraser which will vest will be subject to a performance condition under which vesting will depend upon the Company's total shareholder return (**AGL TSR**) performance measured against a comparable group of ASX listed companies with the level of vesting being dependent upon the level of performance of the Company against the comparable group of ASX listed companies. Broadly speaking, total shareholder return is share price growth plus the value of the dividends and distributions on the relevant shares. For each grant of rights the performance condition will be tested initially three years from the date of issue and (to the extent that full vesting does not occur at this point) four years from the date of issue.

The comparable group of ASX listed companies is the group of companies which comprise the ASX100 at the date of grant.

No share performance rights will vest unless the percentile ranking of the AGL TSR as against the comparative TSRs, is at or above the 40th percentile. At the 40th percentile, 40% of the share performance rights will vest. Below that ranking no share performance rights will vest.

For each percentile above the 40th percentile and up to the 50th percentile an additional 1% of share performance rights will vest.

If the AGL TSR is ranked at or above the 85th percentile, as against the comparative TSRs, 100% of the share performance rights will vest. There will be linear vesting where the AGL TSR performance is in the 51st - 84th percentile, measured against the comparative TSRs.

(d) Vesting period.

Unless the Board in its absolute discretion otherwise determines, all share performance rights will vest at the end of a four year vesting period following their grant subject to the satisfaction of the performance conditions applicable to those share performance rights.

Any share performance rights which do not vest because the performance criteria is not met, immediately lapse.

All share performance rights will vest in the event that a change in control of the Company occurs, subject to the performance conditions applicable to those share performance rights 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.

(e) Treatment on termination.

If Mr Fraser:

- dies;
- becomes totally and permanently disabled;
- is terminated by the Company without cause (whether with or without notice);
- terminates his employment with the Company by giving three months notice after the occurrence of a fundamental change (as defined in Mr Fraser's service contract);
- is made redundant;
- retires; or
- ceases employment with the Company in such other circumstances as the Board in its absolute discretion may determine,

all unvested share performance rights held by Mr Fraser will vest subject to the performance conditions applicable to those share performance rights being satisfied at that time.

All unvested share performance rights of Mr Fraser will lapse if he ceases employment with the Company for reasons other than those specified above.

(f) Additional information.

The ASX Listing Rules require that this Notice of Meeting include the following additional information in relation to the share performance rights to be granted to Mr Fraser.

The Company has obtained a waiver from compliance with the requirements of Listing Rule 10.15A.2 whereby the Company only has to apply for shareholder approval every three years (commencing this year) in relation to issuing share performance rights to Mr Fraser under his service contract with the Company. The waiver allows the Company not to include the maximum number of performance rights that will be issued to Mr Fraser as required by Listing Rule 10.15A.2 on the basis that it sets out the method by which the number of share performance rights to be acquired will be calculated. The maximum number of share performance rights that could be granted to Mr Fraser in respect of each LTIP issue is up to 100% of his total fixed remuneration for the year in question divided by a price per AGL share as determined on the VWAP basis set out above.

Mr Fraser is the only Director of the Company to participate in the LTIP. Mr Fraser has, in accordance with the terms of his service contract, received 80,584 share performance rights as a sign on entitlement and 23,331 share performance rights to satisfy entitlements which accrued to Mr Fraser in his previous role as Group General Manager Merchant Energy.

There is no loan scheme in relation to the acquisition of the share performance rights (or the shares underlying them) as no payment is required.

The share performance rights will be granted to Mr Fraser no later than three years after the date of this meeting, on the conditions described in these explanatory notes.

The Company may issue shares or acquire shares on ASX to satisfy share performance rights which have vested.

Details of the share performance rights granted under the LTIP will be published in each annual report of the Company relating to a period in which the share performance rights have been granted, and that approval for the grant of share performance rights was obtained under Listing Rule 10.14.

Directors' recommendation.

The Directors (other than Mr Fraser) recommend that shareholders vote in favour of Item 6.

ANNEXURE

It is proposed that the Company's constitution be amended by:

(a) inserting in alphabetical order, into clause 1.1, the following definition:

"**'Direct Vote'**, in relation to a resolution or a meeting, means a specification in an appointment of proxy of the way that the proxy is to vote on the resolution or on a resolution proposed to be put at the meeting (as the case may be) where the appointment also indicates that the specification is to be regarded as a direct vote;"

(b) inserting:

(i) in clause 8.2(a), "(whether or not the Shareholder or Shareholders they represent cast Direct Votes)" after "representing by proxy"; and

(ii) in clause 8.2(b), "(whether or not the Shareholder or Shareholders they represent cast Direct Votes)" after "or by proxy";

(c) inserting "(whether or not the Shareholder casts Direct Votes)" after "a Shareholder present in person or by proxy" in clause 33;

(d) inserting a new clause 38.3A after the existing clause 38.3 as follows:

"38.3A The chairman of the general meeting must demand a poll on a resolution if:

(a) a vote by show of hands is taken on the resolution;

(b) appointments of proxies have been received specifying the way the proxies are to vote on the resolution (whether or not as a Direct Vote); and

(c) votes cast in accordance with the appointments of proxies referred to in clause 38.3A(b) could, in the chairman's reasonable opinion, change the outcome of the vote on the resolution."

(e) replacing clause 47.6(d) with the following:

"(d) if the proxy is not the chair – the proxy need not vote on a poll, but if the proxy does so, the proxy must vote that way,

except where clause 47A.2 has the effect that the proxy has no authority to vote on a poll on the resolution because a Direct Vote is cast on the resolution without any action by the proxy. For the purposes of this Constitution, a specification of the way a proxy is to vote on a particular resolution applies to the resolution as amended.";

(f) inserting a new clause 47A after the existing clause 47 as follows:

"47A Direct Votes

47A.1 An appointment of proxy may indicate, either generally or in relation to a particular resolution or resolutions, that a specification of the way that the proxy is to vote is to be regarded as a Direct Vote.

47A.2 Except where the Directors determine, prior to the relevant meeting, that direct voting will not be permitted in relation to a particular resolution or resolutions, 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 on the resolution as specified in the instrument appointing the proxy without the need for, and 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.

47A.3 If it is necessary to identify the individual who casts Direct Votes on a resolution, all Direct Votes will be cast at the Meeting by:

(a) if the chairperson casts any votes, other than Direct Votes, on the resolution, the chairperson; and

(b) otherwise, the Shareholder casting the first vote to be counted of any votes, other than Direct Votes.

47A.4 If the Directors determine, under clause 47A.2, that direct voting will not be permitted in relation to a particular resolution or resolutions, an indication, under clause 47A.1, that a specification of the way that the proxy is to vote is to be regarded as a Direct Vote is to be of no effect and the specification is to be treated as simply a specification of the way that the proxy is to vote."; and

(g) inserting "(including a Direct Vote)" after "an appointment of proxy" in clause 51.

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 (Sydney time) on Wednesday, 8 October 2008.

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

› ask 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 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
- **Fax** to the AGL Share Registry on fax number 02 9287 0309

AGL Energy Limited
ABN 74 115 061 375

Level 22, 101 Miller St
North Sydney NSW 2060

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