Appendix 4E

AGL Energy Limited
ABN 74 115 061 375

Preliminary Final Report

Results for announcement to the market
for the year ended 30 June 2009

Extracts from this report for announcement to the market				*$A Million*
Revenue	**Up**	**6.1%**	To	**5,995.7**
Profit after tax attributable to shareholders (Statutory)	**Up**	**597.0%**	To	**1,596.1**
Underlying profit after tax attributable to shareholders	**Up**	**11.1%**	To	**378.8**

Dividends	Amount per ordinary share	Franked amount per ordinary share
Final dividend	28.0¢	28.0¢
Interim dividend	26.0¢	26.0¢

Record date for determining entitlements to the dividends:

Final dividend: 10 September 2009 and payable on 30 September 2009

Brief explanation of underlying profit:

Profit after tax of $1,596.1 million included a net profit after tax of $1,441.3 million from significant items and a loss of $251.0 million from the changes in the fair value of financial instruments. Excluding these items, profit after tax was $405.8 million.

After a $27.0 million pro-forma adjustment for depreciation relating to the sale of AGL's PNG interests, the underlying profit was $378.8 million.

AGL Energy Limited ("AGL") previously provided underlying profit guidance of $370 million to $400 million for the year ended 30 June 2009. This guidance removed the impact of customer amortisation, totalling $18.2 million. Adding this to the underlying profit of $378.8 million results in a profit of $397.0 million, which is the relevant comparison for the profit guidance of $370 million to $400 million.

An analysis of these results is in the Directors' Report attached to this announcement.

Executive Summary of Results

The detailed results for the year ended 30 June 2009 commence at Section 1 on page 5 of this report.

Underlying profit after tax was $378.8 million, up 11.1% on the underlying profit of $341.0 million for the prior period. The result was at the upper end of the upgraded guidance range provided to the market in December 2008.

The statutory profit for the year ended 30 June 2009 was $1,596.1 million, due in large part to one-off gains from the sale of non-core assets including AGL's PNG oil and gas assets, and investments in Queensland Gas Company Limited and Elgas. These asset sales, and others completed in FY08, together with a successful refinancing of $800 million of long-term debt, have put AGL's balance sheet in a strong position. As a result, AGL has been little affected by conditions in financial markets and the weaker Australian economy.

EBIT/Funds Employed reduced slightly to 10.1% largely due to the sale of AGL's PNG oil and gas assets.

Large reductions in AGL's net debt following completion of the asset sale program saw AGL's net financing costs almost halve, falling to $94.0 million compared with $175.9 million in the prior period. The reductions in net financing costs largely offset the loss in earnings contributions from assets sold during the year.

The overall result reflects the benefit of AGL's vertical integration strategy.

Merchant Energy

Operating EBIT for Merchant Energy was $447.3 million, up 32.5% from the prior year's $337.6 million.

Merchant Energy performed well across its entire business segment. Wholesale electricity, gas and eco-markets managed procurement costs well in markets that experienced periods of both high volatility and subdued, flat prices. The combined operating EBIT from these areas was $447.9 million, up $91.6 million from the prior year. This demonstrates the benefits of diversity and vertical integration.

Fees from the development of wind farms continued to provide benefits with the contribution this year up $14.6 million to $54.6 million.

Retail Energy

Operating EBIT for Retail Energy was $266.8 million, down 1.8% from the prior year's $271.7 million result.

Gross margin (excluding fees and charges) was up $48.5 million driven by increased tariffs and targeting higher margin mass market and C&I customers. More than offsetting this good performance in gross margin was a significant $40.5 million increase in operating expenditure (including fees and charges) and a $12.9 million increase in depreciation. This increase was almost entirely related to process and billing issues associated with the transfer of customers to AGL's new billing platform. Substantial additional resources were employed to resolve the issues and return customer service levels to acceptable standards.

The process and billing issues have now been resolved. However, they resulted in a delay in AGL realising the full benefits expected from its new billing platform. The Phoenix change program is now scheduled for completion by December 2009, rather than June 2009 as originally planned. The first full year of benefits from Project Phoenix will consequently occur in the 2011 financial year.

Upstream Gas

The sale of AGL's PNG oil and gas assets significantly reduced the EBIT base of Upstream Gas. Comparisons with prior periods are not meaningful as the PNG assets were only held for five months in the year, and the remaining EBIT base is of immaterial scale.

AGL used some of the proceeds from the sale of non-core assets to purchase an exploration licence in the Gloucester Basin for $377.8 million and to make a successful takeover bid to acquire 100% of Sydney Gas Limited at a cost of $189.9 million.

Energy Investments

Following the sale of GasValpo and AlintaAGL in FY08, and Elgas this year, AGL's only remaining investment is its 50% interest in the ActewAGL partnership.

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Directors' Report for the year ended 30 June 2009 (incorporating the commentary by Directors and dividend announcement made to the Australian Securities Exchange Limited on 20 August 2009)

The Directors report on the AGL Energy Limited (AGL) consolidated entity for the year ended 30 June 2009 in accordance with the Corporations Act 2001.

1. Results

	30 June 2009	30 June 2008
	$m	$m
Profit after tax attributable to shareholders (Statutory)	**1,596.1**	229.0
Adjust for the following after tax items:		
Significant items	**(1,441.3)**	(62.6)
Changes in fair value of financial instruments	**251.0**	184.6
Pro-forma adjustment	**(27.0)**	(10.0)
Underlying Profit	**378.8**	341.0

Underlying Profit is the Statutory profit adjusted for significant items, changes in fair value of financial instruments and a pro-forma adjustment relating to AGL's PNG oil and gas assets. AGL believes that Underlying Profit provides a better understanding of its financial performance and allows for more relevant comparison of financial performance between financial years.

AGL has previously provided underlying profit guidance of $370 million to $400 million for the year ended 30 June 2009. This guidance removed the impact of customer amortisation relating to AGL's purchase of Powerdirect and SunGas, totalling $18.2 million.

Adding this to the underlying profit in the above table of $378.8 million results in a profit of $397.0 million, which is the relevant comparison for AGL's previous profit guidance of $370 million to $400 million.

1.1 Earnings per Share

Earnings per share calculated on the profit after tax attributable to shareholders (Statutory) were 358.0 cents compared with 52.6 cents in the previous corresponding period.

Earnings per share calculated on the Underlying Profit attributable to shareholders were 85.0 cents compared with 78.3 cents in the previous corresponding period.

1.2 Dividend

The Directors have declared a fully franked final dividend of 28.0 cents per share for the year, which will be paid on 30 September 2009 (compared with 27.0 cents in the previous corresponding period). The record date to determine shareholders' entitlements to the final dividend is 10 September 2009 and shares will commence trading ex-dividend on 4 September 2009.

This will bring the annual dividend to 54.0 cents per share compared with 53.0 cents per share in the previous corresponding period.

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

2. Underlying Profit

The following table provides a detailed reconciliation of the Statutory results to the Underlying Profit. Profit after tax from continuing operations excludes the contributions from PNG oil and gas assets, North Queensland gas pipeline business and GasValpo. Profit after tax from discontinued operations is the consolidated results of PNG oil and gas assets the North Queensland gas pipeline business and GasValpo.

	Profit after tax (Statutory)						Profit after tax (Underlying Profit)	
	Continuing operations		Discontinued operations		Total		Total	
	2009	2008	**2009**	2008	**2009**	2008	**2009**	2008
	$m	$m	**$m**	$m	**$m**	$m	**$m**	$m
EBITDA (before significant items and financial instruments)	**730.4**	674.8	**50.2**	173.0	**780.6**	847.8	**780.6**	847.8
Finance income included in EBITDA	**-**	-	**-**	-	**-**	-	**12.5**	24.0
Operating EBITDA	**730.4**	674.8	**50.2**	173.0	**780.6**	847.8	**793.1**	871.8
Depreciation and amortisation	**(123.0)**	(102.3)	**-**	(66.3)	**(123.0)**	(168.6)	**(123.0)**	(168.6)
EBIT (before significant items and financial instruments)	**607.4**	572.5	**50.2**	106.7	**657.6**	679.2	**670.1**	703.2
Significant income/(expense) items	**785.9**	97.1	**961.0**	(194.7)	**1,746.9**	(97.6)	**-**	-
Changes in fair value of financial instruments	**(302.7)**	(270.5)	**(33.6)**	7.6	**(336.3)**	(262.9)	**-**	-
Operating EBIT	**1,090.6**	399.1	**977.6**	(80.4)	**2,068.2**	318.7	**670.1**	703.2
Finance income	**53.2**	36.5	**0.3**	2.7	**53.5**	39.2	**53.5**	39.2
Finance income included in Operating EBITDA	**-**	-	**-**	-	**-**	-	**(12.5)**	(24.0)
Finance costs	**(132.5)**	(187.6)	**(2.5)**	(3.5)	**(135.0)**	(191.1)	**(135.0)**	(191.1)
Net financing costs	**(79.3)**	(151.1)	**(2.2)**	(0.8)	**(81.5)**	(151.9)	**(94.0)**	(175.9)
Profit/(loss) before tax	**1,011.3**	248.0	**975.4**	(81.2)	**1,986.7**	166.8	**576.1**	527.3
Tax (expense)/income	**(293.1)**	68.3	**(97.5)**	(6.1)	**(390.6)**	62.2	**(170.3)**	(176.3)
Profit/(loss) after tax attributable to shareholders	**718.2**	316.3	**877.9**	(87.3)	**1,596.1**	229.0	**405.8**	351.0
Pro-forma adjustments								
PNG depreciation and amortisation							**(27.0)**	(10.0)
Underlying Profit							**378.8**	341.0

Underlying Profit adjusts Statutory Profit to:

2.1 Remove the impact of significant items,
2.2 Remove the impact of changes in fair value of financial instruments,
2.3 Include the impact of a pro-forma adjustment.

2.1 Significant Items

	30 June 2009		30 June 2008	
	Pre-tax	**PAT**	Pre-tax	PAT
	$m	**$m**	$m	$m
Divestment of non-core businesses	**1,696.3**	**1,429.6**	(34.0)	(22.5)
QGC share of profits and deemed gain on dilution	**-**	**-**	82.6	75.9
Gain in fair value of oil derivatives	**160.8**	**75.0**	-	-
Impairment of non-current assets	**(37.2)**	**(26.0)**	(83.1)	(69.3)
Demerger adjustments	**(16.1)**	**2.6**	(22.3)	81.0
Phoenix change program costs	**(49.5)**	**(34.7)**	(29.1)	(20.4)
Redundancy, termination and restructuring costs	**(3.6)**	**(2.5)**	(11.7)	(8.2)
Tax on derivative financial instruments	**-**	**-**	-	26.1
Onerous contract	**(3.8)**	**(2.7)**	-	-
Total significant items	**1,746.9**	**1,441.3**	(97.6)	62.6

2.1.1 Divestment of non-core businesses

AGL disposed of its oil and gas exploration and production interests in Papua New Guinea (PNG), including a 3.6% interest in the PNG LNG Project, effective 18 December 2008. The sale of the assets resulted in a pre-tax profit of $777.1 million and an after tax profit of $813.6 million. The after tax profit includes the reversal of a deferred tax asset write-off in the previous year of $67.8 million.

AGL disposed of its 21.5% ownership interest in Queensland Gas Company Limited (QGC) on 5 November 2008. The sale of the investment resulted in a pre-tax profit of $753.6 million and an after tax profit of $506.3 million.

AGL disposed of its 50% ownership interest in Auscom Holdings Pty Ltd (Elgas) on 2 October 2008. The sale of the investment resulted in a pre-tax profit of $149.9 million and an after tax profit of $119.9 million.

AGL disposed of its 100% ownership interest in North Queensland Pipeline No 1 Pty Ltd on 1 August 2008. The sale of the business resulted in a pre-tax profit of $23.1 million and an after tax profit of $13.5 million.

AGL disposed of its 100% ownership interest in AGL Power Generation (Hallett Hill) Pty Limited on 28 August 2008. The sale resulted in a pre-tax profit of $0.4 million and an after tax profit of $0.3 million.

AGL disposed of the Wallumbilla Compressor Station on 3 June 2009. The sale resulted in a pre-tax loss of $7.8 million and an after tax loss of $5.5 million.

AGL disposed of its ownership in GasValpo, a Chilean gas distribution business on 30 April 2008 recording a pre-tax loss of $3.0 million and an after tax gain of $27.4 million largely due to the tax benefit of capital losses. A subsequent review of the final tax position on the disposal of GasValpo has resulted in an additional tax expense of $18.5 million included in FY09.

2.1.2 Gain in fair value of oil derivatives

At 30 June 2008, AGL had classified its PNG investment as an asset held for sale. As required under AASB139, AGL could no longer designate as cash flow hedges oil derivatives maturing beyond the expected disposal date, resulting in AGL recognising a $154.7 million pre-tax fair value loss on oil derivatives as a significant item in the 2008 financial year. For the period from 1 July 2008 until the hedges were closed out, movements in oil derivatives resulted in AGL recognising a gain in fair value of $160.8 million pre-tax.

2.1.3 Impairment of non-current assets

AGL has reviewed the recoverable amount of its information technology assets. This identified certain assets that had become redundant as a result of being replaced by new systems and infrastructure. As a result, an impairment charge of $21.5 million before tax and $15.1 million after tax has been recognised.

The ISIS (Steam Turbine) Bagasse plant was one of the generation assets acquired as part of the acquisition of the Powerdirect business. The plant uses sugar cane waste (bagasse) as a fuel source for the ISIS steam boilers which in turn drive the 25MW turbine. The plant has suffered from a number of operational failures in the past two years and despite these failures being rectified by the manufacturer, AGL has significant uncertainty surrounding the reliability and longevity of the plant. As a result an impairment charge of $15.7 million before tax and $10.9 million after tax has been recognised.

2.1.4 Demerger adjustments

AGL and Alinta jointly contracted IBM to operate systems and infrastructure until AGL and Alinta were able to exit from those systems and infrastructure. The cost of running this shared bureau was $8.4 million before tax and $6.4 million after tax.

AGL has rationalised and re-organised its IT infrastructure thus allowing AGL to exit the shared bureau arrangements from May 2009. The cost of exiting the shared bureau was $7.7 million before tax and $5.4 million after tax.

Refunds of income tax relating to pre-demerger periods resulted in AGL receiving a settlement from Alinta of $14.4 million. This benefit has been recognised in tax expense.

2.1.5 Phoenix change program one-off costs

One-off costs totalling $49.5 million before tax and $34.7 million after tax were incurred in implementing the Phoenix change program for the year ended 30 June 2009. The following table provides a breakdown of the major expense categories.

	Before tax $m	After tax $m
Additional temporary call centre	9.2	6.5
Additional temporary labour	20.0	14.0
Exception remediation	16.2	11.3
Consultants	4.1	2.9
Total	49.5	34.7

2.1.6 Redundancy, termination and restructuring costs

Redundancy, termination and restructuring costs of $3.6 million before tax and $2.5 million after tax were incurred during the year.

2.1.7 Onerous contract

AGL has reviewed its leased property portfolio. This identified a property that is only partially occupied by AGL, with a significant area currently sublet to a third party and which is not expected to be renewed once the current tenancy agreement expires in FY10. As a result, this is considered to be an onerous contract and a charge of $3.8 million before tax and $2.7 million after tax has been recognised.

2.2 Changes in Fair Value of Derivative Financial Instruments

AGL uses derivative financial instruments to manage its exposure to interest rate, foreign exchange rate, electricity purchase price and oil price risks arising in the normal course of business. All derivative financial instruments transacted are economic hedges but may not be "effective" hedges for accounting purposes.

Accounting standards require that economic hedges can only be treated as "effective" hedges where the change in the fair value of the item being hedged and the change in the fair value of the derivative instrument substantially offset each other. In these circumstances the change in the fair value of the derivative instrument is reported in equity in the hedge reserve. When the item being hedged is settled, the cumulative change in the fair value of the derivative is transferred from the hedge reserve to offset the financial impact on the Income Statement of the item being hedged.

All other economic hedges are deemed to be "ineffective" hedges. During periods of volatile prices these hedges can create substantial volatility in AGL's earnings.

The change in fair value of financial instruments recognised in profit and loss for the year for both continuing and discontinued operations, excluding significant items, was a loss of $336.3 million before tax. In addition, a gain of $160.8 million before tax was recognised as a significant item.

A reconciliation of the balance sheet movement in the derivative balances to the amount included in the income statement is presented in the following table:

	Net Assets (Liabilities)		
	30 June 2009	30 June 2008	Change
	$m	$m	$m
Electricity derivative contracts	**(48.2)**	1,007.4	(1,055.6)
Oil derivative contracts	**-**	(247.5)	247.5
Interest rate swap and foreign currency derivative contracts	**(22.8)**	19.0	(41.8)
Total net assets for derivative contracts	**(71.0)**	778.9	(849.9)
Change in derivative net asset value	**(849.9)**		
Premiums paid	**(196.9)**		
Equity accounted fair value	**4.1**		
Less:			
premium roll off	**143.1**		
Total change in fair value	**(899.6)**		
recognised in equity hedge reserve	**(724.1)**		
recognised as a significant item relating to the PNG asset sale	**160.8**		
recognised in profit and loss	**(336.3)**		
Total change in fair value	**(899.6)**		

2.3 Pro-Forma Adjustment

Due to the reclassification of PNG as an asset held for sale, AGL did not charge the income statement with any depreciation or amortisation relating to the PNG assets from 1 May 2008, the date the asset was deemed to be held for sale. For the year ended 30 June 2009 the net impact of the reduced depreciation and amortisation was to increase profit by $27.0 million (FY08 $10.0 million). AGL has removed this impact to calculate the Underlying Profit.

As part of the acquisition accounting when AGL purchased the SunGas and Powerdirect assets, $184.6 million was allocated to the value of customer accounts. This is being amortised over the expected life of the customer accounts. For the year ended 30 June 2009, the amortisation amount was $18.2 million compared to $14.5 million for the prior corresponding period.

For the year ended 30 June 2008, AGL made an adjustment to remove the $14.5 million amortisation when calculating Underlying Profit. For the year ended 30 June 2009, this practice has been discontinued and a corresponding adjustment has also been made to the results for the year ended 30 June 2008.

3. Review of Operations

The following review of operations focuses on the Earnings before Interest and Tax ("EBIT") from the combined continuing and discontinued operations before changes in fair value of financial instruments and significant items ("Operating EBIT"). Operating EBIT better reflects the underlying performance of the business. Each section commences with a table reconciling Statutory EBIT with the Operating EBIT. All discussion and analysis of the results refers to the Operating EBIT.

Operating EBIT for the year ended 30 June 2009 was $670.1 million (FY08 $703.2 million). The Statutory and Operating EBIT by segment is presented in the following table:

	EBIT (Statutory)		**EBIT (Operating)**	
	30 June 2009 $m	30 June 2008 $m	**30 June 2009 $m**	30 June 2008 $m
Retail Energy [(1)]	**196.1**	236.3	**266.8**	271.7
Merchant Energy [(2)]	**94.8**	65.1	**447.3**	337.6
Upstream Gas [(3)(6)]	**1,738.0**	36.7	**43.3**	118.3
Energy Investments [(4)]	**193.9**	145.7	**44.0**	73.7
Centrally managed expenses [(5)]	**(154.6)**	(165.1)	**(131.3)**	(98.1)
Total	**2,068.2**	318.7	**670.1**	703.2
Depreciation and amortisation			**123.0**	168.6
Operating EBITDA			**793.1**	871.8
Average funds employed			**6,644.4**	6,623.5
EBIT / Average funds employed			**10.1%**	10.6%

Detailed reconciliations of movements between Statutory EBIT and Operating EBIT are shown in:

(1) Section 3.1
(2) Section 3.2
(3) Section 3.3
(4) Section 3.4
(5) Section 3.5
(6) Excludes pro forma adjustment

3.1 Retail Energy Operating EBIT: Decreased 1.8% to $266.8 million from $271.7 million

	30 June 2009	30 June 2008
	$m	$m
Statutory EBIT	**196.1**	236.3
Significant items	**69.4**	33.2
Finance income included in EBIT	**1.3**	2.2
Operating EBIT	**266.8**	271.7
Add back:		
Depreciation and amortisation	**36.2**	23.3
Operating EBITDA	**303.0**	295.0
Average funds employed	**3,114.8**	2,871.6
EBIT/Average funds employed	**8.6%**	9.5%

Retail Energy is responsible for servicing customers and growing AGL's position in downstream gas and electricity markets. Retail Energy currently services 3.2 million residential, small business commercial and industrial customers across New South Wales, Victoria, South Australia and Queensland.

The key business priorities for Retail Energy are to build AGL's retail capability, achieve operational excellence, and continue improving customer service.

Retail Energy sources its energy from AGL's Merchant Energy business. For mass market customers, the transfer price for this energy is calculated based on methodologies adopted by regulators for determining wholesale energy costs in setting tariffs. For AGL's commercial and industrial (C&I) customers, the transfer price reflects the market price at the time of contracting.

3.1.1 Analysis of Operating EBIT

Retail Energy contributed $266.8 million to Operating EBIT for the year ended 30 June 2009, down 1.8% on the prior corresponding period. A number of factors contributed to the decrease in Operating EBIT and they have been summarised in the table below.

	$m
Operating EBIT for the year ended 30 June 2008	**271.7**
Increase in gas and electricity gross margin	48.5
Increase in depreciation and amortisation	(12.9)
Increase in net operating expenditure	(40.5)
Operating EBIT for the year ended 30 June 2009	**266.8**

3.1.1.1 Gross Margin

Management of the mass market and C&I gross margin during the year ended 30 June 2009 contributed an additional $48.5 million to Operating EBIT.

The C&I gross margin grew by $24.7 million primarily due to a major focus on re-contracting less profitable customers on more favourable terms.

The mass market gross margin increased by $23.8 million primarily as a result of price increases. This was achieved despite a decrease in margins in Queensland as a result of the Queensland Competition Authority (QCA) tariff determination. AGL has successfully appealed this determination, which will not have a retrospective impact, but is expected to impact positively in the financial year ending 30 June 2010.

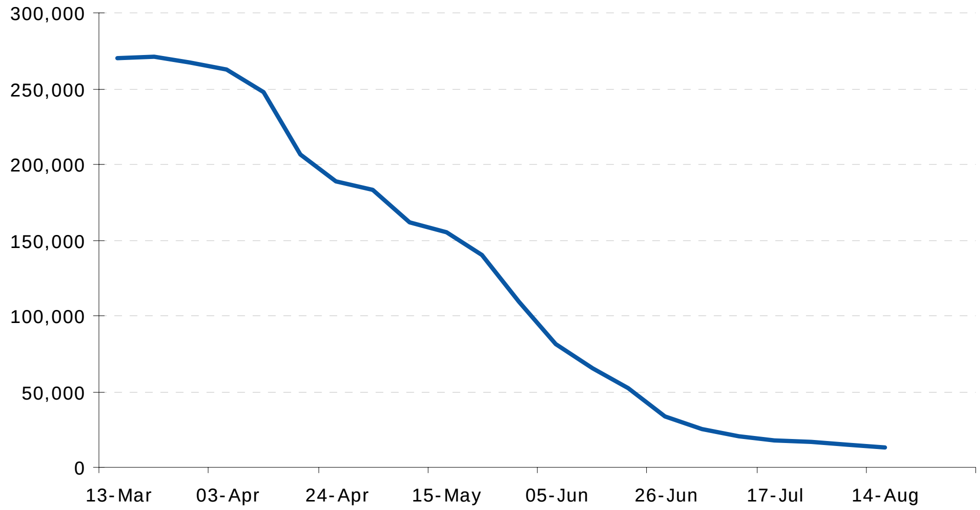
3.1.1.2 Depreciation and Amortisation

Depreciation and amortisation increased by $12.9 million as a result of the full year impact of depreciation associated with Project Phoenix.

3.1.1.3 Net Operating Expenditure

Following the migration of customer accounts to SAP, there were process and billing issues that resulted in service levels for a number of customers not achieving AGL's required performance standards. Resources were increased to resolve these issues prior to pursuing the cost savings and benefits originally scheduled for realisation by 30 June 2009. The most important and costly issue was the resolution of billing backlogs, whereby approximately 270,000 customers were overdue to receive a bill by, on average, four months.

The chart below shows that this issue has now been resolved. The line shows unbilled accounts falling from 270,000 on 13 March 2009 to 13,000 on 14 August 2009. AGL believes that this unbilled level at less than half of 1% of AGL's 3.2 million customers is consistent with industry benchmarks.



The increased resources and flow on impacts of resolving the process and billing issues increased Retail Energy's net operating expenditure by $38.2 million out of a total increase of $40.5 million. The following table provides the breakdown of the material increases in net operating expenditure

	30 June 2009	30 June 2008	Increase
	$m	$m	$m
Labour costs	**99.3**	82.0	17.3
Doubtful debts expense	**57.3**	38.9	18.4
Regulatory costs	**9.7**	7.2	2.5
Other costs (net of fees & charges)	**91.2**	88.9	2.3
Total	**257.5**	217.0	40.5

Following resolution of the process and billing issues, Retail Energy is now well positioned to deliver an operating expenditure performance to build on its 30 June 2009 gross margin performance.

3.1.2 Phoenix Change Program

Retail Energy completed rationalising and redesigning its core operating processes, by replacing its disparate mass-market billing systems. This strategy is intended to drive down operating costs while improving customer service and marketing capability.

The final migration of customer accounts to the SAP billing platform was implemented in November 2008.

A Retail Transformation business unit has been created and given responsibility for delivering the benefits associated with Project Phoenix. As a result of a delay in the final conversion and the level of unbilled customer accounts that did not get resolved until year end (as detailed in Section 3.1.1.3), the benefits will be realised progressively throughout the 2010 financial year, with the first full year of benefits expected in the 2011 financial year.

3.1.3 Dual Fuel Strategy

Retail Energy continued to pursue its dual fuel strategy in the face of increasingly competitive markets. AGL now services 1.24 million dual fuel customer accounts, compared with 1.18 million as at 30 June 2008.

3.1.4 Customer Profitability

AGL aims to provide competitively priced products to customers, while also providing acceptable returns to shareholders. The traditional measure for determining shareholder returns from a customer profitability perspective has been EBIT/Sales, expressed as a percentage. AGL believes that this is not the most appropriate measure because it does not separate sales revenue increases that result from a simple pass-through of costs, such as network costs.

The profitability for a mass market customer is more correctly captured by the gross margin for that customer presented in absolute terms. Following the consolidation to a single billing system, AGL now has the base tools to provide more sophisticated management information relating to gross margin contribution per customer. AGL believes this information will allow it to achieve a higher gross margin by providing detailed segmentation analysis including retention drivers and gross margin by customer segment.

3.1.4.1 Mass Market Gross Margin per mass market customer

The following table provides an analysis on mass market gross margin per mass market customer.

	30 June 2009	30 June 2008	Movement %
Mass market gross margin	**$493.8m**	$470.0m	5.1
Average customer numbers	**3,197,600**	3,171,300	0.8
Mass market gross margin per customer	**$154.40**	$148.20	4.2

Gross margin per mass market customer has increased driven mainly by price increases and targeting higher value customers.

3.1.4.2 EBIT / Sales Analysis

AGL will focus on gross margin per customer detailed in Section 3.1.4.1 as the primary measure for customer profitability. EBIT/Sales analysis will continue to be reported as a secondary measure and this is presented in the following table.

	30 June 2009 $m	30 June 2008 $m	Movement %
Electricity revenue	**3,475.2**	3,298.0	5.4
Gas revenue	**1,497.8**	1,384.3	8.2
Other fees and charges	**50.9**	53.8	(5.4)
Total revenue	**5,023.9**	4,736.1	6.1
Cost of sales	**(4,412.5)**	(4,170.3)	5.8
Gross margin	**611.4**	565.8	8.1
Operating costs (excl D&A)	**(308.4)**	(270.8)	13.9
EBITDA	**303.0**	295.0	2.7
Depreciation and amortisation	**(36.2)**	(23.3)	55.4
EBIT	**266.8**	271.7	(1.8)
EBIT / Sales %	**5.3%**	5.7%	(0.4) pts

3.1.5 Operating Efficiency

Operating efficiency in Retail has traditionally been measured using a cost to serve analysis. AGL does not believe this represents a sophisticated enough analysis of the operating efficiency of Retail Energy. For example, a customer that contributes a high gross margin can have a higher cost to serve than a customer who contributes a negligible, or in some cases, negative gross margin.

A more appropriate analysis measures the operating expenses as a percentage of gross margin. Minimising the operating expenses to gross margin ratio provides Retail Energy with the correct drivers because increasing costs to increase gross margin and/or decreasing costs without decreasing gross margin both provide improved shareholder returns.

3.1.5.1 Net Operating Expenditure as a percentage of Gross Margin

The following table provides the analysis of operating expenditure as a percentage of gross margin.

	30 June 2009	30 June 2008	Movement
	$m	$m	%
Net operating expenditure	**293.7**	240.3	22.2
Gross margin	**611.4**	565.8	8.1
Less fees and charges	**(50.9)**	(53.8)	(5.4)
Gross margin less fees and charges	**560.5**	512.0	9.5
Net operating expenditure as percentage of gross margin (less fees and charges)	**52.4%**	46.9%	5.5 pts

The above table clearly identifies that the increase in operating expenses has significantly outweighed the increase in gross margin. While this is a disappointing result it is explained by the process and billing issues explained in Section 3.1.1.3 and in particular the table contained in that Section.

3.1.5.2 Cost to Serve Analysis

AGL will focus on net operating expenditure/gross margin as detailed in Section 3.1.5.1 as the primary measure for net operating expense analysis. Cost to serve will continue to be reported as a secondary measure and this is presented in the following table.

	30 June 2009	30 June 2008	Movement
	$	$	%
Net operating expenditure	**293.7m**	240.3m	22.2
Net operating cost per customer account	**91.47**	75.47	21.2
Cost to grow/retain	**60.7m**	56.3m	7.8
Cost to grow per account acquired/retained	**73.39**	72.54	1.2
Cost to serve	**233.0m**	184.0m	26.6
Cost to serve per customer account	**72.57**	57.80	25.6

Net operating expenditure is defined as follows:

	30 June 2009	30 June 2008	Movement
	$m	$m	%
Operating costs (excl D&A)	**308.4**	270.8	13.9
Depreciation and amortisation	**36.2**	23.3	55.4
Other fees and charges	**(50.9)**	(53.8)	(5.4)
Net operating expenditure	**293.7**	240.3	22.2

The underlying net operating cost per customer account for the year ended 30 June 2009 was $91.47, a 21.2% increase on the prior corresponding period.

The cost to acquire customers increased by 1.2% from $72.54 per acquired customer for the year ended 30 June 2008 compared to $73.39 for the current year.

The operating cost to serve customers, excluding the cost to acquire new customers, was $233.0 million for the year ended 30 June 2009. When this cost is spread over the average customer base, it results in a cost to serve of $72.57, a 25.6% increase. This is directionally a similar outcome to the operating expenditure/gross margin analysis detailed in Section 3.1.5.1. The result is explained by the process and billing issues explained in Section 3.1.1.3 and in particular the table contained in that Section.

3.1.6 Customer Numbers and Competition

Relatively high levels of competitor activity persisted throughout the year ended 30 June 2009. Total billable customer accounts were static compared with 30 June 2008. The following table provides a breakdown of customer numbers by state.

	30 June 2009 ('000)	30 June 2008* ('000)	Movement ('000)	Movement %
Electricity				
Victoria	**652**	670	(18)	(2.7%)
South Australia	**464**	470	(6)	(1.3%)
New South Wales	**329**	300	29	9.7%
Queensland	**362**	372	(10)	(2.7%)
	1,807	1,812	(5)	(0.3%)
Gas				
Victoria	**473**	488	(15)	(3.1%)
South Australia	**85**	75	10	13.3%
New South Wales	**752**	760	(8)	(1.1%)
Queensland	**86**	73	13	17.8%
	1,396	1,396	-	0.0%
Total	**3,203**	3,208	(5)	(0.2%)

* Following data cleansing for transferring customers to the SAP billing system, it was identified that customer account numbers for FY08 had been overstated by approximately 14,000. FY08 electricity numbers have also been restated to correctly allocate some Powerdirect customers from Queensland to the appropriate State. The above table includes both mass market and C&I customers.

3.2 Merchant Energy Operating EBIT: Increased 32.5% to $447.3 million from $337.6 million

The Merchant Energy group is responsible for developing, operating and maintaining AGL's power generation 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 uses financial hedges, bilateral contracts and physical generation to ensure adequacy of competitively priced supply. Generation assets include Australia's largest privately owned and operated renewable portfolio and a pipeline of development opportunities that positions AGL to benefit from an expansion of the Mandatory Energy Renewable Target and the introduction of the Carbon Pollution Reduction Scheme.

Operating EBIT for the year was $447.3 million compared with $337.6 million for the prior corresponding period. A reconciliation of Statutory EBIT to Operating EBIT and EBITDA is presented below.

	30 June 2009	30 June 2008
	$m	$m
Statutory EBIT	**94.8**	65.1
Significant items	**15.6**	3.5
Change in fair value of financial instruments	**325.7**	258.9
Finance income from Loy Yang investment	**11.2**	10.1
Operating EBIT	**447.3**	337.6
Add back:		
Depreciation and amortisation	**54.7**	51.2
Operating EBITDA	**502.0**	388.8
Average funds employed	**2,440.1**	2,341.5
EBIT/Average funds employed	**18.3%**	14.4%

The Merchant Energy group is structured into four business units: Energy Portfolio Management, Merchant Operations, Energy Services and Power Development.

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

	Operating EBIT		**Operating EBITDA**	
	30 June 2009	30 June 2008	**30 June 2009**	30 June 2008
	$m	$m	**$m**	$m
Energy Portfolio Management	**447.9**	356.3	**454.8**	360.6
Merchant Operations	**(66.2)**	(75.9)	**(26.6)**	(36.8)
Energy Services	**22.4**	28.6	**30.5**	36.3
Power Development*	**51.1**	36.8	**51.1**	36.8
Sundry	**(7.9)**	(8.2)	**(7.8)**	(8.1)
Total Merchant Energy	**447.3**	337.6	**502.0**	388.8

* Operating EBIT and EBITDA include development fees of $54.6 million and $40.0 million for FY09 and FY08 respectively.

3.2.1 Energy Portfolio Management Operating EBIT: Increased 25.7% to $447.9 million from $356.3 million

Energy Portfolio Management (EPM) is responsible for managing the price risk associated with procuring electricity and gas. It also controls the dispatch of owned and contracted generation assets which complement the portfolio of electricity hedges.

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

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

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

The following table provides the component parts of EPM's Operating EBIT and EBITDA:

	Operating EBIT		**Operating EBITDA**	
	30 June 2009	30 June 2008	**30 June 2009**	30 June 2008
	$m	$m	**$m**	$m
Wholesale Electricity	**311.0**	295.5	**317.4**	299.8
Wholesale Gas	**103.3**	61.7	**103.8**	61.7
Eco-Markets	**33.6**	(0.9)	**33.6**	(0.9)
Total EPM	**447.9**	356.3	**454.8**	360.6

3.2.1.1 Wholesale Electricity Operating EBIT: Increased 5.2% to $311.0 million from $295.5 million

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

The improvement in Operating EBIT was driven by:

- Effective portfolio management resulting in a relatively lower net electricity purchase cost for the year compared to the prior year;
- Higher revenues primarily resulting from regulatory price increases for mass market customers.

The strength of the result is understated as it excludes any contribution from Eco-markets in 2009 (a distinct business unit in FY09, see section 3.2.1.3)

3.2.1.2 Wholesale Gas Operating EBIT: Increased 67.4% to $103.3 million from $61.7 million

The Wholesale Gas business unit is responsible for sourcing and managing AGL's gas supply and transportation portfolio to maximise wholesale price effectiveness for the

Retail business. Wholesale Gas also supplies other retailers and internal and third party gas fired generators.

The improvement in Operating EBIT was driven by:

- Portfolio benefits from effective management of the Wholesale Gas portfolio, which has led to improved margins;
- Higher mass market volumes, particularly in NSW and Victoria, partially offset by lower generation volumes for Torrens Island Power Station;
- Reduced supply costs through effective management of available gas supply agreements and the Victorian gas market;
- Benefit of LNG sales during periods of extreme Victorian pool prices in November 2008.

3.2.1.3 Eco-Markets Operating EBIT: Increased to $33.6 million from an expense of ($0.9) million

The Eco-Markets business unit manages AGL's green product obligations and liaises with various State and Federal government departments to ensure legislative outcomes that deliver a smooth transition to a carbon constrained energy economy. Eco-Markets shapes AGL's carbon strategy and was responsible for Australia's first carbon trade.

Eco-Market's Operating EBIT is the difference between the charge for green product obligations included in customer pricing and the actual cost to acquit, less operating overheads. For mass market customers, the charge is based on methodologies adopted by regulators for determining wholesale green costs in setting tariffs. For C&I customers, the charge included is based on current market pricing. Margin is generated where AGL owned or contracted sources create green products at historically set rates which are cheaper than current market prices. For example, margin includes the difference between the cost of RECs created from wind farm PPAs and the current market price. Margin is also created from the effective management of AGL's portfolio.

FY08 EBIT contribution was embedded in Wholesale Electricity Operating EBIT (see section 3.2.1.1). The increase in FY09 versus the prior year is therefore overstated.

The improvement in Operating EBIT was driven by:

- Expanding market opportunities increasing the volume of green products sold.
- Growth in AGL's renewable generation portfolio increasing the proportion of green products sourced internally at historically set costs which were lower than current market prices;
- A lower cost in the current year to acquit prior year green obligations than accrued in the prior year;
- Effective portfolio management resulting in a relatively lower net purchase cost for the year;
- Prior year Operating EBIT shown of $0.9 million loss being only the overhead of the former Carbon Solutions business unit. Gross margin from green products was previously included in Wholesale Electricity.

3.2.2 Merchant Operations Operating Expense: Decreased 12.8% to $66.2 million from $75.9 million

Merchant Operations is responsible for managing and maintaining both owned and third party generation assets. AGL's thermal and renewable generation portfolio primarily consists of the 1,280MW gas fired Torrens Island Power Station, the 150MW Somerton gas fired power station and 571MW of hydro generation, in addition to dispatch rights for the 320MW gas fired Oakey power station and off-take and asset management agreements for the Wattle Point and Hallett wind farms.

Merchant Operations is largely a cost centre with all generation revenues and variable fuel costs included in the Energy Portfolio Management division. It also holds AGL's Loy Yang investment, which consists of an interest bearing loan and 32.54% equity stake in Great Energy Alliance Corporation Pty Limited (trading as Loy Yang Power).

The following table provides the component parts of the business unit Operating EBIT and EBITDA:

	Operating EBIT		**Operating EBITDA**	
	30 June 2009	30 June 2008	**30 June 2009**	30 June 2008
	$m	$m	**$m**	$m
Merchant Operations	**(97.0)**	(88.3)	**(57.4)**	(49.2)
Loy Yang Investment	**30.8**	12.4	**30.8**	12.4
Total Merchant Operations	**(66.2)**	(75.9)	**(26.6)**	(36.8)

3.2.2.1 Merchant Operations (excluding Loy Yang) Operating Expense Increased 9.9% to $97.0 million from $88.3 million

This increase in Merchant Operations operating expense was largely due to increased labour and maintenance costs ($8.5 million) and costs associated with new generation facilities ($0.9 million) partly offset by targeted reductions in other operating expenses.

Merchant Operations major operational achievements for the year ended 30 June 2009 were as follows:

- Output from the Hallett 1 Wind Farm exceeded the investment case assumed capacity which demonstrates AGL's ability to effectively deliver value accretive renewable generation facilities. Hallett 2 started commissioning and performance trials during the year with encouraging performance and output levels.
- Continued refurbishment of the 60MW West Kiewa Power Station, which will take four years to complete. The refurbishment of the first 15MW unit was completed in November 2008.
- At Torrens Island Power Station, the operations team began work on modernising the majority of the plant's control systems. This is a three year project forecast to cost approximately $39 million with the final stage to be commissioned in November 2011.
- A Kiewa Scheme water management plan has been developed to allow for normal operations in addition to the provisioning of water for the commissioning of the Bogong Hydro Power Station during the fourth quarter of 2009.
- Completed planning activities for the commissioning of the 140MW Bogong hydro power station, which is anticipated to begin in October 2009. Commissioning is expected to take three months with full operational capability scheduled from December 2009.

The West Kiewa scheme experienced an average snow melt from winter 2008 and dam levels rose accordingly.

The Dartmouth hydro facility was unable to generate during the year ended 30 June 2009 due to insufficient water levels. However, inflows to the dam continued to improve over the period with a commensurate rise in water level resulting in an increase in dam levels to 21.0% at 30 June 2009 from 18.0% at 30 June 2008.

3.2.2.2 Loy Yang Investment Operating EBIT: Increased 148.4% to $30.8 million from $12.4 million

Operating EBIT of $30.8 million (FY08 $12.4 million) comprised an equity share of profit of $19.6 million (FY08 $2.3 million) and interest income of $11.2 million (FY08 $10.1 million).

Loy Yang's operating result improved over the prior year for the following reasons.

1. Revenue grew by 9% due largely to an improved contract position offset by lower generation and a reduction in the pool price:

Average Victorian Reference Pool Price

	1st six months $/MWh	2nd six months $/MWh	Full Year $/MWh	Generation Volumes GWh
FY08	49.21	44.33	46.79	15,484
FY09	36.17	47.55	41.82	14,911

2. Other revenue rose $2.3 million mainly driven by an insurance claim resulting from a Dredger breakdown.

3. Loy Yang's operating costs and depreciation expense both increased by 7% offset by a 5% reduction in interest expense.

3.2.3 Energy Services Operating EBIT: Decreased 21.7% to $22.4 million from $28.6 million

The Energy Services business unit is responsible for assisting customers to make their businesses more sustainable and energy efficient. It also manages the HC Extractions LPG facility. The Energy Services business continued to build upon its expertise in program maintenance, gas combustion, customer energy infrastructure, customer based asset development and energy efficiency related carbon benefits.

HC Extractions produces LPG and naptha by processing refinery off-gases supplied by the adjacent Caltex oil refinery in Kurnell, Sydney, with all production sold back to Caltex.

During the year, construction of the Brisbane City Council Compressed Natural Gas (CNG) bus facility at Willawong commenced in addition to the expansion of the CNG refuelling facility at Leichhardt in New South Wales. Two landfill projects were successfully completed during the year being the Woy Woy and Kincumber landfills in New South Wales.

Late in the financial year AGL signed a variation to the existing contract with Melbourne Water for the installation of an additional 2 x 1 MW gas engines, bringing the total generation capacity to 10 MW. It is expected to be fully operational by the end of June 2010.

The decline in earnings arose from lower contracted electricity prices, a turbine failure at one of the plants and lower LPG prices for HC Extractions.

3.2.4 Power Development Operating EBIT: Increased 38.9% to $51.1 million from $36.8 million

Power Development Operating EBIT consists of wind farm development fees less operating expenses associated with the business unit. Development fees are recognised from the construction of wind farms sold to third parties over which AGL has a long term off-take and operating fee agreement in place.

During the year ended 30 June 2009, AGL completed the construction of Hallett 1, commenced commissioning Hallett 2 and recognised $54.6 million in development fees. In the prior corresponding period, $40.0 million in development fees relating to Hallett 1 were recognised. Development fees are recognised on a percentage of completion basis. Hallett 2 is ahead of the construction schedule and this resulted in higher development fees than originally expected for FY09.

AGL continued to grow its portfolio of wind farm development opportunities during the period including the acquisition of six development projects from Allco Finance Group Limited, two development projects from Investec Wind Holdings Pty Ltd, and a further two developments from Transfield Services Limited.

As the pipeline of wind farm development opportunities continues to grow, AGL has the option to maintain ownership or sell the wind farms with project finance, off-take and operating arrangements in place and a consequent stream of development fees.

3.3 Upstream Gas Operating EBIT (including pro-forma adjustments): Decreased 84.9% to $16.3 million from $108.3 million

Operating EBIT for the year was $16.3 million compared with $108.3 million for the prior corresponding period. A reconciliation of Statutory EBIT to Operating EBIT and EBITDA is presented below:

	30 June 2009	30 June 2008
	$m	$m
Statutory EBIT	**1,738.0**	36.7
Significant items	**(1,705.3)**	77.6
Changes in fair value of financial instruments	**10.6**	4.0
Operating EBIT	**43.3**	118.3
Pro-forma depreciation adjustment	**(27.0)**	(10.0)
Operating EBIT after pro-forma adjustment	**16.3**	108.3
Add back:		
Depreciation and amortisation (including pro-forma)	**47.4**	88.0
Operating EBITDA	**63.7**	196.3
Average funds employed	**988.6**	1,018.7
EBIT/Average funds employed	**4.4%**	11.6%

Upstream Gas is responsible for AGL's investments in gas (coal seam and conventional) exploration, development and production tenements, as well as exploration and development of geothermal renewable energy sources. The portfolio is divided into two broad regions: (i) Queensland / South Australia and (ii) New South Wales.

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

	Operating EBIT		**Operating EBITDA**	
	30 June 2009	30 June 2008	**30 June 2009**	30 June 2008
	$m	$m	**$m**	$m
PNG upstream investment (including pro-forma adjustment)	**22.4**	75.9	**49.4**	147.4
Queensland / South Australia	**(6.8)**	23.4	**8.0**	35.5
New South Wales	**1.2**	1.4	**6.7**	5.8
Equity investments	**2.7**	6.6	**2.3**	6.6
Sundry	**(3.2)**	1.0	**(2.7)**	1.0
Total Upstream Gas	**16.3**	108.3	**63.7**	196.3

3.3.1 PNG Upstream Investment Operating EBIT: Decreased 70.5% to $22.4 million from $75.9 million

On 18 December 2008, AGL completed the sale of its oil and gas exploration and production interests in Papua New Guinea (PNG), including a 3.6% interest in the PNG LNG Project. After costs and tax, the net profit on disposal was $813.6 million which has been recorded as a significant item.

On a pro-forma basis, Operating EBIT was $22.4 million (FY08 $75.9 million). The decrease in pro forma earnings was due to the completion of the sale in December 2008 with the resulting FY09 earnings representing five and a half months compared to a full 12 months in the comparative period. The FY09 result was also affected by declining field production, and rising operating costs.

3.3.2 Queensland / South Australia Operating EBIT: Decreased to ($6.8 million) from $23.4 million

The Queensland / South Australia portfolio includes the Moranbah Gas Project in joint venture with Arrow Energy Limited (Arrow) and Shell, the North Queensland Energy (NQE) joint venture with Arrow, the Galilee Basin, Cooper Basin and Spring Gully joint ventures and the gas market development services agreement with QGC (BG Group).

The reduction in Operating EBIT was due largely to the performance of the NQE business, which was impacted by significantly lower Queensland electricity pool prices. Average annual pool prices fell from $52/MWh in FY08 to $34/MWh in FY09. The NQE business also incurred higher costs in FY09 following the contracting of additional gas transportation capacity, in association with the sale of the North Queensland Gas Pipeline, in advance of full capacity operations of the Moranbah Gas Project and Yabulu Power Station. The Power Station also underwent a scheduled maintenance outage of approximately six weeks over September - November 2008 during which time a turbine blade upgrade was performed that increased the capacity of the Power Station by 12.7 MW and improved its thermal efficiency.

Moranbah sales fell during the year while production was shut-in for six weeks during scheduled maintenance at the Yabulu Power Station. All wells recovered to pre-shut-in production levels on their return to operation.

On 30 June 2008, AGL and Arrow entered into a sale and purchase agreement with Victorian Funds Management Corporation for the sale of the North Queensland Gas Pipeline. The sale was completed on 1 August 2008 and resulted in a pre-tax profit of $23.1 million (after tax $13.5 million) which has been classified as a significant item. Prior to disposal, this asset contributed Operating EBIT of $0.7 million (FY08 $6.9 million).

On 11 July 2008, AGL announced a $37.0 million farm-in investment to a coal seam gas production pilot and exploration and appraisal program in Queensland's Galilee Basin. This investment did not contribute to Operating EBIT in the year.

On 5 November 2008, AGL acquired a 400TJ gas bank and 50% of Tri-Star Petroleum Company's current joint venture working interests and related assets in the Spring Gully coal seam gas project for $15.8 million. This investment did not contribute to Operating EBIT in the year.

On 20 January 2009, AGL announced an investment in the Cooper Basin, acquiring interests in PEL 101 and PEL 103 from Innamincka Petroleum Limited, which involved a $15.0 million cash payment and the funding of a $10.0 million work program. AGL's share of oil sales income from this investment contributed $0.3 million to operating EBIT in the year.

3.3.3 New South Wales Operating EBIT: Decreased 14.3% to $1.2 million from $1.4 million

The New South Wales portfolio includes the Camden Gas Project, Sydney Basin exploration and Gloucester Basin assets.

Operating EBIT contribution from the Camden Gas Project was $1.2 million (FY08 $1.4 million) with sales volume increasing 26% to 3.3 PJ (FY08 2.6 PJ), largely as a result of AGL increasing its interest in the Project from 50% to 100% from April 2009. This was more than offset by higher operating costs in FY09 due to a higher level of drilling activity and work associated with the well-bore clean up of surface-to-in-seam (SIS) wells.

Five wells were drilled at Camden during the year targeting the Bulli and Balgownie coal seams, comprising four SIS wells (including the first dual SIS well) and one vertical well completion. Delays in the land and approvals process deferred drilling of additional wells. Three of the five wells drilled are currently successfully producing to the Rosalind Park Gas

Plant including the first Balgownie SIS well. The remaining two wells are currently being dewatered.

On 19 December 2008, AGL acquired 100% of the interests in PEL 285 in the Gloucester Basin of New South Wales from Lucas Energy and Molopo Australia for a total cost of $377.8 million. This investment did not contribute to Operating EBIT in the year.

On 1 April 2009, AGL announced the completion of its acquisition of shares in Sydney Gas Limited (SGL) for a total consideration of $189.9 million, including transaction costs, with the operations of SGL absorbed into the AGL Group from this date.

3.3.4 Equity Investments Operating EBIT: Decreased 59.1% to $2.7 million from $6.6 million

Equity investments include AGL's share investments in Queensland Gas Company Limited (QGC), CSM Energy Limited and Torrens Energy Limited (TEY).

AGL disposed of its 21.5% shareholding in QGC on 5 November 2008. The sale of QGC shares resulted in a pre-tax profit of $753.6 million ($506.3 million after tax) which has been classified as a significant item. Prior to disposal, QGC contributed Operating EBIT of $2.6 million (FY08 $6.8 million).

AGL has a 35% shareholding in CSM Energy Limited, an unlisted public company. The Operating EBIT contribution from this investment was a loss of $0.3 million (FY08 loss $0.2 million).

AGL's renewable energy portfolio was enhanced during the year with the acquisition of a 9.99% shareholding in TEY, a publicly-listed company trading on the ASX. AGL and TEY also entered into a Geothermal Alliance Agreement to commercialise base load geothermal projects close to the National Electricity Market. This investment did not contribute to Operating EBIT in the year.

3.3.5 Gas Sales and Reserves Position

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

AGL share of operations	30 June 2009	30 June 2008
Gas sales (PJ)		
Queensland / South Australia	**6.9**	7.8
New South Wales	**3.3**	2.6
Sales revenue ($m)		
Queensland / South Australia*	**16.2**	17.3
New South Wales	**11.1**	8.8

* Includes revenue attributable to AGL's 50% interest in the Moranbah Gas Project and its Gas Supply Agreement with the North Queensland Energy joint venture.

AGL's share of proved plus probable (2P) and proved plus probable plus possible (3P) coal seam gas (CSG) reserves by project is summarised in the table below:

AGL share of CSG reserves (PJ)	**30 June 2009**		31 December 2008	
	2P	**3P**	2P	3P
Moranbah Gas Project (50%)	**497**	**1,079**	416	1,051
Gloucester Basin (PEL 285) (100%)	**423**	**630**	175	370
Camden Gas Project (100%)	**129**	**173**	82	108
Spring Gully Project (various)	**7**	**9**	6	8
Total	**1,056**	**1,891**	679	1,537

Certified reserves at Moranbah were upgraded during the year as a result of ongoing appraisal and development within the Project area. AGL also took up its back-in rights to two additional petroleum leases (PL 223 and PL 224). Subsequent to 30 June 2009, certified reserves at Moranbah were upgraded by 19% to 497 PJ at the 2P level as at 30 June 2009.

Subsequent to 30 June 2009, certified reserves for PEL 285 in the Gloucester Basin were upgraded by 142% to 423 PJ at the 2P level and by 70% to 630 PJ at the 3P level as at 30 June 2009.

Subsequent to 30 June 2009, certified reserves in the Camden area were upgraded by 57% to 129 PJ at the 2P level and by 60% to 173 PJ at the 3P level as at 30 June 2009.

3.4 Energy Investments Operating EBIT: Decreased 40.3% to $44.0 million from $73.7 million

	30 June 2009	30 June 2008
	$m	$m
Statutory EBIT	**193.9**	145.7
Significant items	**(149.9)**	(83.7)
Interest on loan to AlintaAGL	**-**	11.7
Operating EBIT	**44.0**	73.7
Add back:		
Depreciation and amortisation (GasValpo)	**-**	4.8
Operating EBITDA	**44.0**	78.5

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

	30 June 2009	30 June 2008
	$m	$m
ActewAGL	**27.9**	26.0
Elgas	**10.6**	15.6
GasValpo	**-**	13.5
AlintaAGL	**-**	13.6
Other	**5.5**	5.0
Operating EBIT	**44.0**	73.7

3.4.1 ActewAGL (50% AGL ownership) Operating EBIT: Increased 7.3% to $27.9 million from $26.0 million

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

ActewAGL contributed an equity share of profits of $27.9 million for the year ended 30 June 2009 compared to $26.0 million for the corresponding prior period.

The favourable outcome resulted from increased margins in both the gas and electricity markets. Increased gas margins were driven by colder weather patterns, commercial volume growth and an increase in gas prices. Improved electricity margins resulted from tariff increases and generally higher electricity volumes from an increase in the number of electricity customers.

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

3.4.2 Elgas (50% AGL ownership disposed) Operating EBIT: Decreased 32.1% to $10.6 million from $15.6 million

AGL disposed of its 50.0% ownership interest in Auscom Holdings Pty Ltd (Elgas) on 2 October 2008. The sale of Elgas resulted in a pre-tax profit of $149.9 million (after tax $119.9 million) which has been classified as a significant item.

There was no equity share of profits for the year (FY08 $10.0 million) as AGL had classified Elgas as an investment held for sale from 1 May 2008. However, AGL received a dividend of $5.6 million in June 2008. AGL also received a dividend of $10.6 million prior to the sale of Elgas that has been recognised as income in the current period.

3.4.3 GasValpo (100% AGL ownership previously disposed) Operating EBIT: Decreased to $nil from $13.5 million

AGL disposed of GasValpo on 30 April 2008 and therefore there was no Operating EBIT contribution for the current year (FY08 $13.5 million).

3.4.4 AlintaAGL (33% AGL ownership previously disposed) Operating EBIT: Decreased to $nil from $13.6 million

AGL disposed of its investment in AlintaAGL on 12 December 2007 and therefore there was no Operating EBIT contribution for the current year (FY08 $13.6 million).

3.5 Centrally Managed Expenses: Increased 33.8% to $131.3 million from $98.1 million

	30 June 2009 $m	30 June 2008 $m
Statutory EBIT	**(154.6)**	(165.1)
Significant items	**23.3**	67.0
Operating EBIT	**(131.3)**	(98.1)
Add back:		
Depreciation and amortisation	**11.7**	11.3
Operating EBITDA	**(119.6)**	(86.8)

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

	30 June 2009 $m	30 June 2008 $m
Labour	**(34.1)**	(32.8)
Office leases	**(14.3)**	(11.8)
Hardware and software costs	**(36.5)**	(8.5)
Consultants and contractor fees	**(8.4)**	(11.6)
Insurance premiums	**(5.9)**	(5.0)
Depreciation and amortisation	**(11.7)**	(11.3)
Other	**(20.4)**	(17.1)
Total	**(131.3)**	(98.1)

Centrally managed expenses have largely increased in line with inflation after removing the impact of additional information technology services and additional office accommodation.

The major increases in hardware and software costs were due to infrastructure and application support outsourcing arrangements, including those related to Project Phoenix, being fully operational for the full year ($13.9 million), additional Phoenix related license and support agreements ($2.3 million), the roll out of AGL IT infrastructure and systems to Powerdirect and SunGas ($2.5 million), additional license, infrastructure and application support costs ($4.4 million). Additionally, certain costs that were previously charged to business units are now recorded centrally ($4 million).

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

However, although not formally reallocated for the purposes of reporting Operating EBIT, a substantial proportion of the expenses can be attributed to the business units. The following tables provide further analysis of the centrally managed expenses incurred on behalf of business units during the years ended 30 June 2009 and 30 June 2008.

30 June 2009	Centrally Managed Expenses $m	Reallocate Retail Energy $m	Reallocate Merchant Energy $m	Reallocate Upstream Gas $m	Unallocated $m
Labour	(34.1)	1.3	1.3	1.1	(30.4)
Office leases	(14.3)	9.1	3.3	0.4	(1.5)
Hardware and software costs	(36.5)	25.6	8.4	0.3	(2.2)
Consultants and contractor fees	(8.4)	1.1	0.5	-	(6.8)
Insurance premiums	(5.9)	2.2	3.5	-	(0.2)
Depreciation and amortisation	(11.7)	7.1	3.2	0.1	(1.3)
Other	(20.4)	1.9	0.9	-	(17.6)
Total	(131.3)	48.3	21.1	1.9	(60.0)

30 June 2008	Centrally Managed Expenses $m	Reallocate Retail Energy $m	Reallocate Merchant Energy $m	Reallocate Upstream Gas $m	Unallocated $m
Labour	(32.8)	2.2	0.7	0.7	(29.2)
Office leases	(11.8)	8.1	2.5	0.3	(0.9)
Hardware and software costs	(8.5)	5.3	2.7	0.2	(0.3)
Consultants and contractor fees	(11.6)	1.3	0.6	-	(9.7)
Insurance premiums	(5.0)	1.9	3.0	-	(0.1)
Depreciation and amortisation	(11.3)	7.0	3.0	0.1	(1.2)
Other	(17.1)	1.3	0.7	-	(15.1)
Total	(98.1)	27.1	13.2	1.3	(56.5)

4. Net Financing Costs: Decreased 46.6% to $94.0 million from $175.9 million

	30 June 2009	30 June 2008
	$m	$m
Statutory finance costs	**(135.0)**	(191.1)
Statutory finance income	**53.5**	39.2
Remove finance income included in EBITDA	**(12.5)**	(24.0)
Net financing costs	**(94.0)**	(175.9)

Net financing costs for the year were $94.0 million (FY08 $175.9 million). The decrease in net financing costs was mainly due to lower average net debt. Average net debt for the year ended 30 June 2009 was $907 million (FY08 $2.5 billion). Average net debt decreased during the year due largely to the impact of AGL's divestment of non-core assets, including:

- QGC for $1,176.6 million in gross proceeds,
- Elgas for $221.1 million in gross proceeds,
- North Queensland gas pipeline business for $102.9 million in gross proceeds,
- PNG oil and gas assets for $1,108 million in gross proceeds,

Partially offsetting the funds received from the asset sales, AGL purchased:

- Gloucester Basin coal seam gas assets for $377.8 million,
- Sydney Gas Limited for $189.9 million,
- Other acquisitions for $64.8 million.

The average net interest rate decreased from 7.2% to 6.7% due to easing underlying interest rates, offset partially by tightening credit markets.

During the year AGL refinanced $800 million of debt and now has no interest bearing liabilities due until October 2011.

5. Tax Expense: Decreased 3.4% to $170.3 million from $176.3 million

	30 June 2009	30 June 2008
	$m	$m
Statutory tax (expense) / income	**(390.6)**	62.2
Tax expense / (benefit) from significant items	**305.6**	(160.2)
Tax benefit from fair value movements	**(85.3)**	(78.3)
Underlying tax expense	**(170.3)**	(176.3)

The underlying effective tax rate was 29.6% (FY08 33.4%). The effective tax rate reduced due to the divestment of PNG, which had a tax rate of 50% and a higher contribution from Loy Yang which is equity accounted on an after tax basis.

6. Operating Cash Flow

6.1 Reconciliation of Operating EBITDA to Operating Cash flow

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

		30 June 2009 **$m**		30 June 2008 $m
EBITDA (before significant items)		**793.1**		871.8
Equity accounted income (net of dividends received)		**(23.4)**		(13.4)
Accounting for onerous gas contract		**(20.9)**		(20.9)
Working Capital movements				
Decrease / (increase) in receivables	**(83.8)**		(48.3)	
Decrease / (increase) in net green position	**(44.2)**		51.5	
Decrease / (increase) in other assets	**(20.4)**		(10.8)	
Decrease / (increase) in inventories	**(8.3)**		(11.1)	
Net PNG oil and foreign exchange hedge payments	**(2.8)**		1.3	
Increase / (decrease) in creditors	**(29.1)**		(96.4)	
Net AEMO and futures margin calls	**(66.8)**		(46.7)	
Timing of Hallett 1 construction payments	**(32.0)**		13.4	
Other	**14.0**		(12.7)	
Total Working Capital movements		**(273.4)**		(159.8)
Operating Cash Flow before Interest & Tax		**475.4**		677.7
Net Finance Costs		**(109.1)**		(158.4)
Tax Paid		**(61.7)**		(104.6)
Operating Cash Flow after Interest & Tax		**304.6**		414.7
Cash flow relating to significant items		**(69.2)**		(60.1)
Statutory net cash provided by operating activities		**235.4**		354.7

6.2 Underlying Operating Cash Flow Increased 12.9% to $447.6 million from $396.6 million

The statutory net cash flow provided by operating activities does not take into account a number of material items that impact operating cash flow. AGL has made adjustments to take this into consideration to produce an underlying operating cash flow.

	30 June 2009 **$m**	30 June 2008 $m
Statutory net cash provided by operating activities	**235.4**	354.7
Cash flow relating to significant items	**69.2**	60.1
Net AEMO deposits and futures margin calls	**66.8**	46.7
Increase / (decrease) in net green position	**44.2**	(51.5)
Timing of Hallett 1 construction payments	**32.0**	(13.4)
Underlying Operating Cash Flow	**447.6**	396.6

6.2.1 Significant Items

AGL incurred cash expenses in FY09 relating to demerger adjustments, Phoenix change program one-off costs, redundancy, termination and restructuring costs. These costs are explained in detail in Section 2.1.

6.2.2 Net AEMO Deposits and Futures Margin Calls

AGL posts deposits with the futures exchange at the inception of a contract. Depending on market movements, AGL subsequently pays or receives cash. The net payment for FY09 was $66.8 million (FY08 $285.0 million).

AGL may occasionally deposit funds with AEMO (formerly NEMMCO) as security for spot electricity purchases. No such deposits were outstanding for FY09. In FY08 AGL received $238.3 million in deposit refunds that were outstanding from FY07.

6.2.3 Net Green Position

AGL purchases various green products to satisfy its green energy compliance obligations. As at 30 June 2009, AGL had purchased $19.1 million certificates relating to future obligations, compared to a shortfall of $25.1 million in FY08, a net movement of $44.2 million.

6.2.4 Hallett 1 Construction Payments

During FY08, AGL received $13.4 million for construction costs in advance of the payments made to the building consortium. During FY09 AGL paid this $13.4 million plus $18.6 million received in FY07, a total of $32.0 million.

Energy in action®

Directors in Office

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

	First Appointed
Mark Roderick Granger Johnson – Chairman	17 February 2006
Michael Anthony Fraser – Managing Director	22 October 2007
Carolyn Judith Hewson	17 February 2006 (retired 28 February 2009)
Maxwell Gilbert Ould	17 February 2006
Graham John Reaney	5 July 2006
Jeremy Charles Roy Maycock	9 October 2006
Sandra Veronica McPhee	9 October 2006
Bruce John Phillips	23 August 2007
Leslie Victor Hosking	1 November 2008
John Victor Stanhope	9 March 2009

Rounding of Amounts to Nearest $0.1 Million

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

Mark Johnson
Chairman

AGL Energy Limited and Subsidiaries
Income Statement
For the year ended 30 June 2009

	Note	2009 $m	2008 $m
Continuing operations			
Revenue	3	**5,909.9**	5,429.6
Other income	4	**959.3**	186.5
Expenses	5	**(5,710.0)**	(5,214.5)
Share of profits of associates and jointly controlled entities using the equity method	14	**54.4**	99.8
Profit before net financing costs, depreciation and amortisation		**1,213.6**	501.4
Depreciation and amortisation	6	**(123.0)**	(102.3)
Profit before net financing costs		**1,090.6**	399.1
Finance income		**53.2**	36.5
Finance costs		**(132.5)**	(187.6)
Net financing costs	7	**(79.3)**	(151.1)
Profit before tax from continuing operations		**1,011.3**	248.0
Income tax (expense)/income	9	**(293.1)**	68.3
Profit after tax from continuing operations		**718.2**	316.3
Discontinued operations			
Profit/(loss) after tax from discontinued operations	13	**877.9**	(87.3)
Profit after tax attributable to shareholders of the Parent Entity		**1,596.1**	229.0
Earnings per share			
From continuing and discontinued operations:			
Basic earnings per share (cents)		**358.0**	52.6
Diluted earnings per share (cents)		**357.6**	52.6
From continuing operations:			
Basic earnings per share (cents)		**161.1**	72.6
Diluted earnings per share (cents)		**160.9**	72.6
Weighted average number of ordinary shares			
Basic (millions)		**445.8**	435.6
Diluted (millions)		**446.3**	435.8

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

AGL Energy Limited and Subsidiaries
Balance Sheet
As at 30 June 2009

	Note	2009 $m	2008 $m
Current assets			
Cash and cash equivalents		**623.1**	63.8
Trade and other receivables		**1,209.7**	1,171.0
Inventories		**51.2**	38.7
Current tax assets		**-**	47.9
Other financial assets		**438.3**	1,210.9
Other assets		**151.4**	97.6
		2,473.7	2,629.9
Non-current assets classified as held for sale		**-**	71.2
Assets of disposal groups classified as held for sale	13	**-**	459.3
Total current assets		**2,473.7**	3,160.4
Non-current assets			
Trade and other receivables		**0.7**	0.8
Investments accounted for using the equity method		**182.6**	585.0
Exploration and evaluation assets		**569.9**	25.9
Oil and gas assets		**295.2**	150.7
Property, plant and equipment		**2,109.1**	1,821.2
Intangible assets		**3,161.1**	3,154.9
Other financial assets		**186.0**	464.1
Other assets		**56.4**	89.9
Total non-current assets		**6,561.0**	6,292.5
Total assets		**9,034.7**	9,452.9
Current liabilities			
Trade and other payables		**800.8**	852.0
Borrowings		**-**	-
Provisions		**29.6**	24.3
Current tax liabilities		**229.9**	23.4
Other financial liabilities		**444.0**	770.4
Other liabilities		**1.4**	1.9
		1,505.7	1,672.0
Liabilities of disposal groups classified as held for sale	13	**-**	53.0
Total current liabilities		**1,505.7**	1,725.0
Non-current liabilities			
Trade and other payables		**19.0**	38.2
Borrowings		**1,120.2**	2,101.7
Provisions		**202.9**	201.6
Deferred tax liabilities		**218.4**	379.2
Other financial liabilities		**59.0**	12.8
Other liabilities		**63.8**	14.5
Total non-current liabilities		**1,683.3**	2,748.0
Total liabilities		**3,189.0**	4,473.0
Net assets		**5,845.7**	4,979.9
Equity			
Issued capital	15	**4,030.3**	3,971.6
Reserves		**13.0**	501.3
Retained earnings		**1,802.4**	507.0
Total equity		**5,845.7**	4,979.9

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

AGL Energy Limited and Subsidiaries
Cash Flow Statement
For the year ended 30 June 2009

	Note	2009 $m	2008 $m
Cash flows from operating activities			
Receipts from customers		**6,777.5**	6,651.4
Payments to suppliers and employees		**(6,408.9)**	(6,072.8)
Dividends received		**37.6**	39.1
Finance income received		**41.0**	30.8
Finance costs paid		**(150.1)**	(189.2)
Income taxes paid		**(61.7)**	(104.6)
Net cash provided by operating activities		**235.4**	354.7
Cash flows from investing activities			
Payments for property, plant and equipment		**(471.4)**	(226.6)
Payments for exploration and evaluation assets		**(29.9)**	(8.8)
Payments for oil and gas assets		**(89.6)**	(56.8)
Payments for investments		**(2.3)**	-
Payments for other		**(4.3)**	(5.3)
Payments for businesses and subsidiaries, net of cash acquired	17	**(623.2)**	(620.1)
Proceeds from sale of property, plant and equipment		**18.8**	117.3
Proceeds from sale of investments		**1,396.5**	244.3
Proceeds from sale of business and subsidiaries, net of cash disposed -			
discontinued operations	13	**1,201.8**	57.5
subsidiary disposed in current period		**42.1**	-
subsidiary disposed in prior period		**3.6**	-
Net cash provided by / (used in) investing activities		**1,442.1**	(498.5)
Cash flows from financing activities			
On market share purchases		**(1.9)**	(1.8)
Proceeds from borrowings		**446.0**	1,185.0
Repayment of borrowings		**(1,420.8)**	(1,418.6)
Loans advanced to related parties		**(1.2)**	(5.0)
Proceeds from repayment of related party loans		**-**	277.1
Dividends paid	10	**(177.4)**	(112.7)
Net cash used in financing activities		**(1,155.3)**	(76.0)
Net increase / (decrease) in cash and cash equivalents		**522.2**	(219.8)
Cash and cash equivalents at the beginning of the financial year		**73.2**	279.2
Effect of exchange rate changes on the balance of cash held in foreign currencies		**27.7**	13.8
Cash and cash equivalents at the end of the financial year	11	**623.1**	73.2

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

AGL Energy Limited and Subsidiaries
Statement of Recognised Income and Expense
For the year ended 30 June 2009

	2009 $m	2008 $m
Cash flow hedges:		
Loss taken to equity	**(1,238.2)**	(1,262.2)
Transferred to profit or loss for the period	**514.1**	(1,294.2)
Loss on available-for-sale investments taken to equity	**(1.1)**	-
Net loss on hedge of net investment in foreign operations	**(62.8)**	(10.4)
Exchange differences arising on translation of foreign operations	**173.6**	14.8
Exchange differences transferred to profit or loss on disposal of foreign operation	**(83.3)**	(12.6)
Actuarial loss on defined benefit plans	**(64.5)**	(13.9)
Share of actuarial loss on defined benefit plans attributable to associates and jointly controlled entities	**(19.5)**	(10.4)
Share of net gain in reserves attributable to associates and jointly controlled entities	**11.9**	163.5
Share of gain in reserves transferred to profit or loss on disposal of jointly controlled entity	**(0.3)**	-
Income tax on items taken directly to or transferred from equity	**216.2**	771.3
Net expense recognised directly in equity	**(553.9)**	(1,654.1)
Profit for the period	**1,596.1**	229.0
Total recognised income and (expense) for the period attributable to shareholders of the Parent Entity	**1,042.2**	(1,425.1)

Reconciliation of statement of recognised income and expense to equity movements

	2009 **Reserves** **$m**	**Retained earnings** **$m**
Balance at beginning of financial year	**501.3**	**507.0**
Current period movements	**(489.3)**	**(64.6)**
Movement in reserves not reflected in statement of recognised income and expense above:		
Share-based payment transactions	**1.0**	**-**
Profit for the period	**-**	**1,596.1**
Dividends paid	**-**	**(236.1)**
Balance at end of financial year	**13.0**	**1,802.4**

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.

The preliminary final financial report includes the consolidated financial statements which comprise the Parent Entity and its subsidiaries (together referred to as the consolidated entity).

(a) Statement of compliance

The preliminary final financial report ('financial report') has been prepared in accordance with the ASX Listing Rule 4.3A, Corporations Act 2001 and where applicable Accounting Standards and Interpretations, and complies with other requirements of the law.

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

The financial report does not include all the notes of the type normally included within the annual financial report, upon which this report is based. As a result this report should be read in conjunction with the 30 June 2008 annual financial report and with any public announcements made by AGL Energy Limited during the financial year ended 30 June 2009.

(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 accounting policies adopted in the preparation of the financial report are consistent with those applied and disclosed in the 30 June 2008 annual financial report.

(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.

(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 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.

Note 2 - 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.

Upstream Gas - Exploration, extraction, production and sale of conventional and coal seam methane gas; exploration and development of other renewable energy sources including geothermal.

Energy Investments - Investments in energy entities.

Gas and Power Development was previously reported as a separate segment. The businesses within this segment are now reported under the Merchant Energy and Upstream Gas segments as a result of an internal reorganisation. Accordingly, the June 2008 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.

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**	**Merchant Energy**	**Upstream Gas**	**Energy Investments**	**Eliminations**	**Unallocated**	**Total continuing operations**	**Upstream Gas - PNG oil and gas**	**Upstream Gas - North Qld gas pipeline**	**Energy Investments Chile**	**Total discontinued operations**	**Consolidated**
2009	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**
Revenue	4,988.0	854.2	52.0	16.1	-	-	5,910.3	84.7	0.7	-	85.4	5,995.7
Inter-segment revenue	32.3	2,808.5	11.3	-	(2,852.5)	-	(0.4)	-	0.4	-	0.4	-
	5,020.3	3,662.7	63.3	16.1	(2,852.5)	-	5,909.9	84.7	1.1	-	85.8	5,995.7
Other income	-	55.0	754.4	149.9	-	-	959.3	942.2	23.1	-	965.3	1,924.6
Segment revenue	5,020.3	3,717.7	817.7	166.0	(2,852.5)	-	6,869.2	1,026.9	24.2	-	1,051.1	7,920.3
EBIT (before significant items and financial instruments)	265.5	436.1	(6.9)	44.0	-	(131.3)	607.4	49.4	0.8	-	50.2	657.6
Significant income/(expense) items	(69.4)	(15.6)	744.3	149.9	-	(23.3)	785.9	937.9	23.1	-	961.0	1,746.9
Changes in fair value of financial instruments	-	(325.7)	23.0	-	-	-	(302.7)	(33.6)	-	-	(33.6)	(336.3)
Segment EBIT result	196.1	94.8	760.4	193.9	-	(154.6)	1,090.6	953.7	23.9	-	977.6	2,068.2
Finance income	1.6	12.4	0.1	-	-	39.1	53.2	0.3	-	-	0.3	53.5
Finance costs	-	-	-	-	-	(132.5)	(132.5)	(2.5)	-	-	(2.5)	(135.0)
Profit before tax	197.7	107.2	760.5	193.9	-	(248.0)	1,011.3	951.5	23.9	-	975.4	1,986.7
Income tax expense							(293.1)				(97.5)	(390.6)
Profit after tax							718.2				877.9	1,596.1
Segment assets	3,469.0	3,764.3	1,120.9	15.7	-	664.8	9,034.7	-	-	-	-	9,034.7
Segment liabilities	497.7	1,066.4	217.3	2.2	-	1,405.4	3,189.0	-	-	-	-	3,189.0
Other segment information												
Share of profits of associates and jointly controlled entities using the equity method	-	23.7	2.7	28.0	-	-	54.4	-	-	-	-	54.4
Investments accounted for using the equity method	0.9	163.0	3.6	15.1	-	-	182.6	-	-	-	-	182.6
Acquisition of non-current assets	54.5	341.8	793.7	-	-	21.4	1,211.4	20.5	-	-	20.5	1,231.9
Depreciation and amortisation	36.2	54.7	20.4	-	-	11.7	123.0	-	-	-	-	123.0
Impairment losses	18.4	15.7	1.3	-	-	1.8	37.2	-	-	-	-	37.2
Other non-cash expenses	66.7	8.4	1.4	-	-	11.0	87.5	-	-	-	-	87.5

Note 2 - Segment information (continued)

Business segments 2008	Retail Energy $m	Merchant Energy $m	Upstream Gas $m	Energy Investments $m	Eliminations $m	Unallocated $m	Total continuing operations $m	Upstream Gas - PNG oil and gas $m	Upstream Gas - North Qld gas pipeline $m	Energy Investments Chile $m	Total discontinued operations $m	Consolidated $m
	Continuing operations							Discontinued operations				
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	2,614.2	6.2	-	(2,643.3)	-	(3.3)	-	3.3	-	3.3	-
	4,726.6	3,270.0	64.9	10.6	(2,643.3)	0.8	5,429.6	167.9	9.2	46.8	223.9	5,653.5
Other income	-	40.0	23.3	123.7	-	(0.5)	186.5	33.5	-	3.7	37.2	223.7
Segment revenue	4,726.6	3,310.0	88.2	134.3	(2,643.3)	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	327.5	25.1	48.5	-	(98.1)	572.5	85.9	7.3	13.5	106.7	679.2
Significant (expense)/income 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	65.1	90.6	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	78.5	90.8	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	4,521.3	822.0	85.2	-	188.0	8,993.6	362.4	96.9	-	459.3	9,452.9
Segment liabilities	528.3	1,436.0	291.5	3.9	-	2,160.3	4,420.0	39.5	13.5	-	53.0	4,473.0
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	824.1	128.6	-	-	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

Geographical segments

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

	Segment revenue 2009 $m	Segment revenue 2008 $m	Assets 2009 $m	Assets 2008 $m	Acquisition of non-current assets 2009 $m	Acquisition of non-current assets 2008 $m
Australia	**6,893.4**	5,651.2	**9,034.7**	8,970.6	**1,211.4**	1,163.2
Papua New Guinea	**1,026.9**	175.5	**-**	482.3	**20.5**	31.1
Chile	**-**	50.5	**-**	-	**-**	1.8
	7,920.3	5,877.2	**9,034.7**	9,452.9	**1,231.9**	1,196.1

	2009 $m	2008 $m
Note 3 - Revenue		
Continuing operations		
Revenue from sale of goods	**5,818.9**	5,335.5
Revenue from rendering of services	**80.4**	88.5
Dividends		
Jointly controlled entity	**10.6**	5.6
	5,909.9	5,429.6
Discontinued operations		
Revenue from sale of goods	**71.5**	227.7
Gain/(loss) in fair value of oil derivatives	**13.6**	(10.7)
	85.1	217.0
Revenue from rendering of services	**0.7**	6.9
	85.8	223.9
Note 4 - Other income		
Continuing operations		
Gain on disposal of investments	**903.5**	146.0
Development fee income	**54.6**	40.0
Gain on disposal of subsidiary	**0.4**	-
Net foreign exchange losses	**-**	(0.5)
Other	**0.8**	1.0
	959.3	186.5
Discontinued operations		
Gain on disposal of businesses and subsidiaries	**800.2**	-
Gain in fair value of oil derivatives	**160.8**	-
Net foreign exchange gains	**-**	29.6
Other	**4.3**	7.6
	965.3	37.2

	2009	2008
	$m	$m
Note 5 - Expenses		
Continuing operations		
Cost of sales	**4,756.6**	4,388.4
Loss in fair value of electricity derivatives	**302.7**	263.1
	5,059.3	4,651.5
Administrative expenses	**141.9**	123.0
Employee benefits expense	**283.4**	255.6
Other expenses		
Impairment of trade receivables (net of bad debts recovered)	**54.8**	35.3
Impairment of property, plant and equipment	**37.2**	58.4
Impairment of exploration and evaluation assets	**-**	5.4
Phoenix Change Program one-off costs	**49.5**	29.1
Redundancy, termination and integration costs	**3.6**	11.7
Demerger costs	**16.1**	22.3
Net loss on disposal of property, plant and equipment	**7.8**	2.1
Operating lease rental expenses	**17.3**	14.6
Other	**39.1**	5.5
	5,710.0	5,214.5
Discontinued operations		
Cost of sales	**18.0**	67.1
Administrative expenses	**-**	3.7
Employee benefits expense	**0.1**	3.5
Other expenses		
Loss on disposal of subsidiaries	**-**	3.0
Impairment of intangible assets	**-**	18.2
Impairment of property, plant and equipment	**-**	18.8
Loss in fair value of oil derivatives de-designated	**-**	154.7
Net foreign exchange losses	**53.0**	-
Other	**2.4**	6.2
	73.5	275.2
Note 6 - Depreciation and amortisation		
Property, plant and equipment	**80.3**	73.4
Oil and gas assets	**14.7**	74.2
Intangible assets	**22.2**	16.7
Other	**5.8**	4.3
	123.0	168.6
Attributable to:		
Continuing operations	**123.0**	102.3
Discontinued operations	**-**	66.3
	123.0	168.6

	2009 $m	2008 $m
Note 7 - Net financing costs		
Finance income		
Interest income		
Associates	**11.2**	21.8
Other entities	**42.3**	17.4
	53.5	39.2
Attributable to:		
Continuing operations	**53.2**	36.5
Discontinued operations	**0.3**	2.7
	53.5	39.2
Finance costs		
Interest expense		
Other entities	**126.8**	182.8
Less finance costs capitalised	**(21.8)**	(12.8)
Unwinding of discounts on provisions	**14.0**	14.6
Other finance costs	**16.0**	6.5
	135.0	191.1
Attributable to:		
Continuing operations	**132.5**	187.6
Discontinued operations	**2.5**	3.5
	135.0	191.1
Net financing costs		
Attributable to:		
Continuing operations	**79.3**	151.1
Discontinued operations	**2.2**	0.8
	81.5	151.9

Note 8 - Significant income/(expense) items

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

	2009 $m	2008 $m
Gain on disposal of investment in Queensland Gas Company Limited (QGC)	**753.6**	-
Gain on deemed disposal on equity dilution in QGC	**-**	22.3
Gain on disposal of investment in Auscom Holdings Pty Limited	**149.9**	-
Gain on disposal of investment in AlintaAGL Pty Limited	**-**	123.7
Gain on disposal of PNG oil and gas interests	**777.1**	-
Gain on disposal of North Queensland gas pipeline business	**23.1**	-
Loss on disposal of Chile operations	**-**	(3.0)
Gain on disposal of subsidiary	**0.4**	-
Gain in fair value of oil derivatives	**160.8**	-
Share of profits from QGC arising from the sale of a 20% interest in a coal seam gas acreage	**-**	60.3
Loss in fair value of oil derivatives de-designated	**-**	(154.7)
Impairment of non-current assets net of writeback of lease incentive	**(37.2)**	(83.1)
Demerger costs	**(16.1)**	(22.3)
Phoenix Change Program one-off costs	**(49.5)**	(29.1)
Redundancy, termination and integration costs	**(3.6)**	(11.7)
Loss on disposal of property, plant and equipment	**(7.8)**	-
Provision for onerous contract	**(3.8)**	-
	1,746.9	(97.6)

	2009 $m	2008 $m
Note 8 - Significant income / (expense) items (continued)		
Income tax (expense)/income applicable:		
Gain on disposal of investment in Queensland Gas Company Limited (QGC)	**(247.3)**	-
Gain on deemed disposal on equity dilution in QGC	**-**	(6.7)
Gain on disposal of investment in Auscom Holdings Pty Limited	**(30.0)**	-
Gain on disposal of investment in AlintaAGL Pty Limited	**-**	(37.3)
Gain on disposal of PNG oil and gas interests	**(31.3)**	-
Gain on disposal of North Queensland gas pipeline business	**(9.6)**	-
Loss on disposal of Chile operations	**(18.5)**	30.4
Gain on disposal of subsidiary	**(0.1)**	-
Gain in fair value of oil derivatives	**(85.8)**	-
Share of profits from QGC arising from the sale of a 20% interest in a coal seam gas acreage	**-**	-
Loss in fair value of oil derivatives de-designated	**-**	77.4
Impairment of non-current assets, net of writeback of lease incentive	**11.2**	13.8
Demerger costs	**4.3**	6.7
Phoenix Change Program one-off costs	**14.8**	8.7
Redundancy, termination and integration costs	**1.1**	3.5
Loss on disposal of property, plant and equipment	**2.3**	-
Provision for onerous contract	**1.1**	-
	(387.8)	96.5
Reversal of previous write-down/(write-down) of deferred tax assets relating to PNG operations	**67.8**	(59.0)
Refunds of income tax relating to pre-demerger periods	**14.4**	-
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
	(305.6)	160.2
Significant income/(expense) items before income tax	**1,746.9**	(97.6)
Income tax (expense)/income	**(305.6)**	160.2
	1,441.3	62.6

	2009	2008
	$m	$m
Note 9 - Income tax		
Income tax recognised in the income statement		
Income tax expense/(income) attributable to:		
Continuing operations	**293.1**	(68.3)
Discontinued operations	**97.5**	6.1
Total income tax expense/(income)	**390.6**	(62.2)
Numerical reconciliation between tax expense/(income) and pre-tax profit		
The prima facie income tax expense on pre-tax accounting profit reconciles to the income tax expense/(income) in the financial statements as follows:		
Profit before tax from continuing operations	**1,011.3**	248.0
Profit/(loss) before tax from discontinued operations	**975.4**	(81.2)
Profit from operations	**1,986.7**	166.8
Income tax expense calculated at 30%	**596.0**	50.0
Impairment of non-current assets	**-**	11.1
Non-deductible expenses	**29.9**	15.8
Gain on disposal of investments	**6.2**	-
Gain on disposal of businesses and subsidiaries	**(212.0)**	-
Capital loss on disposal of subsidiary	**18.5**	(32.1)
Non-assessable income	**(1.8)**	(6.4)
Share of profits of associates and jointly controlled entities	**(11.0)**	(24.2)
Effect of different tax rates in foreign jurisdictions	**47.4**	(13.3)
(Reversal of previous write-down)/write-down of deferred tax assets	**(67.8)**	59.0
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)
Other	**(0.2)**	1.7
Adjustments in respect of current income tax of prior years	**(14.6)**	(17.6)
	390.6	(62.2)

	2009 $m	2008 $m
Note 10 - Dividends		
Recognised amounts		
Final dividend		
Final dividend for 2008 of 27.0 cents per share, fully franked at 30%, paid 26 September 2008 (2008: Final dividend for 2007 of 26.0 cents per share, fully franked at 30%, paid 28 September 2007)	**119.9**	112.7
Interim dividend		
Interim dividend for 2009 of 26.0 cents per share, fully franked at 30%, paid 3 April 2009 (2008: Interim dividend for 2008 of 26.0 cents per share, fully franked at 30%, paid 16 April 2008)	**116.2**	112.9
Total dividends	**236.1**	225.6
Dividends satisfied by the issue of shares under the AGL Dividend Reinvestment Plan (DRP) and to the underwriter of the DRP (Note 15)	**(58.7)**	(112.9)
Dividends paid as per the cash flow statement	**177.4**	112.7
Unrecognised amounts		
Since the end of the financial year, the Directors have declared a final dividend for 2009 of 28.0 cents per share (2008: 27.0 cents), fully franked at 30%, payable 30 September 2009	**125.3**	119.7

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 2010 financial year.

Dividend reinvestment plan

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

Note 11 - Notes to the cash flow statement

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:

	2009 $m	2008 $m
Cash and cash equivalents	**623.1**	63.8
Cash and cash equivalents attributable to discontinued operations (Note 13)	**-**	9.4
	623.1	73.2

	2009 $	2008 $
Note 12 - Net tangible asset backing		
Net tangible asset backing per ordinary share	**$6.00**	$4.12

Note 13 - Discontinued operations

Disposal of Papua New Guinea oil and gas interests

On 22 May 2008, the consolidated entity announced its decision to proceed with the sale of its Papua New Guinea (PNG) oil, gas and LNG project assets. This followed execution of a gas agreement by the PNG LNG joint venture participants and the PNG Government and the subsequent formal decision by the joint venture participants to commence Front End Engineering and Design for the PNG LNG project.

On 30 October 2008, the consolidated entity announced that it had executed sale and purchase agreements (SPA) for all of its oil and gas exploration and production interests in PNG, which included a 3.6% interest in the PNG LNG project. The agreed sale price under the SPA was US$800 million. The SPA was unconditional, other than Government approvals and was subject to a pre-emptive rights process.

The disposal of the PNG oil and gas interests was completed on 18 December 2008, on which date control of the business passed to the acquirers.

Merlin Petroleum Company (Merlin), an affiliate of Nippon Oil Exploration Limited, exercised its pre-emptive rights and acquired the consolidated entity's interests in production licences PDL 2 and PDL 4 for US$795 million. Both Merlin and Petroleum Resources Kutubu Limited exercised their pre-emptive rights in respect of the pipeline licence PL 2 and acquired 6.0% and 5.9% of the consolidated entity's 11.9% interest in this licence respectively for US$5 million.

Disposal of North Queensland gas pipeline business

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

The sale follows the purchase by the consolidated 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 retained ownership of the gas processing and compression facility located at Moranbah, which has been 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 was non-core to the consolidated entity's integrated strategy.

Under the terms of the sale, the consolidated 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.

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 had recognised an impairment loss of $37.0 million on the carrying value of the GasValpo business.

Note 13 - Discontinued operations (continued)

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:

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

	PNG oil and gas interests 2008 $m	North Queensland gas pipeline 2008 $m	Chile 2008 $m	Total 2008 $m
Revenue	167.9	9.2	46.8	223.9
Other income	33.5	-	3.7	37.2
Expenses	(201.1)	(1.9)	(69.2)	(272.2)
Depreciation and amortisation	(61.5)	-	(4.8)	(66.3)
Net financing (costs)/income	0.1	0.1	(1.0)	(0.8)
(Loss)/profit before tax	(61.1)	7.4	(24.5)	(78.2)
Income tax expense	(31.1)	(2.2)	(3.2)	(36.5)
	(92.2)	5.2	(27.7)	(114.7)
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	(92.2)	5.2	(0.3)	(87.3)

(a) Includes gains of $83.3 million (2008: $12.6 million) recycled into profit and loss on the reversal of associated amounts previously deferred in the foreign currency translation reserve.

Note 13 - Discontinued operations (continued)

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:

	2009 $m	2008 $m
Net cash flows from operating activities	**48.5**	162.2
Net cash flows from investing activities	**1,178.3**	27.2
Net cash lows from financing activities	**-**	0.6
Net cash flows from discontinued operations	**1,226.8**	190.0

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:

	2009 $m	PNG oil and gas interests 2008 $m	North Queensland gas pipeline 2008 $m	Total 2008 $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 13 - Discontinued operations (continued)

Operations disposed

Details of the disposals are as follows:

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

	PNG oil and gas interests 2009 $m	North Queensland gas pipeline 2009 $m	Total 2009 $m	Chile 2008 $m
Assets				
Cash and cash equivalents	7.5	-	7.5	12.9
Trade and other receivables	7.9	0.6	8.5	11.6
Inventories	25.3	0.2	25.5	3.6
Exploration and evaluation assets	61.7	-	61.7	-
Oil and gas assets	445.2	-	445.2	-
Property, plant and equipment	-	90.4	90.4	108.5
Deferred tax assets	-	-	-	2.0
Other assets	0.6	-	0.6	0.5
	548.2	91.2	639.4	139.1
Liabilities				
Trade and other payables	(17.9)	(0.2)	(18.1)	(11.7)
Borrowings	-	-	-	(32.2)
Provisions	(38.3)	(0.1)	(38.4)	(0.5)
Other liabilities	-	-	-	(0.9)
Deferred tax liabilities	-	(13.1)	(13.1)	(4.2)
	(56.2)	(13.4)	(69.6)	(49.5)
Net assets disposed	492.0	77.8	569.8	89.6
Consideration received or receivable:				
Cash consideration received	1,188.9	102.7	1,291.6	71.2
Consideration receivable	-	-	-	3.6
Costs directly attributable to the disposal	(3.1)	(1.8)	(4.9)	(0.8)
Total disposal consideration	1,185.8	100.9	1,286.7	74.0
Net assets disposed	(492.0)	(77.8)	(569.8)	(89.6)
	693.8	23.1	716.9	(15.6)
Transferred from foreign currency translation reserve to profit or loss on disposal of foreign operation	83.3	-	83.3	12.6
Profit/(loss) on disposal	777.1	23.1	800.2	(3.0)
Net cash inflow on disposal:				
Cash consideration received	1,188.9	102.7	1,291.6	71.2
Costs directly attributable to the disposal paid	(2.9)	(1.8)	(4.7)	(0.8)
Net payments for settlement of foreign currency and oil hedges	(77.6)	-	(77.6)	-
Cash and cash equivalent balances disposed of	(7.5)	-	(7.5)	(12.9)
Net cash inflow on disposal	1,100.9	100.9	1,201.8	57.5

Note 14 - Interests in associates, jointly controlled entities and jointly controlled operations and assets

Name of entity	Ownership interest 2009 %	2008 %	Contribution to net profit 2009 $m	2008 $m
Associates				
Queensland Gas Company Limited (a)(b)	**-**	24.9	**2.6**	67.1
AlintaAGL Pty Limited	**-**	-	**-**	1.9
Greater Energy Alliance Corporation Pty Limited	**32.5**	32.5	**23.7**	(5.1)
Gascor Pty Ltd	**33.3**	33.3	**-**	-
CSM Energy Limited	**35.0**	35.0	**(0.3)**	(0.2)
Jointly controlled entities				
ActewAGL Retail Partnership	**50.0**	50.0	**28.0**	26.1
Auscom Holdings Pty Limited (c)	**-**	50.0	**-**	10.0
Energy Infrastructure Management Pty Ltd (formerly North Queensland Pipeline Management Pty Ltd)	**50.0**	50.0	**0.4**	-
Central Queensland Pipeline Pty Ltd	**50.0**	50.0	**-**	-
MWF JV Pty Limited	**50.0**	50.0	**-**	-
			54.4	99.8

(a) The consolidated entity disposed of its 21.5% ownership interest in Queensland Gas Company Limited on 5 November 2008. The sale of the investment resulted in a pre-tax profit of $753.6 million.

(b) In the 2008 financial year , the consolidated entity's share of profits from QGC of $67.1 million included $60.3 million from the sale of 20% of QGC's interests in the Walloon coal seam gas acreage.

(c) The consolidated entity disposed of its 50.0% ownership interest in Auscom Holdings Pty Limited on 2 October 2008. The sale of the investment resulted in a pre-tax profit of $149.9 million.

Jointly controlled operations and assets	2009 %	2008 %
Camden Gas Project (a)	**-**	50.0
Sydney Basin Exploration (a)	**-**	50.0
Hunter Exploration (a)	**-**	50.0
Moranbah Gas Project	**50.0**	50.0
Moranbah Exploration	**50.0**	50.0
Galilee Basin	**50.0**	-
Spring Gully Project	**0.75**	-
Cooper Basin	**35.0 - 37.5**	-
PNG - PDL 2 (Kutubu, Moran, SE Mananda) (Note 13)	**-**	11.9
PNG - PDL 4 (Gobe Main, SE Gobe) (Note 13)	**-**	66.7
PNG - Moran Unit (Note 13)	**-**	5.2
PNG - SE Gobe Unit (Note 13)	**-**	27.3
PNG - PL 2 Kutubu Pipeline (Note 13)	**-**	11.9
PNG - PL 3 Gobe Pipeline (Note 13)	**-**	47.0
PNG - LNG Project (Note 13)	**-**	3.6
North Queensland Energy	**50.0**	50.0
North Queensland Gas Pipeline (Note 13)	**-**	50.0

(a) On 31 March 2009, the consolidated entity completed the acquisition of Sydney Gas Limited. This transaction moved the consolidated entity's ownership interest in the Camden Gas Project, Sydney Basin Exploration and Hunter Exploration projects from 50% to 100%.

Note 15 - Issued capital

	2009 Number of shares	**2009** $m	2008 Number of shares	2008 $m
Movement in fully paid ordinary shares				
Balance at beginning of financial year	**443,354,097**	**3,971.6**	433,555,467	3,858.9
Shares issued under AGL Dividend Reinvestment Plan (a)(b)	**4,181,903**	**58.7**	2,633,758	29.8
Shares issued to underwriter of the AGL Dividend Reinvestment Plan	**-**		7,164,872	83.1
Transaction costs, net of related income tax	**-**	**-**	-	(0.2)
Balance at end of financial year	**447,536,000**	**4,030.3**	443,354,097	3,971.6

(a) On 26 September 2008, 2,783,210 ordinary shares were issued at $13.80 per share to participating shareholders under the AGL Dividend Reinvestment Plan.

(b) On 3 April 2009, 1,398,693 ordinary shares were issued at $14.55 per share to to participating shareholders under the AGL Dividend Reinvestment Plan.

Note 16 - Contingent liabilities and contingent assets	**2009** $m	2008 $m
Contingent liabilities		
Contingent consideration under contract (a)	**-**	51.0
	-	51.0

In November 2005, AGL and Sydney Gas Limited (SGL) formed a 50/50 joint venture involving all of SGL's assets and permits in New South Wales. Under the joint venture arrangement, AGL would pay up to a further $51.0 million upon the proving up of up to an additional 500 petajoules of Proved (1P) coal seam gas reserves in the Camden Gas Project area by 31 December 2008, based upon an agreed reserve formula with reserves verified by an independent external expert. As at 31 December 2008, any increase in 1P reserves was not achieved.

Other contingent liabilities

Details of other contingent liabilities which Directors consider should be disclosed are set out below. The Directors are of the opinion that provisions are not required in respect of these matters, as it is either not probable that a future sacrifice of economic benefits will be required or the amount is not capable of reliable measurement.

(a) The consolidated entity has various contingent liabilities arising in connection with the sale of certain subsidiaries and a jointly controlled entity. Under the various sale agreements the consolidated entity has given warranties and indemnities in relation to tax related matters, environmental and other specific liabilities.

(b) Pursuant to ASIC Class Order 98/1418 (as amended), the Parent Entity and certain wholly-owned Australian subsidiaries entered in to a Deed of Cross Guarantee on 27 June 2008. This deed was amended by an Assumption Deed on 24 June 2009 which had the effect of including recently acquired subsidiaries in the Class Order. The effect of the Deed is that the Parent Entity guarantees to each creditor, payment in full of any debt in the event of winding up of any of the subsidiaries under certain provisions of the Corporations Act 2001. The subsidiaries have also given a similar guarantee in the event that the Parent Entity is wound up. No liabilities subject to the Deed of Cross Guarantee at 30 June 2009 are expected to arise.

(c) The consolidated entity's financial statements include income derived from gas sales in the Victorian gas market on 22 November 2008 when the spot gas price reached the enforced price cap of $800 per gigajoule. TRUenergy Pty Ltd issued a dispute notice to VENCorp, the gas market operator in Victoria, claiming that a “participant force majeure event” occurred and that VENCorp should have declared an administered price cap of $40 per gigajoule. AGL was a party to the dispute which was referred to a dispute panel for determination in April 2009 which established that TRUenergy was unsuccessful in its application. In July 2009 TRUenergy advised AGL that it had filed a notice with the Supreme Court of Victoria appealing the panel's decision. If TRUenergy is successful on appeal, the amount of $800 per gigajoule would be replaced with the administered price cap of $40 per gigajoule and would require a resettlement of receipts for that day. The impact to AGL if that occurred would be approximately $27.0 million before tax.

(d) Certain entities in the consolidated entity are party to various other legal actions and claims which have arisen in the ordinary course of business. Any liabilities arising from such legal actions and claims are not expected to have a material adverse effect on the consolidated entity.

Note 17 - Acquisition of subsidiaries and businesses

Acquisition of wind farm development projects

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

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

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

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

From the date of acquisition, the entities have contributed $nil to revenue and $nil to operating profit before net finance costs, significant items, changes in fair value of financial instruments and income tax.

Acquisition of Gloucester Basin coal seam gas interests

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

The acquired entities hold 100% of the interests in PEL 285, the Gloucester Basin gas project in New South Wales. PEL 285 had 175 petajoules of 2P reserves certified by the internationally recognised petroleum consultant Netherland, Sewell & Associates, Inc. (NSAI) as at February 2008.

From the date of acquisition, the entities have contributed $nil to revenue and $nil to operating profit before net finance costs, significant items, changes in fair value of financial instruments and income tax.

Acquisition of Sydney Gas Limited

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

Sydney Gas is a gas exploration company whose activities are the development of coal seam gas resources in New South Wales. Sydney Gas holds in joint venture with the consolidated entity four petroleum exploration licences (PELs 2, 4, 5 and 267) and five petroleum production leases (PPLs 1, 2, 4, 5, and 6). The joint venture comprises three projects: the Camden Project, the Hunter Project and the Sydney Project.

From the date of acquisition, the entities have contributed $nil to revenue and a loss of $0.7 million to operating profit before net finance costs, significant items, changes in fair value of financial instruments and income tax.

Acquisition of other coal seam gas interests

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

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

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

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

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

From the date of acquisition, the assets have contributed $0.3 million to revenue and $0.3 million to operating profit before net finance costs, significant items, changes in fair value of financial instruments and income tax.

Acquisition of Geogen geothermal assets

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

The acquired entities activities are the exploration for and evaluation of geothermal resources close to the National Electricity Market in Victoria, New South Wales and Queensland.

From the date of acquisition, the entities have contributed $nil to revenue and $nil to operating profit before net finance costs, significant items, changes in fair value of financial instruments and income tax.

Note 17 - Acquisition of subsidiaries and businesses (continued)

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

	Wind farm development projects		Gloucester Basin CSG interests		Sydney Gas Limited		Spring Gully Project and Cooper Basin CSG interests		Geogen geothermal assets		
	Book value	Fair value on acquisition	Book value	Fair value on acquisition	Book value	Fair value on acquisition	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	$m	$m	$m	$m	$m	$m
Assets											
Cash and cash equivalents	-	-	-	-	9.1	9.1	-	-	-	-	9.1
Trade and other receivables	0.4	0.4	-	-	6.3	6.2	-	-	-	-	6.6
Inventories	-	-	-	-	1.8	1.8	-	1.3	-	-	3.1
Other assets	-	-	-	-	2.3	2.3	-	-	-	-	2.3
Exploration and evaluation assets	-	-	29.6	377.8	10.6	133.4	-	14.2	-	5.1	530.5
Oil and gas assets	-	-	-	-	37.8	37.8	-	16.4	-	-	54.2
Property, plant and equipment	-	-	-	-	3.6	3.6	-	-	-	-	3.6
Intangible assets	4.8	28.4	-	-	-	-	-	-	-	-	28.4
Deferred tax assets	-	-	-	-	-	4.2	-	-	-	-	4.2
	5.2	28.8	29.6	377.8	71.5	198.4	-	31.9	-	5.1	642.0
Liabilities											
Trade and other payables	-	-	-	-	(7.0)	(6.7)	-	-	-	-	(6.7)
Provisions	-	-	-	-	(1.0)	(1.0)	-	-	-	-	(1.0)
Other liabilities	-	-	-	-	(0.8)	(0.8)	-	-	-	-	(0.8)
	-	-	-	-	(8.8)	(8.5)	-	-	-	-	(8.5)
Fair value of identifiable net assets		28.8		377.8		189.9		31.9		5.1	633.5
Goodwill on acquisition		-		-		-		-		-	-
		28.8		377.8		189.9		31.9		5.1	633.5
Consideration											
Cash paid including directly attributable costs		28.8		377.8		189.7		31.9		4.1	632.3
Deferred consideration		-		-		-		-		1.0	1.0
Directly attributable costs payable		-		-		0.2		-		-	0.2
		28.8		377.8		189.9		31.9		5.1	633.5

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 twelve months from the date of acquisition to finalise its acquisition accounting, and therefore the information presented should be considered provisional.

Note 17 - Acquisition of subsidiaries and businesses (continued)

Acquisition of Torrens Island Power Station

In the 2008 financial year, the consolidated entity acquired 100% of the issued capital of AGL Torrens Island Holdings Pty Limited from TRUenergy on 2 July 2007, 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 1,280MW 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.

Acquisition of North Queensland Merchant Gas and Pipeline businesses

In the 2008 financial year, 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 on 1 December 2007. 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 comprised 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 230MW 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.

On 30 June 2008, the Parent Entity and its 50/50 joint venture partner, Arrow Energy Limited, announced they had entered into a sale and purchase agreement with Victorian Funds Management Corporation for the sale of the North Queensland gas pipeline. The disposal was completed on 1 August 2008. The joint venture retains ownership of the gas processing and compression facility located at Moranbah, which will be integrated into the Moranbah Gas Project joint venture. At 30 June 2008, the carrying value of the gas pipeline business was classified as a disposal group held for sale.

Note 17 - Acquisition of subsidiaries and businesses (continued)

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

Net assets acquired	Torrens Island Power Station Fair value on acquisition $m	North Queensland Merchant Gas and Pipeline Fair value on acquisition $m	Total fair value on acquisition $m
Assets			
Cash and cash equivalents	1.2	-	1.2
Trade and other receivables	46.4	2.2	48.6
Inventories	18.7	0.6	19.3
Other financial assets	-	42.9	42.9
Other assets	0.1	0.7	0.8
Investments accounted for using the equity method	-	0.7	0.7
Property, plant and equipment	689.4	107.3	796.7
Intangible assets	-	63.7	63.7
Deferred tax assets	62.5	-	62.5
	818.3	218.1	1,036.4
Liabilities			
Trade and other payables	(5.6)	(2.1)	(7.7)
Provisions	(197.1)	(0.1)	(197.2)
Deferred tax liabilities	(31.4)	(12.8)	(44.2)
Other financial liabilities	-	(60.0)	(60.0)
Other liabilities	(7.9)	(1.3)	(9.2)
	(242.0)	(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

	2009 $m	2008 $m
Net cash outflow on acquisitions		
Cash paid including directly attributable costs	**632.3**	621.3
Cash and cash equivalent balances acquired	**(9.1)**	(1.2)
Net cash outflow on acquisitions	**623.2**	620.1

Note 18 - Subsequent events

There has not been any other matter or circumstance, other than that referred to in the financial statements or notes thereto, that has arisen since the end of the financial year, that has significantly affected, or may significantly affect, the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in future financial periods other than:

Renewable energy supply contract

On 30 July 2009, AGL announced that it has secured the energy supply contract for Victoria's new $3.5 billion desalination plant to be constructed near Wonthaggi. The contract is for a term of 27 years with an annual requirement of up to 860GWh of electricity and associated renewable energy certificates.

AGL has committed to the construction of the Oaklands Hill wind farm in south west Victoria to add to its portfolio of renewable assets which will supply the desalination plant.

Final dividend

On 20 August 2009, the Directors of AGL resolved to pay a fully franked final dividend of 28.0 cents per share, amounting to $125.3 million. The record date for the final dividend is 10 September 2009 with payment to be made on 30 September 2009. Shares will commence trading ex-dividend on 4 September 2009.

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

Note 19 - Information on audits or review

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

✓	The accounts have been audited.		The accounts have been subject to review.
	The accounts are in the process of being audited or subject to review.		The accounts have not yet been audited or reviewed.

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

Mark Johnson

Mark Johnson
Chairman

20 August 2009