AGL Energy Limited
ABN: 74 115 061 375

Level 22, 101 Miller St
North Sydney NSW 2060

Locked Bag 1837
St Leonards NSW 2065

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

Energy in action.®

ASX statement

17 September 2012

Annual Report 2012

AGL Energy Limited is about to commence dispatch of its Annual Report 2012. A copy is attached.

Paul McWilliams

Company Secretary

AGL Energy Limited
ABN: 74 115 061 375

All Registry communications to:
Link Market Services Limited
Locked Bag A14
Sydney South NSW 1235
Australia

T 1800 824 513
From outside Australia:
T +61 2 8280 7115
F +61 2 9287 0303

E aglenergy@linkmarketservices.com.au
www.agl.com.au
ASX Code: AGK

Energy in action.®

175 YEARS SUPPORTING THE COMMUNITY

AGL

Dear Shareholder,

I am pleased to invite you to attend the 2012 Annual General Meeting of Shareholders (AGM), which has been scheduled as follows:

Date: Tuesday 23 October 2012
Time: 10.30am (Sydney time)
Venue: City Recital Hall, Angel Place, Sydney

The business to be dealt with at the AGM is provided in the enclosed Notice of Meeting.

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

If you do not plan on attending the AGM, you are encouraged to appoint a proxy to attend and vote on your behalf by lodging your proxy appointment online at www.linkmarketservices.com.au or by completing the enclosed Shareholder Voting Form and returning it in the envelope provided. Instructions on how to appoint a proxy are detailed on the back of the Shareholder Voting Form. Proxies must be received no later than 10.30am (Sydney time) on Sunday 21 October 2012 to be valid for the AGM. Proxies may be lodged online or returned by mail or by fax on 02 9287 0309.

You are encouraged to let us know of any questions you may have before the AGM. Details of how to lodge those questions prior to the AGM are at the rear of the Notice of Meeting.

We look forward to seeing you at the AGM.

Yours sincerely,

Jeremy Maycock
Chairman
17 September 2012

2012 Annual Report

AGL 2013 Financial Calendar

22 August 2012	2012 full year result and final dividend announced
30 August 2012	Ex-dividend trading commences
5 September 2012	Record date for 2012 final dividend
27 September 2012	Final dividend payable
23 October 2012	Annual General Meeting
27 February 2013[1]	2013 interim result and interim dividend announced
28 August 2013[1]	2013 full year results and final dividend announced

1 Indicative dates only, subject to change/Board confirmation

AGL's Annual General Meeting will be held at the City Recital Hall, Angel Place, Sydney commencing at 10.30am on Tuesday 23 October 2012.

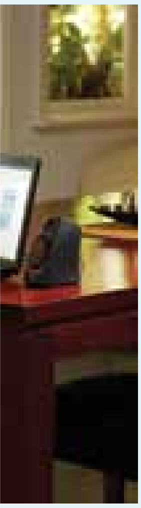
Looking back on 175 years of looking forward.

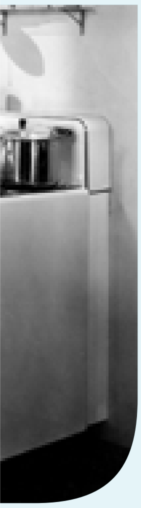
Yesterday

Established in Sydney in 1837, and then known as The Australian Gas Light Company, the AGL business has an established history and reputation for serving the gas and electricity needs of Australian households. In 1841, when AGL supplied the gas to light the first public street lamp, it was reported in the Sydney Gazette as a "wonderful achievement of scientific knowledge, assisted by mechanical ingenuity." Within two years, 165 gas lamps were lighting the City of Sydney.

Tomorrow

AGL is taking action to create a sustainable energy future. Currently under construction, the Macarthur wind farm will be the biggest wind farm in the Southern Hemisphere, with an installed capacity of 420 MW. AGL aims to build on these developments as part of its efforts to meet the government's renewable energy target of 20 percent renewable energy by 2020.





Today

Today AGL is a top 50 ASX listed company with 3.5 million customer accounts and 3,500 employees. AGL operates Retail, Merchant Energy and Upstream Gas businesses in New South Wales, Victoria, South Australia and Queensland. In the last seven years, AGL has invested over $3 billion dollars in renewable energy generation, making us the largest developer of renewable energy assets in Australia over that period.

Contents

Group Financial Highlights

AGL's statutory profit for the year fell by 79.4% due to significant items and fair value adjustments.

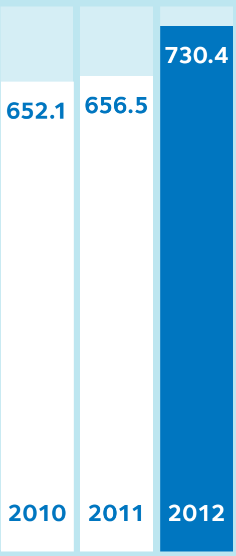
On an underlying basis, profit increased by 11.8% to $482.0 million.

Fully franked final dividend of 32 cents per share declared brings full year dividend to 61 cents per share.

	30 June 2012 $m	30 June 2011 $m	30 June 2010 $m
Profit after tax attributable to shareholders	114.9	558.7	356.1
Adjust for the following after tax items:			
Significant items	155.1	27.3	(49.9)
Changes in fair value of financial instruments	212.0	(154.9)	122.7
Underlying Profit	482.0	431.1	428.9
Increase in underlying profit	11.8%	0.5%	13.2%

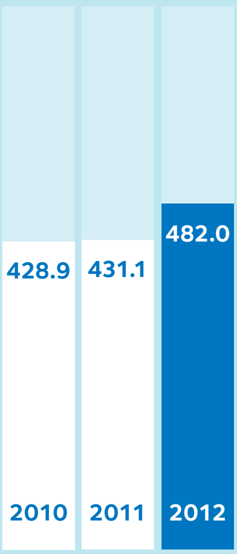
Operating EBIT ($ million)

730.4



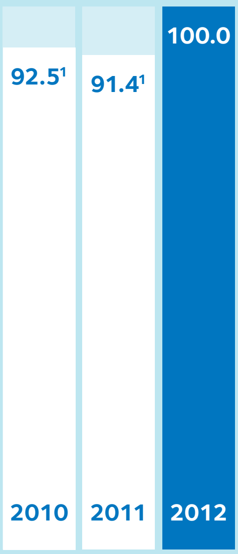
Underlying profit ($ million)

482.0



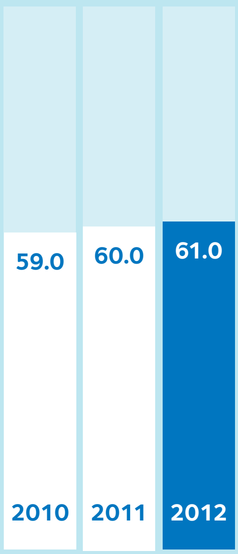
EPS – underlying (cents)

100.0



Dividends per share (cents)

61.0



1 EPS restated for the bonus element of the one-for-six share rights issue completed in June 2012.

Divisional Highlights

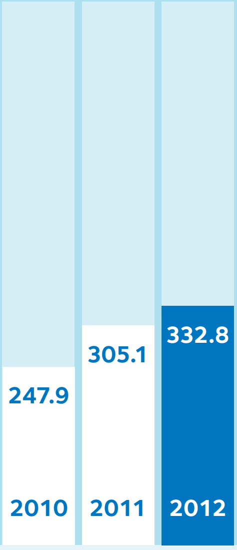
AGL's Retail Energy and Merchant Energy businesses both performed strongly. Increases in customer numbers offset the effects of a mild summer and warm winter, and reductions in average customer consumption of energy.

Retail Energy

- Operating EBIT up by 9.1% to $332.8 million.
- Gross margin per customer increased by 9.8%, even though average customer demand for energy declined.
- Customer accounts up by 180,000, including 152,000 new electricity customers in New South Wales.
- Dual fuel customer accounts up by 10.3% to 1.62 million.

Operating EBIT ($ million)

332.8

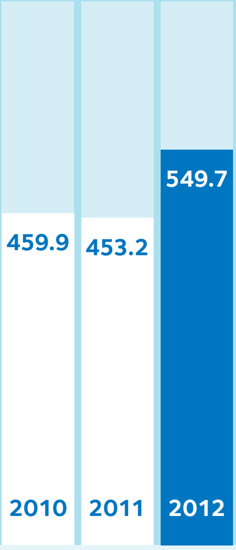


Merchant Energy

- Operating EBIT up 21.3% to $549.7 million.
- Hallett 5 and Oaklands Hill wind farms now fully operational, adding 120 MW to AGL's renewable generation capacity.
- Addition of Loy Yang A power station increases AGL's total controlled generation capacity to 6,000 MW.
- Good rainfall means AGL Hydro assets now able to operate at close to full capacity.

Operating EBIT ($ million)

549.7

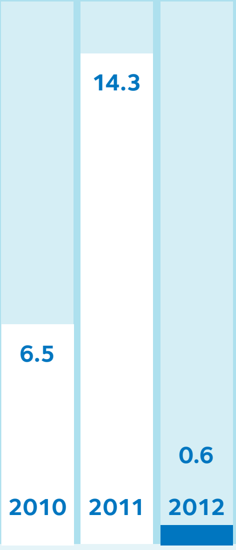


Upstream Gas

- Operating EBIT fell by 95.8% to $0.6 million, mainly as a result of reduced fees from developing underground gas storage.
- Approvals granted to commence construction of Newcastle gas storage facility to be operational by 2015.
- Proved plus probable (2P) gas reserves increased by 77PJ (3.7%).

Operating EBIT ($ million)

0.6

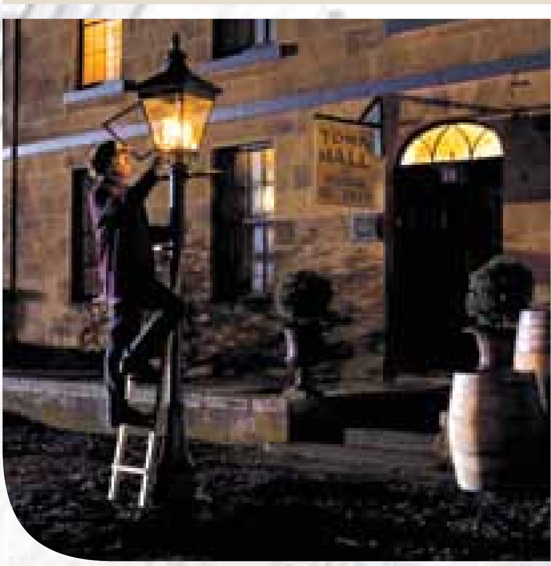


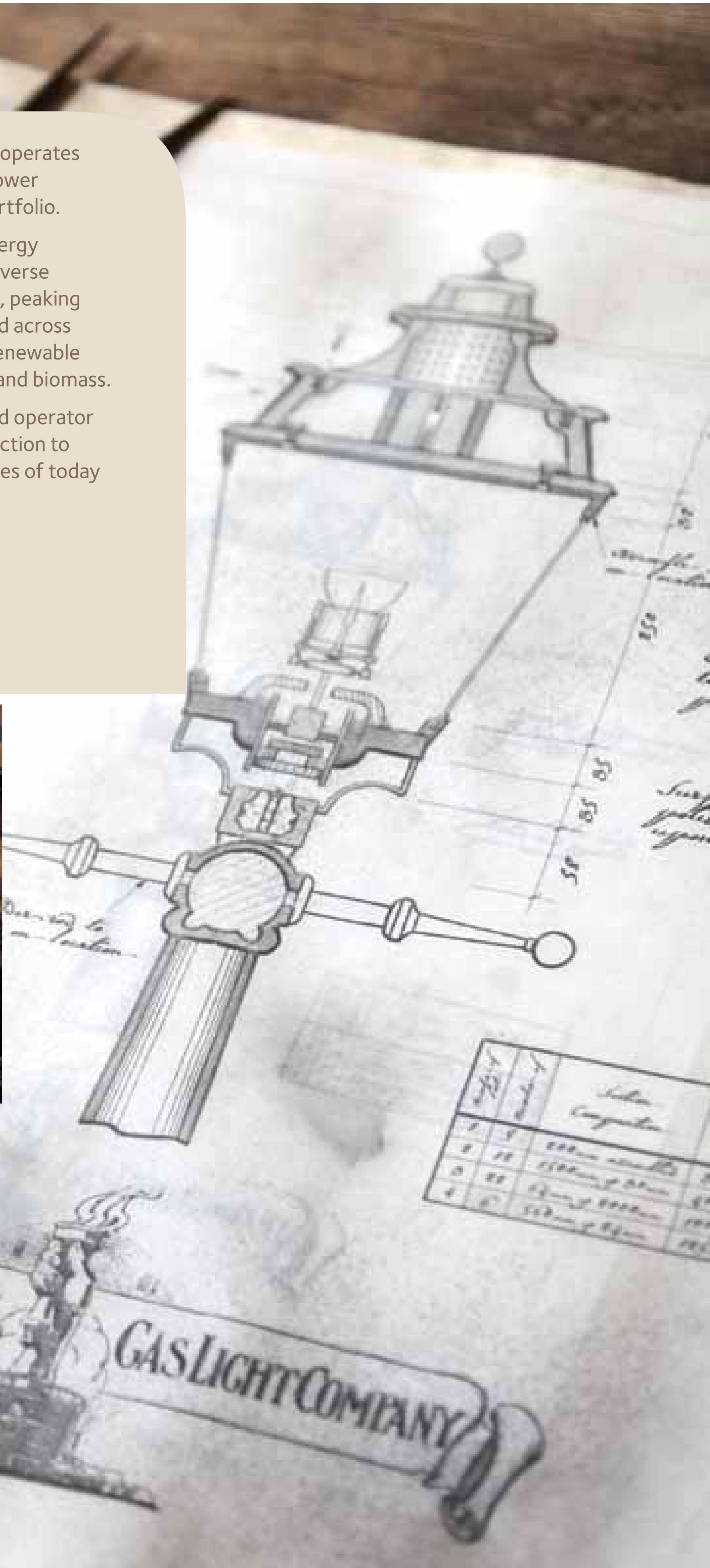
About AGL

Drawing on 175 years of experience, AGL operates Retail and Merchant Energy businesses, power generation assets and an upstream gas portfolio.

AGL has one of Australia's largest retail energy and dual fuel customer bases. AGL has a diverse power generation portfolio including base, peaking and intermediate generation plants, spread across traditional thermal generation as well as renewable sources including hydro, wind, landfill gas and biomass.

AGL is Australia's largest private owner and operator of renewable energy assets and is taking action to create energy solutions for the communities of today and tomorrow.





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

Upstream supply (core)
- Gas Production
- Renewable Generation
- Thermal Generation

Transmission (non-core)
- Gas
- Electricity

Distribution (non-core)
- Gas
- Electricity

Retail markets (core)
- Gas
- Renewables
- Electricity

Upstream Supply

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

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

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

Customer Energy Demand

> Grow our electricity customer base in New South Wales

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

> Provide an excellent experience for our customers

Natasha, Operations Engineer. Wilpena Pound Solar Power Station, Central Flinders Ranges, South Australia.

Chairman's Report

As part of the celebrations of the 175th anniversary of the formation of The Australian Gas Light Company, AGL has been highlighting its long history of adapting to changes in energy technologies and customer needs. The outcomes that have been achieved this year demonstrate that AGL is continuing in that proud tradition. The future promises more change.

Jeremy Maycock, Chairman

Financial Results

The statutory net profit of your company was $114.9 million, compared with $558.7 million last year. This year's result includes significant items totalling $155.1 million, most of which arise from the acquisition and funding of the Loy Yang A power station in Victoria's Latrobe Valley. These items will not recur in future years.

A more useful comparison for shareholders is AGL's underlying net profit which increased to $482.0 million, an increase of 11.8% on the underlying net profit of $431.1 million reported in 2011. Underlying profit is the statutory profit adjusted to exclude significant items and the effect of marking to market certain electricity hedges AGL has in place to manage the wholesale cost of buying electricity in the National Electricity Market.

Returns to Shareholders

The Board has declared a fully franked final dividend of 32 cents per share, an increase on the final dividend of 31 cents per share declared last year. Shareholders should also note that it will be paid on all issued shares, including those issued at a discount in June 2012. In other words, the new shares will participate fully in the final dividend even though the funds received by AGL from the share issue were only deployed in the business for a few days during the year.

A fundamental indicator of financial success is the returns generated on funds employed. A pleasing feature of this year's result is the improvement, from 8.9% to 9.3%, in the return on funds employed in the business. Although still below the level we would like it to be to fully reward shareholders for the risks of investing in the energy industry, the improvement shows that we are heading in the right direction.

Strategy

This has been a year of transformation for AGL as we continue our strategy of vertical integration.

There are two core elements to AGL's strategy.

The first concerns the "demand" side of the business. This relates to the energy products and services we provide to our customers. If AGL is to continue to grow over the long term, it is crucial that we continue to expand this side of the business as it is this which underpins investment in our upstream supply assets.

The other concerns the "supply" side of the business. Over the last few years, we have been investing substantial amounts of capital to increase our ownership of the assets that produce gas and electricity to meet our customers' needs. This will allow us to better manage the wholesale costs of gas and electricity in the years ahead so that we can remain a competitive supplier of energy to our customers.

In growing both the demand side and supply side of the business, it is also important that the investments we make earn a satisfactory return for our shareholders. This means we need to be disciplined in determining the price we are prepared to pay to acquire new assets. We need to form considered views on the range of factors that may affect investment returns over the long term. These scenarios involve financial considerations such as future wholesale electricity prices, and future demand for energy. They also include non-financial considerations including, for example, future State and Commonwealth government policies on energy, and the social and reputational effects of investing in certain types of assets.

This Annual Report details the considerable progress made during 2012 in all these areas. I will highlight just two items that illustrate the disciplined approach AGL has taken in making investment decisions to improve shareholders' returns.

In our Retail business, the number of new customer accounts increased by approximately 180,000. Most of these were new electricity customers acquired in New South Wales as part of a three year organic growth strategy we commenced in January 2011. This followed AGL's decision, in late 2010, not to buy one of the electricity retail businesses being offered for sale by the New South Wales government because the price that we would have been required to pay would not have represented value for shareholders. That decision has been vindicated. Since the launch of the organic growth strategy, AGL has acquired approximately 200,000 new electricity customers in New South Wales. The discounts and incentives we have offered to encourage customers to switch to AGL have been a small fraction of the average cost that would have been incurred had we purchased a retail business from the New South Wales government. AGL has also had the advantage of being able to fully manage the new customer accounts using our own SAP billing platform.

On the supply side of the business, the most significant strategic development was the decision to buy the Loy Yang A power station.

We expect the acquisition to be accretive to earnings from FY2013. Before the Board approved the largest transaction AGL has undertaken since the demerger from Alinta in 2006, it needed to be convinced about a number of matters other than just the immediate effect on earnings. These included consideration of the effect the purchase of a baseload generator and large coal mining operation would have on AGL's operational risk profile, and the effect that investing in a large emitter of carbon dioxide might have on AGL's reputation with investors, customers, employees and regulators, particularly as many of our recent investments have been in building renewable generation assets.

In relation to operational risk, the Board satisfied itself that the power station had been well maintained and that AGL, together with the Loy Yang workforce, could assemble the skills and experience to run it and the coal mine efficiently and safely.

In relation to the reputational effect of the transaction, the Board was satisfied that none of AGL's ongoing investment in renewable energy assets would be compromised by buying Loy Yang. In fact, we expect that the strong cash flow from Loy Yang will make it easier for AGL to fund future renewable development projects.

The Board also recognised that coal fired generation would be required for decades to come if the demand from Australian households and businesses for electricity was to continue to be satisfied. AGL is better placed than most to maintain security of energy supply while working to lower the carbon emissions intensity of Australia's electricity generation assets.

Finally, it was essential that the transaction be prudently financed. Through a combination of debt, hybrid securities, and a very well supported issue of new shares we were able to undertake this on good terms and without compromising the Company's credit rating. In relation to the new shares, it was important to the Board that we treated all our shareholders equally. We were mindful that some of our shareholders might not want to subscribe for additional shares in AGL. Offering all shareholders renounceable rights to acquire new shares at a discount was the fairest way to protect the interests of those shareholders who chose not to invest additional money in AGL.

Energy Policy

This has been a regular theme of the Chairman's Report for several years. A feature of the energy industry is that investment in energy infrastructure involves high cost and very long investment time horizons. AGL has long maintained that State and Commonwealth government energy policies have not provided the private sector with the confidence needed to encourage the investments required to maintain Australia's long-term security of energy supply. We have also said that the most effective way to provide consumers with lowest cost energy and widest choice of energy providers is for State and Federal governments to work together to achieve robust deregulated energy markets, and to avoid the distortions from poor regulation of retail electricity and gas prices.

Unfortunately, over the last 12 months, we have seen a deterioration in public policy development with no apparent overall strategy or objective. Particularly concerning has been the unpredictable determinations of some State government regulators in the setting of retail energy prices, especially in relation to electricity. Some regulators have responded to the large increases in electricity prices observed over the last three or four years by adopting short-term populist policies rather than deal with the real reasons for higher prices. This has meant that energy retailers, such as AGL, are unfairly bearing the brunt of regulatory responses to high energy prices.

The carbon tax and the renewable energy target are often cited as the reasons for the increases in electricity prices. While it is true that both these items have added costs to the industry, they are secondary to the main drivers of higher costs – capital expenditure on electricity networks (particularly in New South Wales and Queensland).

Capital expenditure on electricity networks is now several times higher than it was in the 1990s. This partly reflects the under-investment over many years by State governments in energy transmission and distribution infrastructure. It also reflects the fact that peak demand for electricity – the demand for electricity in the early mornings and early evenings of the hottest days of the year – has continued to increase even though total demand for electricity is falling as customers respond to higher average electricity prices by reducing consumption. This has led to the construction of energy infrastructure which is likely to be used only a few hours each year. The cost of that investment is recovered through higher prices charged to consumers.

An alternative solution would be to fully deregulate electricity prices and allow energy retailers to offer competitive "time of use" energy pricing. Research in Australia and in several other countries has shown that consumers respond to a combination of flexible tariffs and demand management technology, and will reduce peak demand substantially with minimal impact on overall consumption. We acknowledge that not everybody will be able to modify their consumption of energy so easily, and that this might make energy less affordable for some households. However, the overall benefits will be substantial, and there are other alternatives to deliver targeted and effective financial support to those households in real need, rather than using the blunt instrument of price regulation.

Your Board

I am pleased to welcome Graeme Hunt as a new non-executive Director. Graeme brings to the Board extensive experience in establishing and operating large capital projects gained during a long and successful executive career at BHP Billiton Group. This is an important skill set as AGL increases its operational risk profile following the acquisition of Loy Yang A and commits to building new energy assets in the future.

Max Ould has advised the Board that he will be retiring as a Director following the 2012 Annual General Meeting on 23 October 2012. Max joined the Board of The Australian Gas Light Company in 2004. During his tenure on the Board, The Australian Gas Light Company completed a merger with Alinta Limited in 2006, from which the current AGL was created. He was one of the foundation directors when AGL listed on ASX in October 2006, and more recently has been Chair of AGL's People and Performance Committee of the Board. Under his leadership, the People and Performance Committee oversaw significant improvements to AGL's policies on remuneration, diversity, and recruitment and retention, as well as a substantial increase in the level of employee engagement.

On behalf of the Board, I thank Max for his valuable service to AGL. His industrial and consumer market experience has been important in the development of AGL's strategy. We wish him a long and enjoyable retirement.

Conclusion

As part of the celebrations of the 175th anniversary of the formation of The Australian Gas Light Company, AGL has been highlighting its long history of adapting to changes in energy technologies and customer needs. The outcomes that have been achieved this year demonstrate that AGL is continuing in that proud tradition. The future promises more change.

Your Board is satisfied that AGL can look forward with confidence to a prosperous future. Our strategy is sound, we have a strong balance sheet, and we have a skilled and experienced work force.

On behalf of the Board, I extend my thanks to AGL's Managing Director, Michael Fraser, and all AGL employees for their contributions to another successful year for AGL. The Board would also like to thank all our shareholders for their support this year. We are confident that your continued investment in AGL will be rewarding.

Managing Director's Report

The purchase of 100 percent of the Loy Yang A power station and mine this year will provide AGL with strategic benefits and underpin growth. It will ensure a continued reliable and safe supply of energy to our customers while also being a good outcome for our shareholders.

Michael Fraser, Managing Director

AGL's underlying profit increased by 11.8% to $482.0 million. Our core Retail and Merchant businesses both performed well and enjoyed strong growth in earnings. This was partially offset by lower earnings contributions from our Upstream Gas business and from our historical investment in the Loy Yang A power station.

Our Customers

Our customers are the linchpin of our business. They provide the demand for the energy products and services that are the foundation for the investments we make in assets such as power stations, gas storage facilities and gas exploration and production assets. For AGL to continue growing into the future, it is important that we grow and maintain our customer base, and that we are able to offer our customers a broad range of energy products and services at competitive prices. Most importantly, we need to make sure we provide our customers with excellent service.

I am pleased to report that we made good progress during the year on all these fronts.

In total, we increased the number of AGL customers by approximately 180,000. Especially pleasing was the continued success of our campaign to grow the number of customers in New South Wales where we added 152,000 new electricity customers.

We also increased the number of "dual fuel" customer accounts. These are customers who buy both gas and electricity from AGL. We now have approximately 1.62 million such customer accounts, an increase of more than 10% over the year.

Late last year, we established AGL Energy Online, our online service designed to allow customers to manage their account with us. It also provides an opportunity to reduce the number of paper bills we send out. AGL Energy Online has been very successful this year. More than 300,000 households are now registered with AGL through AGL Energy Online.

In October, we launched two new online services, the AGL Smarter Living Centre and AGL Smarter Living Store, to provide advice about efficient energy usage to all energy consumers and to promote the energy efficiency products and services that AGL can offer its customers.

The energy industry experiences high levels of competition. Attracting and retaining customers is costly. Although AGL's rate of customer churn continues to be materially lower than the industry average, we have been considering a number of options to encourage even higher levels of customer loyalty.

In April, we became a partner in the *flybuys* program. *flybuys* is an Australia-wide customer loyalty program which rewards customers for continuing to buy goods and services from any of the *flybuys* partners. AGL is the only energy retailer able to offer customers the ability to participate in a loyalty program of this scale. Almost 200,000 of our customers now have their accounts linked to the *flybuys* program.

During the year, we re-designed the way our Customer Service Centres handle calls from our customers. As a result, the average time taken to respond to enquiries from our customers has been substantially reduced. The quality of our responses has also improved with more customers having their enquiry fully resolved on the first call.

Delivering on strategic objectives

AGL made further progress during the year toward achieving its strategic objectives.

In June 2012, we increased our ownership interest in the Loy Yang A power station and adjacent coal mine, from 32.54% to 100%.

Loy Yang is Victoria's largest power station, producing approximately 30% of the State's electricity requirement. It is one of the lowest cost generators in the National Electricity Market.

Loy Yang increases AGL's owned or controlled generation capacity to 6,000 MW. The additional scale and portfolio diversification it provides will improve AGL's ability to manage the wholesale cost of electricity. The adjacent coal mine means that fuel supply costs are substantially locked in for the remainder of the power station's operating life. Loy Yang's low fuel costs and high levels of operating reliability should allow it to produce substantial operating cash flows in the years ahead.

Loy Yang provides employment for approximately 550 people and up to 500 on-site contractors. I extend a warm welcome to AGL to all of them.

In the year ahead, we will be working hard to make sure the Loy Yang assets, and the Loy Yang employees, are effectively brought into the AGL portfolio. This was a major investment for AGL, so we need to make sure it operates safely and profitably to give our shareholders a satisfactory rate of return.

The acquisition of a coal-fired base load generator does not alter AGL's position as Australia's largest private developer, owner and operator of renewable energy assets. Much of our future investment program will be in constructing additional renewable generation assets. We have also made considerable progress this year in bringing new renewable energy projects into our generation portfolio.

During the year, we completed construction of the 53 MW Hallett 5 wind farm in South Australia and the 67.2 MW Oaklands Hill wind farm in Victoria. Work also continued on the 420 MW Macarthur wind farm which is expected to be fully operational in early 2013.

In March 2012, AGL acquired the development rights for the Silverton wind farm near Broken Hill in New South Wales.

In June 2012, AGL was announced as the successful bidder in the Commonwealth Government's Solar Flagships Program. Together with our project partner, First Solar, AGL will construct two solar photovoltaic power stations at Broken Hill and Nyngan in New South Wales with a total capacity of 159 MW.

Generation capacity at our hydro facilities continued to improve. Substantial rainfall throughout the year has increased dam storage levels. As a result, Eildon power station operates at full generation capacity of 120 MW and the Dartmouth power station to 163 MW (more than 90% of its maximum capacity of 180 MW).

In addition to continuing to work on proving up AGL's own reserves of gas, our Upstream Gas business has also been developing gas storage projects. These will play an increasingly important role in providing security of gas supply to major population centres, especially during periods of peak demand.

Development approval has recently been obtained to construct an LNG storage facility at Newcastle, in New South Wales. Construction work is about to commence, with the facility expected to be commissioned early in 2015.

In November, AGL officially opened the Silver Springs Underground Gas Storage project south of Roma, Queensland. This is a gas storage project using a depleted natural gas reservoir in the Surat Basin in central Queensland. It will be used to deliver greater reliability, and flexibility, of supply to our gas customers.

Our People

As we continue to increase the level of vertical integration by adding new power generation, gas storage and, in due course, more significant gas production assets, the importance of workplace safety will continue to increase. This is particularly the case at operational sites where our employees and contractors will be working in environments with the potential for serious injury.

It is disappointing to report that our Total Injury Frequency Rate has increased this year, from 5.0 to 6.6. This follows an increase in 2011 after three successive years of improved outcomes. The unfavourable trend has been a matter of great concern for AGL's management and Directors. However, we have been encouraged by the large fall this year in the number of high risk near miss safety incidents, particularly those relating to electrical safety at our power stations. Considerable effort has been put into the development of safety leadership at our operating sites, including the introduction of safety "golden rules". These appear to be having a positive effect in improving safety culture at those sites, although there is still much more that we will need to do to achieve our goal of zero harm.

We have been working hard over the last few years to improve the representation of women in leadership positions at AGL. The number of women in leadership roles has been steadily increasing. In March, our efforts in this area were recognised by the Equal Opportunity for Women in the Workplace Agency (EOWA) when we were named as an Employer of Choice for Women. Like many other Australian companies, we still have plenty of scope for further improvement. However, this acknowledgement provides encouragement that we are heading in the right direction.

This has been a very busy year at AGL. I also think it has been a very successful year. I would like to thank all AGL employees for their contributions in bringing about this result.

Conclusion

AGL is celebrating the 175th anniversary of the formation of The Australian Gas Light Company, which was incorporated on 7 September 1837 under an Act of Parliament for the purpose of "lighting with gas the Town of Sydney". We are using this occasion to remind our employees, our customers, and the regional communities in which we operate that AGL has a long and proud history of respecting the environment, working with the community and responding to the changing needs of Australian society.

The energy industry continues to evolve at a rapid pace. AGL is well positioned to respond to those changes. We have another busy year ahead of us, but I am confident that we will continue to deliver outcomes of value for our customers and our shareholders.

Energy for Life

A revitalisation of our 6 year program targeting areas most at risk of energy-related financial hardship by developing and evidence based approach to corporate citizenship.

Vision

In our 175th year of operation, we focus on achieving our vision of creating energy solutions for the communities of today and tomorrow.

Working together for a sustainable future

175 years into our journey, AGL is committed to building a sustainable future for all of our stakeholders – our customers, our employees, our investors, the community and the environment.

Sustainability strategy

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

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

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

> Community – engaging with local communities about our development activities, and responding to broader community needs.

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

> Climate change – structuring AGL's portfolio of assets in readiness for a carbon constrained future.

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

Sustainability reporting

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

AGL has established 12 strategic indicators of success to track our performance over time, together with visions to guide our actions in the longer term. Performance in each of these areas is monitored on a quarterly basis by the Board's Safety, Sustainability and Corporate Responsibility Committee.

The following pages provide an account of AGL's performance against each of the 12 strategic sustainability targets. They also set new targets for FY2013. This is the third year this framework has been used to measure our performance. Further sustainability performance data will be available in the 2012 Sustainability Performance Report, which will be published online around November 2012.

Sustainability performance data

This report covers the activities and facilities over which AGL had operational control for all, or part of, the financial year ended 30 June 2012, other than Loy Yang which was only acquired on 29 June 2012. Data relates to FY2012 unless otherwise stated.

Net Balance Management Group (Net Balance) has provided assurance over the 12 strategic sustainability indicators in this report using the AA1000 Assurance Standard (2008). Net Balance will be carrying out independent assurance over the 2012 Sustainability Performance Report and conducting a third-party application level check against the Global Reporting Initiative's (GRI) G3 Sustainability Reporting Guidelines.

Loy Yang acquisition

On 29 June 2012, AGL completed its acquisition of the Loy Yang A power station and adjacent coal mine in Victoria's LaTrobe Valley.

Loy Yang will increase AGL's operational greenhouse gas emissions footprint from around 1.5 million tonnes per annum to around 20 million tonnes per annum. The increase in AGL's operational emissions will not result in an increase in total emissions from the energy sector.

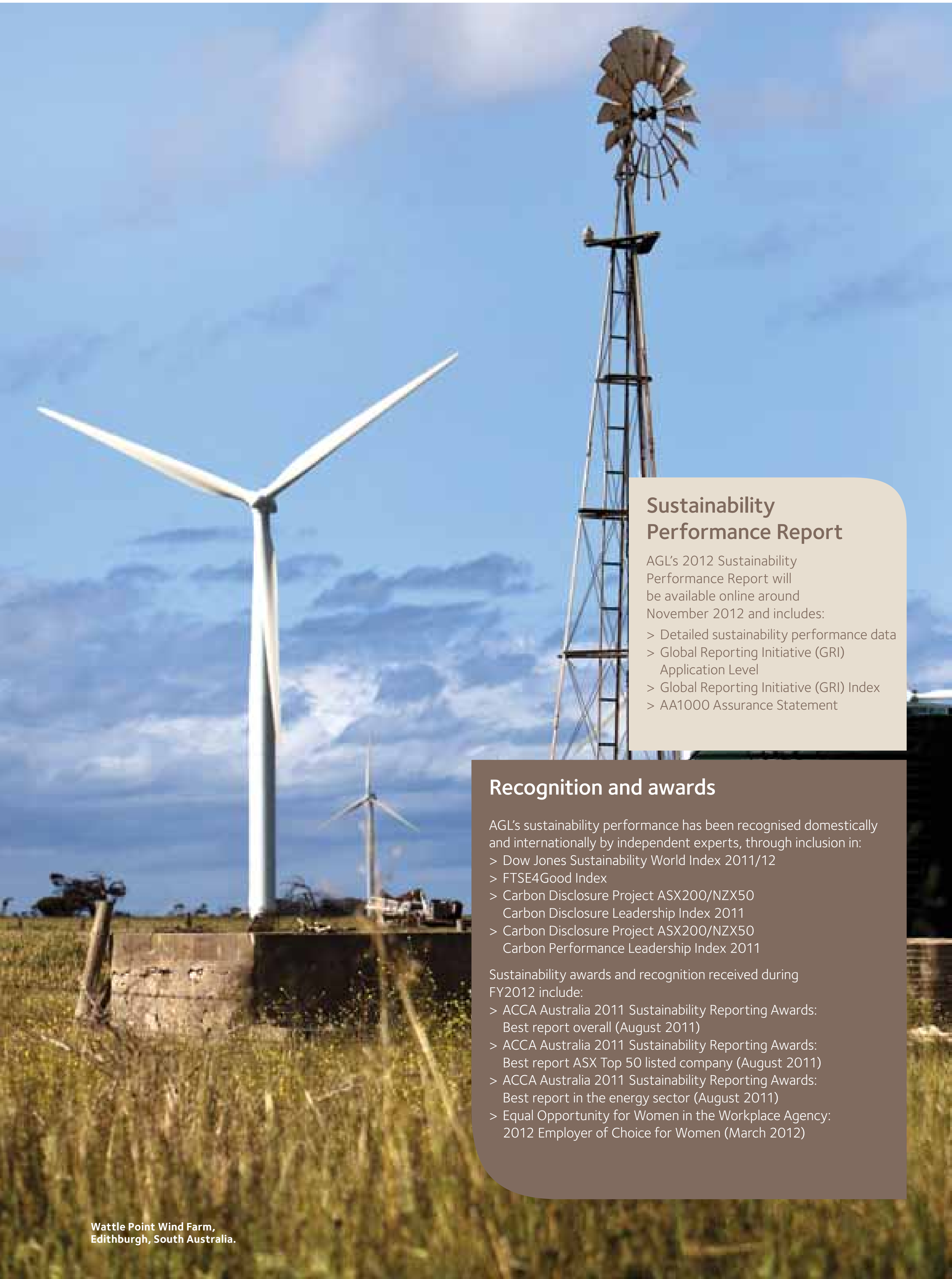
AGL's investment strategy will not change as a result of the acquisition of Loy Yang. Our goal is to be the largest renewable energy company in Australia. Cashflows generated by Loy Yang will fund our pipeline of renewable energy and low emission projects.

Energy for Life

AGL's corporate citizenship program is called Energy for Life. We give our employees opportunities to make charitable donations through payroll giving (Employee Giving), or to take a day of paid volunteer leave to assist a community organisation (Employee Volunteering).

In FY2012, an internal review of Energy for Life resulted in the introduction of a range of new charity partners and the establishment of a more strategic framework for AGL's community contributions.

Over the next 6 years, AGL will invest more than $3 million in a number of community partnerships working to support families experiencing or at risk of energy-related financial hardship and to promote household safety. We aim to support households experiencing hardship through prevention and education; intervention and capacity building; and crisis support.



Wattle Point Wind Farm, Edithburgh, South Australia.

Sustainability Performance Report

AGL's 2012 Sustainability Performance Report will be available online around November 2012 and includes:

> Detailed sustainability performance data
> Global Reporting Initiative (GRI) Application Level
> Global Reporting Initiative (GRI) Index
> AA1000 Assurance Statement

Recognition and awards

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

> Dow Jones Sustainability World Index 2011/12
> FTSE4Good Index
> Carbon Disclosure Project ASX200/NZX50 Carbon Disclosure Leadership Index 2011
> Carbon Disclosure Project ASX200/NZX50 Carbon Performance Leadership Index 2011

Sustainability awards and recognition received during FY2012 include:

> ACCA Australia 2011 Sustainability Reporting Awards: Best report overall (August 2011)
> ACCA Australia 2011 Sustainability Reporting Awards: Best report ASX Top 50 listed company (August 2011)
> ACCA Australia 2011 Sustainability Reporting Awards: Best report in the energy sector (August 2011)
> Equal Opportunity for Women in the Workplace Agency: 2012 Employer of Choice for Women (March 2012)

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

Managing risk to improve returns

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

Past: AGL was the first public utility company in Australia to use IBM electric accounting machines (1955).

2012: AGL uses technology-driven solutions to monitor trading activity.

Chris, Senior Physical Markets Trader, Melbourne.

Vision	Target FY2012	Performance FY2012		Target FY2013
Ongoing profitability				
Industry leading earnings profile based on sustainable business practices.	Underlying profit: **$470–500 million**	Underlying profit: **$482 million**	✓	Total shareholder return.
Improvement in				
Solid returns from AGL's existing and new business activities.	Credit rating: **BBB**	Credit rating: **BBB**	✓	Improvement in return on funds employed.

Ongoing profitability

AGL's pipeline of development projects includes gas-fired power stations; wind farms and solar PV; gas exploration and development activities; and gas production and gas storage facilities.

The Loy Yang A power station and adjacent coal mine will provide AGL with control over one of the lowest cost generators in Australia. It will add substantial scale, diversity and improved risk management capability to AGL's business.

Continued improvement in AGL's investment returns is important if we are to continue to be able to access capital on satisfactory terms.

AGL's underlying profit for FY2012 was $482 million, up 11.8% on FY2011. The result was largely driven by strong Merchant and Retail results. Retail results were higher due to higher customer numbers and growth in gross margin per customer. The Merchant Energy performance benefited from non-recurrence of the severe weather events which affected financial performance in FY2011, combined with strong portfolio performances in electricity, gas and eco-markets.

Dividends paid or declared to shareholders totalled 61 cents per share, an increase of 1 cent per share on the FY2011 dividend.

Sustainable growth

To operate successfully within Australia's energy markets, it is critical that AGL maintains a solid investment grade credit rating. An investment grade rating allows AGL to manage risk by entering into high value wholesale energy contracts. It is also important in securing access to long-term debt on acceptable terms and conditions.

AGL completed a $650 million hybrid security issue and a $900 million equity raising to fund the Loy Yang acquisition. Standard & Poor's (S&P) have reaffirmed AGL's long-term credit rating of BBB/stable. AGL expects to maintain a BBB credit rating based on the current capital structure and capital expenditure likely to be incurred in FY2013.

Our goal is to become a world-class customer-focused energy company.

Meeting our customers' expectations

We are responding to our customers' concerns about increasing energy prices by providing simple and affordable energy efficiency advice and products, enabling them to better manage their energy consumption. We are continuing to improve our customer service, making AGL an easier company to engage with.

1950s: Ovens and other gas appliances were showcased at Gas Centre retail outlets.

2012: Online resources provide customers with access to a range of energy efficiency services and products.

Vision	Target FY2012	Performance FY2012		Target FY2013
Customer experience				
Top ranking energy company for customer satisfaction.	Customer satisfaction score[1]: **> major competitors**	Customer satisfaction score: **AGL[2] = 6.68**	✓	To have a higher annual mean customer satisfaction score than our competitors.
Customers in hardship				
Recognised industry leader in customer hardship policy.	Average energy debt of Staying Connected customers: **5% decrease**	Average energy debt of Staying Connected customers: **7.6% increase**	X	5% reduction in the ratio of average energy debt of Staying Connected Customers to average NEM household electricity bill.

Customer experience

In FY2012 we undertook a comprehensive review of our Customer Service Centre processes and operations. Improvements made during the year to the way we operate our call centres has resulted in much faster customer call response times and higher quality customer service.

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

During FY2012, AGL's customer satisfaction score averaged 6.68 (up from 6.65 in FY2011), with a score of 6.88 in the fourth quarter of FY2012 (up from 6.67 in the corresponding quarter of FY2011). This is higher than both our major competitors.

The customer satisfaction score results reflect responses to the question of how satisfied customers are with the service provided by their energy supplier on a scale of 0 to 10 (where 0 is not satisfied, 5 is neutral and 10 is extremely satisfied).

Customers in hardship

Energy prices have been increasing in recent years. This trend is set to continue, largely due to upgrades to existing infrastructure required to meet increasing energy demand at peak times.

AGL aims to be responsive to our customers, especially those who may be experiencing (or be at risk of experiencing) financial hardship. Working closely with our community partners, we have continued to focus on energy efficiency advice and audits, as well as flexible payment arrangements, to assist vulnerable customers to manage their energy needs.

AGL's national hardship program, Staying Connected, is designed to support residential customers who are experiencing temporary or long-term financial hardship.

At the end of the financial year 8,213 customers were on the Staying Connected program, a decrease of 5% compared to the preceding year. The average level of energy debt among those Staying Connected participants was $1,784, up 7.6% from $1,658 in FY2011. We were unable to meet our target of a 5% reduction of the average debt but will continue to investigate avenues to assist our customers in managing their energy needs.

1 As determined by a quarterly survey prepared by an independent third party provider.
2 Powerdirect and ActewAGL are not included under the AGL brand for the customer satisfaction score.

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

Linking with the community

By engaging local communities during the development process, we are better able to deliver and operate projects while satisfying community concerns about their environmental and social effects. AGL also supports local communities through sponsorships, providing in-kind and financial support.

1965: More than 4,000 women enrolled in AGL's home cookery classes.

2012: 4,182 hours of community service are provided through our Employee Volunteering program.

Cameron, Julie and Felicity, Corporate Affairs, Melbourne.

Vision	Target FY2012	Performance FY2012		Target FY2013
Community engagement				
Best practice local community engagement.	Improve community engagement by implementing community engagement plan actions: **100%**	Improve community engagement by implementing community engagement plan actions: **100%**	✓	100% delivery of promises made to the community.
Community contribution				
Social Return on Investment (SROI) measured and at targets levels.	Employee Volunteering participation rate: **25%**	Employee Volunteering participation rate: **27%**	✓	Establish framework for SROI analysis, with outputs of Energy for Life strategic partnerships measured annually.

Community engagement

AGL has increased its presence in regional communities as we continue to develop power generation, coal seam gas (CSG) and gas storage projects. Communities adjacent to our projects, and the broader community more generally, need to know how our activities may affect them and their environment.

AGL makes widely available information about our CSG, gas storage and power generation development projects. We provide opportunities for local residents and community groups to learn more about our projects and to give us feedback about our activities.

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

AGL has increased its local community relations presence in each of our upstream gas project areas. We also committed additional resources to the delivery of local community engagement programs in power development and upstream gas, increasing our capacity internally by building a larger community engagement team.

New community consultative committee processes were established for power development projects in Queensland and the Newcastle Gas Storage Facility project in New South Wales.

Community contribution

AGL's Energy for Life program builds on our local community engagement strategy, providing opportunities for our employees to give something back to the broader communities in which they live and work.

AGL's revitalisation of its Energy for Life program signalled a move away from a focus on just homelessness, by allowing us to respond more effectively to emerging sustainability risks, especially with respect to energy-related financial hardship in the community.

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

In FY2012, 564 employees recorded a volunteering leave day, contributing 4,182 hours of service to community efforts. This represents an increase of 31.5% compared with the 3,180 hours of volunteering leave recorded in FY2011.

As a part of the company's 175th anniversary activity, AGL is conducting a regional roadshow which is visiting 12 communities where AGL operates in Queensland, New South Wales, Victoria and South Australia.

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

Keeping our employees safe and engaged

A safe working environment and an engaged workforce are important to the successful delivery of AGL's strategic objectives.

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

1960s: A telephonist operates a switchboard.

2012: AGL is recognised by EOWA for advancing women in the workplace.

Natasha, Operations Engineer. Wilpena Pound Solar Power Station, Central Flinders Ranges, South Australia.

Vision	Target FY2012	Performance FY2012		Target FY2013
Employee engagement				
Engagement score at 'best employer' level.	Engagement score: **8% point increase**	Engagement score[1]: **10% point increase**	✓	Further improvement in employee engagement.
Organisational health and safety				
Zero harm.	Total Injury Frequency Rate: **4.0**	Total Injury Frequency Rate: **6.6**	X	Total Injury Frequency Rate lower than 4.9[2].

Employee engagement

Each year, AGL surveys its employees to measure how 'engaged' they are in performing their employment duties. The survey asks employees to indicate the extent to which:

> they say positive things about their AGL employment experience when talking to family and friends

> they might be considering working elsewhere

> working at AGL motivates them to work to the best of their ability.

This year employee engagement improved across most areas of AGL, particularly within the larger business groups of Retail Energy and Merchant Energy.

Initiatives to improve employee engagement were implemented across all business units in FY2012, including enhancements to AGL's parental leave policy; the launch of AGL's first employee diversity network for women; enhanced benefits and incentives; inclusive leadership training; and the launch of mycareernet which supports online performance review and career planning.

In March 2012, AGL was recognised as a 2012 Employer of Choice for Women by the Equal Opportunity for Women in the Workplace Agency (EOWA). This is a prestigious acknowledgement by EOWA of organisations that are recognising and advancing women in the workplace. AGL is among 125 companies this year who met the award benchmarks.

Organisational health and safety

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

Disappointingly, TIFR increased during FY2012, and as at 30 June 2012 was 6.6, compared to 5.0 in June 2011. This equates to 17 lost time Injuries and 10 medical treatment injuries.

Almost 50% of injuries were "non-event related", resulting in soft tissue damage or joint deterioration. These injuries were assessed as having a work-related component, although no specific work event or incident caused the injury. Other common injuries included slips, trips and falls, and manual handling tasks.

A contributing factor for a number of the injuries has been an ageing workforce at some operational sites. Actions to be taken in FY2013 to reduce the incidence of soft tissue injuries include health assessments for relevant operational personnel, the use of occupational therapists to assess job tasks, reducing the exposure to hazards through the application of engineering solutions, and increasing the use of ergonomic assessment processes in office locations.

During FY2012 there was a reduction in the number of potentially high risk near miss incidents. This was largely a result of work to improve electrical safety and permit to work procedures at our power stations.

AGL sets annual HSE Action Plans for each business unit. In FY2012, 99% of Action Plan commitments were met.

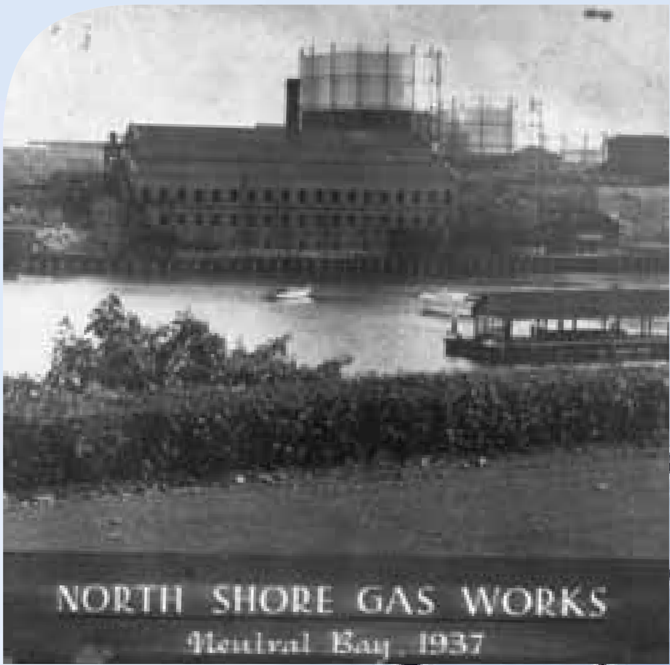
1 Engagement survey undertaken during May and June 2012.
2 The targets related to people will not include AGL Loy Yang for the FY2013 period. AGL Loy Yang will be included from FY2014.

Our goal is to invest in cleaner energy forms to reduce the greenhouse gas intensity of energy across the supply chain.

Minimising carbon risk

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

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



1937: The North Shore Gas Works at Neutral Bay produced town gas from coal for 50 years.

2012: 2.5 million solar panels will be installed across two sites in New South Wales as part of AGL's large-scale solar PV projects.

Vision	Target FY2012	Performance FY2012		Target FY2013
Carbon risk				
Continuing to lower the emissions intensity of AGL.	Intensity compared to Australian electricity average[1]: **>50% below**	Intensity compared to Australian electricity average[1]: **>60% below**	✓	Emissions intensity of investments in new generation capacity lower than 0.7 tonnes per MWh.
Sustainable generation sources				
Australia's largest renewable energy company.	Renewable proportion of operated generation capacity[2]: **48%**	Renewable proportion of operated generation capacity[2]: **48%**	✓	Increase renewable investment capacity to 1,740 MW.

Carbon risk

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

The Loy Yang A Power Station has a carbon intensity of around 1.3 tCO_2e/MWh. This will cause the carbon intensity of AGL's operated portfolio to increase significantly in FY2013 from 0.35 to around 1 tCO_2e/MWh. It is important to note that this will not represent an increase in total emissions from the Australian electricity generation sector, but rather a reallocation of emissions from one organisation to another. The total emissions from Loy Yang are expected to remain reasonably constant year on year.

AGL uses three additional approaches to measure and communicate greenhouse gas performance. The Operational Footprint, Equity Footprint and Energy Supply Footprint provide a complete account of the annual greenhouse impacts of AGL's operations, investments and the energy supplied to our customers, and will be available in the AGL 2012 Sustainability Performance Report.

Sustainable generation sources

During FY2012, AGL commenced operation of the 52.5 MW AGL Hallett 5 Wind Farm and the 67 MW AGL Oaklands Hill Wind Farm respectively, increasing AGL's operated renewable generation capacity to 1,320 MW. Prior to the Loy Yang acquisition on 29 June 2012, 48% of AGL's operated generation portfolio was renewable.

While the proportion of renewable energy in AGL's operated portfolio declined to 27% on acquisition of Loy Yang, AGL remains the largest operator and developer of new renewable energy in Australia.

As at 30 June 2012, AGL has an additional 420 MW of renewable generation under construction, as well as a pipeline of further renewable and gas-fired generation development opportunities.

During FY2012, AGL also acquired the development rights for the Silverton Wind Farm in New South Wales (up to 300 MW in stage 1), and was selected by the Commonwealth Government as a successful proponent in the Solar Flagships program, to develop 2 large scale solar PV projects in New South Wales, totalling 159 MW.

1 Figures refer to the sent out greenhouse gas emissions intensity of generation (scopes 1 and 2) from electricity generation assets over which AGL had operational control during FY2012. Generation from AGL Loy Yang is not included in these figures for either the period up to, or following the AGL acquisition (generation from AGL Loy Yang will be included from FY2013 onwards). Generation assets that are not operated by AGL are not included (for example, where AGL has a right to electricity output or power purchase agreements with power stations operated by other organisations).

2 Figures refer to the capacity of electricity generation assets over which AGL had operational control, as at 28 June 2012, prior to the Loy Yang acquisition. The renewable component includes the installed capacity of hydro, wind, solar, biomass, biogas and landfill gas generation assets operated by AGL. Generation assets that are not operated by AGL are not included (for example, where AGL has rights to electricity output or power purchase agreements with power stations operated by other organisations).

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

Protecting our natural resources

AGL's environmental program is driven by the environmental risk profile of the business and by regulatory requirements.

Management of water resources is a critical environmental issue. Government and communities are scrutinising the coal seam gas industry to ensure that operators act responsibly and that land and water resources are not harmed by exploration and development activities.

1937: Mortlake Gas Works reflects an industrial era of the past.

2012: Wind farms co-exist with other land uses and users. On hot days sheep often line up in the shade of the wind turbine towers.

Hallett Wind Farm, near the town of Hallett, South Australia.

Vision	Target FY2012	Performance FY2012		Target FY2013
Environmental risk				
To have an environmental risk profile that is As Low As Reasonably Practicable (ALARP).	Develop biodiversity register for AGL assets and projects which identifies any impacts on biodiversity values.	The biodiversity register is established. It provides a company-wide baseline of information that will enhance AGL's understanding of its biodiversity risks.	✓	100% of approved risk register actions for the highest residual environmental risks implemented in accordance with targeted milestones.
Water management				
To be recognised as a prudent and responsible user of water that seeks to minimise the adverse impact of its operations on local water resources.	Implement the Produced Water Management Strategy, and develop plans for drill water and coal seam fracturing/flowback water.	Site specific water plans and reuse trials were undertaken in line with the Produced Water Management Strategy.	✓	Increase number of dedicated monitoring bores and stream gauging sites relative to overall number of CSG wells/sites.

Environmental risk

AGL's seeks to maintain an environmental risk profile that is As Low As Reasonably Practicable (ALARP). This requires continual improvement based on an understanding of risks, and a commitment to reduce the highest risk items where practicable.

AGL maintains environmental risk registers for all our coal seam gas projects and large power generation facilities. Risk registers are regularly reviewed and assessed by a range of operations personnel and environmental specialists.

AGL's approach to the identification of environmental risks is consistent with the approach taken in the ISO 14001 Environmental Management Systems standard. Risks identified through the 'aspects and impacts' approach are assessed from the perspectives of 'inherent risks', and 'treated risks' (which take into consideration existing control measures). This approach enables AGL to put in place critical controls and to identify where the highest residual risks remain so resources can be targeted appropriately, or informed decisions can be made about accepting certain risks.

During FY2012, AGL's main environmental risks have related to surface water, groundwater, biodiversity and the management of historic land contamination. Work programs have been developed to manage these risks.

Further information on AGL's environmental risks and detailed environmental performance data will be published in the 2012 Sustainability Performance Report.

Water management

AGL is continuing to develop dedicated groundwater and surface water monitoring networks across its Gloucester, Hunter and Galilee CSG exploration areas, and is in the process of establishing dedicated monitoring bore networks at its production wellfield at Camden and expansion area at Camden North. In addition, there are dedicated monitoring locations in the vicinity of its proposed natural gas storage facility at Tomago.

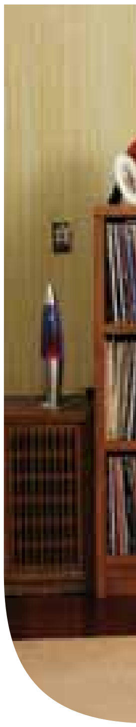
Seventy dedicated groundwater monitoring bores, 5 perched water monitoring bores, and 16 surface monitoring locations are now operational across the Hunter, Gloucester, Galilee, Camden North and Tomago project areas. In FY2012, 18 new dedicated groundwater monitoring bores and 2 new surface monitoring locations were installed and became operational (in the Gloucester, Camden North and Tomago project areas).

Results to date from AGL's dewatering activities in the Hunter, Galilee and Camden Gas Projects suggest that groundwater in deep coal seams in these CSG project areas is isolated from water resources in shallow aquifers and streams. Water level declines have been negligible and water quality has not been impaired as a result of AGL's activities.

Providing an excellent experience for our customers

AGL retails natural gas, electricity and energy related products and services to almost 3.5 million customers across New South Wales, Victoria, South Australia and Queensland. Retail Energy sources its energy from AGL's Merchant Energy Business.

Retail Energy	2012	2011
Operating EBIT ($m)	332.8	305.1
Operating EBITDA ($m)	391.9	348.9
Operating cost/gross margin	49.2%	48.8%
Consumer market electricity volume (GWh)	15,410	14,674
Consumer market gas volume (PJ)	60.1	62.6
Consumer market gross margin ($m)	654.5	595.9
Average consumer market customers ('000s)	3,373.2	3,254.2
Average consumer market gross margin per customer ($)	194.03	183.12



Financial Performance

Retail Energy's Operating EBIT of $332.8 million was up 9.1% on last year due mainly to improved margins and increases in customer numbers. Business operating costs increased by 10.7%, mainly due to the additional campaigning and advertising costs incurred to respond to the increased intensity of competition in Australian energy markets, and the higher amortisation of costs incurred in increasing our electricity customer base in New South Wales.

Main achievements in 2012

During the year AGL acquired over 180,000 new customer accounts. Of these, 152,000 are new electricity customers in New South Wales, as a direct result of the three year organic growth strategy we commenced in 2011. Our electricity customer base in New South Wales now exceeds 620,000, which puts us on track to achieve the target of at least 800,000 customers by FY2014. The number of "dual fuel" customers also increased by over 10% during the year to 1.62 million.

AGL's Energy Online service has grown steadily during the year, allowing customers to switch to AGL, manage their accounts or move home at their convenience. Of the 300,000 registered users, more than half receive their bills electronically and self-serve on simpler transactions.

AGL is providing energy solutions to help customers manage their energy consumption and help reduce their energy bills. AGL's Smarter Living Centre and Smarter Living Store were launched in October 2011. They offer energy efficiency products, personalised services and practical solutions to reduce energy use.

During the year, AGL introduced a range of additional initiatives to attract and retain customers. In April 2012, AGL entered into a partnership with the Coles *flybuys* loyalty program which rewards customers for everyday spending on electricity and gas. To date, more than 200,000 of our customers have linked their accounts to *flybuys*.

Changes were made during the year to a number of the call handling processes at our Customer Service Centres. These changes have resulted in improved first call resolution of customer enquiries and a reduction in the time taken to respond to, and deal with, customer calls. We have started to see the benefits of these improvements through increased levels of customer satisfaction.

AGL's share of complaints made by customers to the Ombudsman in each State was also significantly below market share.

In 2012, AGL received an award from independent research company Canstar Blue for most satisfied customers, electricity providers – New South Wales 2011.

Key challenges

AGL operates in some of the world's most competitive retail energy markets, with Victoria having the highest level of customer switching or churn in any deregulated energy market globally.

AGL's consumer market churn rate continues to be significantly lower than the total market. AGL's actual churn rate improved with a reduction year on year from 16.2% to 15.4%, despite the total market churn increasing from 20.0% to 20.3%.

A feature of Australian energy markets over recent years has been steep rises in energy prices, especially for electricity. This has resulted in a reduction in average energy consumption as households seek to manage their energy bills. It has also resulted in increases in the level of hardship experienced by some of our customers.

AGL is continuing to broaden the range of products and services we offer our customers to help them become more energy efficient. More of our customers are also taking advantage of different payment arrangements, such as bill smoothing, to reduce the difficulty they may experience in paying large energy bills every three months.

Objectives

Our activities will continue to be directed towards providing an excellent customer experience. In 2013, we will continue to develop and introduce new products and services as well as broaden the provision of energy efficiency advice. Driving further improvements to customer service and realising ongoing cost efficiencies will also remain a core focus, together with growth of our electricity customer base in New South Wales.

flybuys partnership

AGL has partnered with Coles' *flybuys* loyalty program which rewards customers for everyday spending on electricity and gas. AGL is the only energy retailer able to offer customers this benefit.

Canstar Blue – Most Satisfied Customers

AGL received an award from independent research company Canstar Blue for most satisfied customers, electricity providers – New South Wales 2011.

Strong growth

Customer accounts up by 180,000, including 152,000 new electricity customers in New South Wales. Growth in dual fuel customer accounts of 10.3% to 1.62 million.

Yesterday, today, tomorrow...

Throughout its history, AGL has shaped the Australian energy industry. The creation of innovative advertising campaigns encouraged consumer uptake of gas and gas appliances. From the Old Gas Stove round up in the 1950s to the iconic 'Living Flame' Girls campaign of the 1970s and 1980s, AGL has been at the forefront of energy marketing. Today, AGL's campaign focuses on helping customer's save money on their energy bills by providing energy efficient products, services and advice to reduce their energy consumption.

Delivering gas and electricity to wholesale and retail markets

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

Merchant Energy's business groups are:

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

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

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

> Business Customers – which sells electricity, gas and other energy services to AGL's large commercial and industrial customers.

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

Energy Portfolio Management

Energy Portfolio Management manages the price risk associated with procuring electricity and gas. It also manages AGL's green product obligations such as those relating to the mandatory renewable energy target, and controls the dispatch of owned and contracted electricity generation. Energy Portfolio Management's operating EBIT increased by 26.1% to $540.4 million.

Yesterday, today, tomorrow...

From the old days of coking coal to produce town gas, AGL has always managed the risks of procuring and delivering supply the changing needs of its industrial and commercial customers. Today the fuel sources are different as we grow our renewable energy assets, but the need to manage risk and change with our customers remains.

Helping an Australian icon achieve success and sustainability.

AGL's 175 year history is rich with events that have helped shape Australian industry. Today, AGL provides a range of energy-related services to more than 300,000 large business customers.

2012 is a significant year for both AGL and our valued customer Coopers Brewery as it celebrates 150 years of operation. AGL's relationship with Coopers Brewery began in 2002 with the construction of a custom-built co-generation power plant within its Adelaide premises. The plant generates 4.4 MW of power which meets most of Coopers' electricity needs. This enables the production of more than 30,000 cartons of beer each day in an environmentally sustainable way.

Coopers 150 years & onward COOPERS BREWERY EST 1862

This was driven by increases in gross margin of $77.2 million from wholesale electricity, $10.5 million from wholesale gas and $20.0 million from eco-markets gross margin.

In relation to wholesale electricity, the improved result for the year was partly due to the non-recurrence of severe weather events experienced across the National Electricity Market in late January and early February 2011.

Other drivers of the wholesale electricity result include additional generation from new assets and increased hydro capacity.

Higher generation output from hydro and wind assets combined with portfolio management increased AGL's eco-markets gross margins. The year also included a full 12 months gross margin contribution from the small-scale renewable energy scheme compared with only 6 months in the prior corresponding period.

AGL's flexible and market competitive gas portfolio was the basis for the improved result despite a slight offset from lower residential demand between July and September 2011 due to mild weather.

Power Development

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

Development profits of $43 million were recognised in the year, mainly from the sale of the completed Hallett 5 Wind Farm (which reached practical completion in March 2012) and from the Oaklands Hill Wind Farm (which reached practical completion in February 2012).

Although it has been sold, AGL will continue to operate and maintain the Hallett 5 Wind Farm, and will retain the rights to all electricity output and renewable energy certificates.

Work continued on construction of the Macarthur Wind Farm in western Victoria. When completed in early 2013, it will be the largest wind farm in the Southern Hemisphere with a generation capacity of 420 MW.

On 9 June 2012, AGL was named as the successful bidder under the Commonwealth Government's Solar Flagships program. As a result, AGL will construct 2 solar photovoltaic (PV) power stations at Broken Hill and Nyngan with a total capacity of 159 MW. The total capital cost of the projects will be $445 million with $195 million being provided from Commonwealth and New South Wales state government grants.

Merchant Operations

Merchant Operations is responsible for managing and maintaining AGL's growing portfolio of wind, water and gas-fired electricity generation plants.

AGL's thermal and renewable generation portfolio includes the 1,280 MW gas-fired Torrens Island Power Station in South Australia, the 150 MW gas-fired Somerton Power Station in Victoria, and 781 MW of hydro generation in Victoria and New South Wales. It now also includes the 2,210 MW

Merchant Energy	2012 $m	2011 $m
Operating EBITDA	**628.5**	522.3
Operating EBIT		
Energy Portfolio Management	540.4	428.7
Merchant Operations	(118.8)	(114.7)
Business Customers	94.1	90.4
Power Development	40.8	56.3
Sundry	(6.8)	(7.5)
Total Operating EBIT	**549.7**	453.2

Macarthur Wind Farm

Upon completion, Macarthur Wind Farm will be the largest wind farm in the Southern Hemisphere with a generation capacity of 420 MW.

Solar Flagships PV project

AGL will construct two PV power stations in New South Wales with a generation capacity of 159 MW. If built today, the larger of the two stations would be the largest solar power station in the Southern Hemisphere.

Co-generation at Qenos

AGL's 21 MW co-generation project for Qenos' Altona plant is scheduled for completion in December 2012.

coal fired Loy Yang A power station, AGL's ownership interest in which increased from 32.54% to 100% in June 2012. AGL now has full operational control of the asset.

AGL also operates and controls 509 MW of wind generation in South Australia and Victoria. The 52.5 MW Hallett 5 and 67 MW Oaklands Hill Wind Farms are new additions to the portfolio following their commissioning in March this year.

Merchant Operations is largely a cost centre. All generation revenue and variable operating expenditure is included in the results for Energy Portfolio Management. Merchant Operations costs increased by approximately $4 million this year due to the effect of additional new plant coming on line. This includes Hallett 5 and Oaklands Hill Wind Farms.

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

These high levels of operating performance meet or exceed international benchmarks of good performance, reflecting the quality of AGL's asset management program. As an example, a major four year project at Torrens Island Power Station to upgrade the generator control systems was completed this year.

High rainfall throughout the year has resulted in improved water storage levels. These storage levels mean that Eildon Power Station can continue to generate at its full capacity of 120 MW, and Dartmouth has increased its generating capacity from 135 MW to 163 MW.

Business Customers

This year, Business Customers (previously known as Commercial and Industrial) has been included in the Merchant Energy business. In previous years, it was included in Retail Energy. This improves alignment with other parts of Merchant Energy, particularly in relation to wholesale cost management.

Business Customers' role is to sell electricity, gas and other energy services to AGL's large commercial and industrial customers.

During the year, the group consolidated numerous billing and customer relationship management systems into the existing SAP platform used by Retail Energy. The expected benefits of this project are being realised, particularly in relation to improved cash flow.

Energy Services

Energy Services resides within the Business Customers Division and enables AGL to provide energy management solutions to its commercial and industrial customer base.

These services include:

> embedded generation projects such as the $45 million AGL-Qenos co-generation project (currently under construction);

> electrical and gas infrastructure;

> energy audits;

> HVAC and lighting upgrades;

> efficient boiler design, sale and commissioning by AGL Boilers;

> energy and emissions data via AGL Insight, a web based reporting platform; and

> production and supply of LPG and naptha.

These offerings cover the identification, design and delivery of energy solutions aimed at reducing customers' energy costs.

Operating EBIT in Energy Services increased by 24.6% from $17.8 million to $22.2 million as a result of an increase in new energy efficiency based projects and increased LPG production volumes and price.

Practical completion of the 21 MW co-generation facility for Qenos Pty Limited at its Altona plant in Victoria is expected in December this year.

Key customer projects during the past year included high voltage electrical infrastructure design and implementation, conversion of coal boilers and LPG fired ovens to natural gas, and the design and installation of chiller, air handling equipment and lighting upgrades.

Investing for the future

AGL has acquired the rights to develop the Silverton Wind Farm in Broken Hill, which is scheduled to become the company's first wind farm development in New South Wales. In Victoria, AGL has increased its 32.5% share of Loy Yang A Power Station to full ownership. The business is now called AGL Loy Yang.

Silverton Wind Farm

In March 2012, AGL acquired all the shares in Silverton Wind Farm Holdings Pty Ltd, owner of the development rights for the Silverton Wind Farm. The Silverton Wind Farm is located near the township of Silverton, approximately 25km north west of Broken Hill, New South Wales. Silverton has a high quality wind resource with a wind speed of approximately 8 metres per second and a wind farm capacity factor of around 40%.

The Silverton Wind Farm has development approval for 282 wind turbines in Stage 1 and concept approval for a further 316 wind turbines in subsequent stages to bring the site capacity up to 1,000 MW. Subject to electricity network capacity, AGL will develop up to 300 MW of generation capacity in Stage 1.

Subject to market conditions, construction of the project could commence in 2014.

AGL Loy Yang

In June 2012, AGL increased its ownership interest in the Loy Yang A power station and adjacent coal mine, from 32.54% to 100%.

Loy Yang is Victoria's largest power station, producing 30% of the State's electricity requirement. Currently it has approximately 550 employees and up to 500 on-site contractors. It is one of the lowest cost generators in the National Electricity Market and will remain so even with the introduction of a price on carbon emissions.

The acquisition of Loy Yang increases AGL's owned or controlled generation capacity to 6,000 MW.

The adjacent coal mine means that fuel supply costs are substantially locked in for the remainder of the power station's operating life. High levels of operating reliability, coupled with low fuel costs and more than $1 billion of free carbon permits, will produce substantial future operating cash flows.

In future years, the results from operating Loy Yang will be incorporated in AGL's Merchant Energy business results.

ActewAGL

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.

The ActewAGL retail partnership contributed an equity share of profits of $28.0 million for the year compared, with $29.8 million for the year prior. This slight decrease is attributed to lower electricity volumes that resulted from milder than anticipated temperatures during the year. This was partially offset by higher gas consumption. In light of continued competitive pressures, the partnership has delivered a sound full year performance.

Advancing the long-term security of gas supply

AGL's Upstream Gas business explores, develops, stores and produces natural gas.

Upstream Gas is responsible for advancing AGL's position to achieve long-term security of gas supply. Its portfolio includes assets in Queensland and New South Wales.

In Queensland, AGL's upstream portfolio includes Silver Springs production, development and storage, along with AGL joint venture interests in the Moranbah Gas Project, the Galillee Basin, the Cooper Basin, and at Spring Gully.

AGL's New South Wales portfolio comprises wholly owned and operated assets at Camden, in the Hunter Valley, and at Gloucester.

Financial Performance

Operating EBIT for the year was $0.6 million, a decrease of $13.7 million on the previous year. The decrease was due mainly to a fall in income from the provision of gas storage services.

At year end, proved plus probable (2P) reserves were 2,166 PJ, an increase of 77 PJ (3.7%) on last year. AGL's entitlement to 2P reserves within ATP1103 in the Bowen Basin in Queensland increased as a result of exploration and appraisal activities during the year.

Commissioning of the Silver Springs Underground Gas Storage Facility

In November AGL officially opened its Silver Springs Underground Gas Storage project south of Roma, Queensland.

AGL has developed underground gas storage in a depleted sandstone reservoir in the Bowen Surat Basin in central Queensland that is underpinned by a contract with QGC Pty Limited (QGC – a BG Group business). The reservoir and related Silver Springs assets were part of AGL's acquisition of Mosaic Oil which was completed in October 2010.

The arrangements will allow QGC to store gas in the reservoir while it develops its Queensland Curtis LNG Project, which will convert coal seam gas into liquefied natural gas for Asia-Pacific markets.

AGL will provide QGC with gas storage services for up to seven years until 2018. AGL has agreed to deliver gas to QGC from the gas storage project by swapping gas which QGC is required to deliver to AGL at Berwyndale under AGL's existing long term gas sale agreement with QGC.

This facility provides AGL with significant long term value as the eastern Australian gas market shifts its focus to the international LNG market. In addition to opening up service opportunities, the facility will allow AGL to manage demand and maintain gas supplies.

The project is located near key gas markets in Brisbane, Gladstone and Mt Isa.

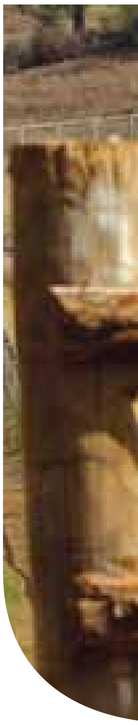
The facility will use the APA-owned Berwyndale to Wallumbilla Pipeline to transport gas to the AGL-owned Silver Springs Pipeline. This allows gas to flow to and from the Wallumbilla gas hub from the Silver Springs gas plant and our newly acquired Wallumbilla LPG plant.

Gloucester Gas Project

During the year, AGL released its report investigating groundwater and surface water conditions within its Gloucester Gas Project area. AGL delivered on its promise to the community, by submitting the report for independent peer review as prescribed and overseen by the Gloucester Community Consultative Committee.

Greater community involvement

AGL understands there is community uncertainty about coal seam gas. We have increased our efforts to keep local communities informed about our exploration and development activities, with a new community relations team living and working in project areas, and the opening of the Singleton Information Centre.



The report explored what affects, if any, there might be on the groundwater from natural gas exploration. It provided an in-depth foundation for future work, involving geological appraisals, drilling, permeability testing, water level monitoring, water quality sampling, isotope studies, data collation, analysis and reporting.

The report's findings conclude that:

> there are four types of groundwater systems across the area;

> there are few beneficial aquifers. The water in the shallow aquifers in the alluvium and shallow rock is saline and low yield, and is only suitable for stock water supply and limited domestic purposes; and

> deeper water bearing zones have no groundwater resource potential.

Subsequent to the end of the financial year, the Land and Environment Court upheld the validity of the planning approval for the project. AGL now intends to recommence exploration activities in the project area.

AGL share of CSG reserves	As at 30 June 2012		As at 30 June 2011	
PJ	2P	3P	2P	3P
Gloucester (100%)	**669**	**832**	669	832
Moranbah (50%) – Bowen Basin	**376**	**862**	370	700
Camden (100%)	**142**	**189**	148	195
Hunter (100%)	**142**	**271**	142	271
Silver Springs (various)	**61**	**158**	65	137
Spring Gully (various)	**8**	**10**	8	10
Sub-Total	**1,398**	**2,322**	1,402	2,145
ATP 1103 back-in rights (50%) – Bowen Basin(1)	**768**	**1,660**	687	1,495
Total	**2,166**	**3,982**	2,089	3,640

1 Under a 50-year project agreement that commenced in 2000, AGL has no effective exploration rights (or ongoing cost obligations) within exploration tenement ATP 1103 (previously designated ATP 364P) as these were assigned to Arrow Energy Limited. However, AGL is entitled to participate up to a 50% interest in any commercial development by contributing its share of past costs. Past costs are anticipated to be less than $0.05/GJ.

Yesterday, today, tomorrow...

From lighting the first gas street light in Sydney in 1841 to pioneering the nylon pipe technology in the 1980s, AGL has continued to transform the Australian energy industry in Australia. Today, AGL has a portfolio of gas investments to supply our customers. We are securing a sustainable future of reliable gas supply with gas storage facilities and coal seam gas projects.

Newcastle Gas Storage facility receives Government approval

The New South Wales Planning Assessment Commission and the Commonwealth's Department of Sustainability, Environment, Water, Population and Communities have approved AGL's application to construct the Newcastle Gas Storage Facility project at Tomago, near Newcastle.

Expected to be completed in 2015, the facility will include:

> a processing plant that will convert pipeline natural gas to liquefied natural gas (LNG) by cooling it to –162°C. It will be capable of processing up to 66,500 t of LNG per year;

> an insulated, non-pressurised LNG storage tank capable of containing 30,000 t or 63,000 m³ of LNG, equivalent to 1.5 petajoules (PJ) of natural gas, and an associated containment area; and

> a re-gasification unit to convert the LNG in the storage tank back into natural gas.

The facility will allow AGL to provide security of gas supply for more than 700,000 customers by managing peak gas demand and pipeline constraints.

Coexistence

During the year, AGL continued to undertake activities to demonstrate that coal seam gas exploration and production processes can co-exist with the agricultural, viticultural and tourism industries already operating in areas such as the Hunter Valley in New South Wales. In addition to owning gas exploration permits, AGL also owns the freehold interests in approximately 4,203 acres of land in the Hunter Valley, including nearly 100 acres of vineyards on which a number of gas exploration wells and water monitoring bores have been drilled. Using the grapes from our owned vineyards, AGL has worked with local winemakers to produce award winning wines.

AGL has also appointed a station manager to look after its properties in the Hunter Valley. The station manager's responsibilities will include the development of some of the land as operating cattle farms.

During the year, the New South Wales government released a number of draft policy proposals regarding strategic use of land and interference of aquifers. It also released a draft code of practice for coal seam gas exploration activities. AGL welcomes the Government's efforts to put in place policies and codes of practice to protect the State's valuable land and water resources while recognising the importance of developing gas reserves to preserve the security of energy supply over the long term.

Leadership Team

Michael Fraser
BCom, CPA, FTIA

Managing Director and Chief Executive Officer

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

Stephen Mikkelsen
CA, BBS

Chief Financial Officer

Stephen has over 16 years experience in senior financial positions in Australia's and New Zealand's electricity markets. Previously, he worked in treasury activities in banking and finance.

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

Group Head of Corporate Support Services and Company Secretary

Paul has had more than 35 years of experience in a variety of roles in The Australian Taxation Office, chartered accounting firms and listed public companies. He has been with AGL for 8 years and in his current role for the last 6 years.

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

Group Head of People and Culture

Jane has more than 20 years experience in human resources in large organisations including PepsiCo International, Westpac Banking Corporation and Philips. She is a member of the Chief Executive Women Group.

Michael Moraza
BE (Chem. Eng), MBA

Group General Manager Upstream Gas

Michael joined AGL in 1996 and has nearly 3 decades of petroleum industry experience. Michael has driven the acquisitions of many of AGL's core assets, helped develop AGL's integrated business strategy and led The Upstream Gas Group since its inception.

Prof. Paul Simshauser
BEcon, BCom, MCom, PhD (Econ), PMESA, CPA, FAICD, AFMA Acc. Dealer

Chief Economist and Group Head of Corporate Affairs

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

Ken Hodgson
BEcon

Group General Manager Retail Energy

Ken joined AGL in 2008 and has overall responsibility for the growth and development of AGL's more than 3 million customer base. Prior to joining AGL, Ken spent 5 years with Westpac Banking Corporation as General Manager for Consumer Financial Services.

Owen Coppage

Chief Information Officer

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

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

Group General Manager Merchant Energy

Anthony has more than 15 years of experience at energy businesses in Australia and the US. He has been with AGL for 9 years and in his current role for 2 years. Previous roles at AGL include responsibility for AGL's wholesale electricity, gas and renewable portfolios and risk management.

AGL's approach to Corporate Governance

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

Principle 1: Lay solid foundations for management and oversight

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

Role of the AGL Board ('the Board')

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

The Board's responsibilities are set out in a formal Charter which the Board reviews every two years. The Charter was most recently reviewed and amended in February 2012.

The major powers the Board has reserved to itself are:

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

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

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

> Approving the remuneration of the CEO and the Executive Team;

> Monitoring the timeliness and effectiveness of reporting to Shareholders;

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

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

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

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

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

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

The Board has established four Committees. They are:

> Nominations Committee (see Principle 2);

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

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

> People and Performance Committee (see Principle 8).

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

New Directors

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

> The rights, duties and responsibilities of Directors;

> The role of Board Committees;

> The roles and responsibilities of the Executive Team; and

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

New Directors undertake an induction program which comprises:

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

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

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

Delegation to the CEO and the Executive Team

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

Executive Team

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

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

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

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

Executive Team performance evaluations have been conducted for the financial year ending 30 June 2012. Details of the evaluation process and the linkages between the result of performance evaluations and remuneration are disclosed in the Remuneration Report commencing on page 48 of this Annual Report.

Principle 2: Structure the Board to add value

AGL's Constitution provides for a minimum of three directors and a maximum of ten. As at 30 June 2012, the Board comprised seven non-executive Directors and one executive Director. The executive Director is AGL's CEO, Michael Fraser.

A Board comprising eight Directors provides a sufficient diversity of skills and experience appropriate to, and a sufficient capacity to manage the workload demands of, a company of AGL's size and complexity, whilst allowing effective and efficient decision making as a Board.

There was no change during the year to the composition of the Board. Subsequent to the end of the financial year, AGL announced that Mr Graeme Hunt would join the Board as a non-executive Director with effect from 1 September 2012 and that Mr Max Ould intended to retire as a Director at the conclusion of the 2012 Annual General Meeting.

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

The Board met 16 times during the financial year. Director's attendances are set out on page 44 of this Annual Report.

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

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

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

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

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

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

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

> has a material contractual relationship with AGL; or

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

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

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

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

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

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

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

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

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

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

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

The Board is satisfied that AGL's Chairman, Jerry Maycock is, and has been throughout the year, an independent Director.

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

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

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

> leading the Board in reviewing and discussing Board matters;

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

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

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

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

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

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

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

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

The Board established a Nominations Committee in 2011. The Committee comprises all AGL's non-executive Directors. The Committee has adopted a formal Charter that is required to be reviewed at least every two years. A copy of the Charter is available on AGL's website.

The Committee is responsible for:

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

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

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

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

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

> reviewing and approving any continuing education for Directors.

The Committee met nine times during the year.

Details of Directors' attendances are set out on page 44 of this Annual Report.

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

Evaluation of Board

The Board regularly reviews its own performance.

The Board's practice has been to alternate between an internally facilitated review process and a review facilitated by an independent third party with expertise in assessing Board performance.

The most recent review, which was conducted during the year, involved each Director and several Executives completing a questionnaire covering:

> the role of the Board;

> the composition of the Board;

> the operation of the Board;

> group behaviours and protocols; and

> Board performance.

The results of the review were discussed at a subsequent Board meeting.

Evaluation of Board Committees

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

Audit and Risk Management Committee

Review process	Completion of questionnaires by all Directors, some Executives, and the external auditors. The results were collated by the Company Secretary and discussed by the Committee at one of its scheduled meetings. The Committee was satisfied that it had been effective in performing its responsibilities under its Charter.

Safety, Sustainability and Corporate Responsibility Committee

Review process	Completion of questionnaires by all Directors and some Executives and senior managers. The results were collated by the Company Secretary and discussed by the Committee at one of its scheduled meetings. The Committee was satisfied that it had been effective in performing its responsibilities under its Charter.

People and Performance Committee

Review process	Completion of questionnaires by all Directors, and some Executives. The results were collated by the Group Head of People and Culture and discussed by the Committee at one of its scheduled meetings. The Committee was satisfied that it had been effective in performing its responsibilities under its Charter.

Nominations Committee

Review process	The Committee set aside time at one of its meetings to consider how effective it had been during the year. The Committee was satisfied that it had been effective in performing its responsibilities under its Charter.

Principle 3: Promote ethical and responsible decision making

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

The Committee currently comprises three non-executive and independent Directors, Sandra McPhee (Chair), Bruce Phillips and Les Hosking. The Committee has a formal Charter that was most recently reviewed in June 2012. A copy of that Charter is available on AGL's website.

The Committee oversees and reviews:

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

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

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

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

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

The Committee met four times during the year. Three of the meetings were held at AGL business unit operating sites to allow Committee members the opportunity to better understand AGL's operations.

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

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

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

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

> how AGL employees should act consistently with these principles.

The ethical principles are set out under the following headings:

Acting honestly and with integrity

Observing the law

Valuing and maintaining professionalism

Respecting confidentiality

Managing conflicts of interest

Looking after our employees

Looking after the community

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

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

AGL's Code of Conduct was most recently reviewed by the Board in 2010. The Code of Conduct is available on AGL's website.

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

AGL's Compliance Policy sets out responsibilities for compliance with AGL's legal obligations. The Policy is published on AGL's website.

Recommendation 3.2 – *Companies should establish a policy concerning diversity*
In 2011, AGL adopted a Diversity and Inclusion Policy to describe AGL's approach to diversity and inclusion and how these attributes are to be embedded in AGL workplaces. The Policy includes specific provisions regarding gender diversity and the positive correlation between increased representation of women on company boards and in senior management positions and the achievement of better financial performance, higher employee retention rates, and enhanced corporate image and reputation. The Policy is published on AGL's website.

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

Recommendation 3.3 – *Companies should disclose the measurable objectives for achieving gender diversity and progress toward achieving those objectives*
During 2011, the Board established measurable objectives for achieving gender diversity. The objectives focussed on establishing the foundations, policies and practices to underpin an inclusive workplace culture that supports gender diversity. These objectives align with the diversity focus areas established by the Diversity & Inclusion Council: building AGL's inclusive workplace culture; flexibility and carer's needs; and women in the workplace.

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

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

Progress to date
A customised workshop for leaders has been developed and delivered across all areas of the business. It builds on traditional anti-discrimination and harassment compliance training to cover concepts of diversity, inclusion and unconscious bias; how these play out in the workplace; and how to manage issues when they arise. 370 AGL leaders attended the training during FY2012.

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

Progress to date
AGL continues to enhance its talent management processes to facilitate an increased representation of women in leadership. Additional metrics have been developed to assess the proportion of women identified as successors for business critical roles. These metrics have been applied in AGL's talent review process and are supporting development planning for women across the Company with the aim of deepening the pool of potential female successors for critical roles.

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

Progress to date
Revised remuneration training for leaders was delivered during March 2011 and this training included gender pay equity concepts. The training was adapted to an online format and launched across AGL in November 2011. The online training module is included in the on-boarding process for all new AGL leaders.

AGL's remuneration review system now delivers simple on-screen calculations and tailored reporting to assist leaders assess whether they have any unexpected (potentially gender-biased) results at the time remuneration is being set. These enhancements were implemented for the remuneration review process undertaken at the start of the year. They have delivered a more efficient means of providing fair remuneration outcomes for all employees.

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

Progress to date
A new Parental Leave Policy was launched in December 2011. It included enhancements to position AGL's policy among best practice organisations. The new policy provides 14 weeks paid leave for women or men who are the primary carers of a newborn or newly adopted child and 2 weeks paid leave for partners at the time of birth or adoption. Employees also have the flexibility to structure their paid leave flexibly, in multiple blocks or on a part-time basis, to match their individual caring situation. Paid parental leave provided under AGL's policy is in addition to any paid parental leave entitlement under the Australian Government Paid Parental Leave scheme.

Having met the objectives set in 2011, the Board set new objectives for the year commencing 1 July 2012. The objectives reflect AGL's policy continuing work to establish and embed an inclusive workplace culture that supports gender diversity, and include a three year goal to increase the representation of women in the most senior positions in the company. These objectives do not yet extend to AGL Loy Yang. The Board will consider setting objectives that are inclusive of AGL Loy Yang during 2013.

1 AGL will continue to build a culture of inclusion that will support all employees to contribute and achieve their potential. By June 2013, AGL will, in a consultation process with employees, identify and develop further initiatives to embed inclusive leadership and support workforce diversity.

Progress to date
During the coming year, AGL will be developing and implementing further initiatives to build on the leadership awareness and skills developed through the inclusive leadership training implemented over the last twelve months. In addition, AGL will conduct a Diversity Census to develop a deeper understanding of its workforce demographics and the needs of particular employee groups.

2 AGL will continue to support employees seeking flexible work arrangements as well as the specific needs of our employees who are carers. By June 2013, AGL will implement new programs to support employees who are parents.

Progress to date
AGL is currently piloting a program to support women who have recently returned to the workplace after maternity leave and/or who are balancing work with young children. AGL is also working on initiatives to support employees and their leaders during the key phases of parental leave, including the transition back to work and the first 12 to 18 months back in the workplace. AGL continues to encourage its leaders and employees to embrace flexible working arrangements.

3 AGL will continue to implement initiatives to increase the number of women in leadership positions. AGL will increase the representation of women in its top 300 positions (top 15% of positions) to 38% by 30 June 2015.

Progress to date
Currently women occupy 32% of the top 300 positions at AGL (excluding AGL Loy Yang). By setting a target for the top 15% of roles, AGL is aiming to increase the representation of women in a group that includes all of AGL's critical business roles and roles that are on the pathway to executive leadership. AGL's businesses have taken up a share of the three year target with an emphasis on businesses where the representation of women is less than 40%, including the operational businesses of Merchant Energy and Upstream Gas.

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

	2012	2011
Females directors on the Board	25%	25%
Female employees in the company	46%	45%
Female employees in senior executive positions	11%	11%
Female employees in leadership positions	35%	33%

Principle 4: Safeguard integrity in financial reporting

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

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

Recommendation 4.2 – *The audit committee should be appropriately structured*

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

The composition of the Committee has changed during the financial year, with Sandra McPhee appointed to the Committee in March. The Committee currently comprises five members – John Stanhope (Chair), Bruce Phillips, Les Hosking, Belinda Hutchinson and Sandra McPhee. John Stanhope has financial expertise as a qualified accountant. Bruce Phillips and Les Hosking have each enjoyed long careers in the energy industry. Belinda Hutchinson also has prior energy industry experience as a former director of Energy Australia and Snowy Hydro Trading. She also has extensive experience in finance and risk management. Sandra McPhee has been an AGL Director since 2006. She has extensive experience in consumer oriented industries, so is familiar with the risks that affect a customer facing business.

Further details of the qualifications and experience of all Committee members are disclosed on pages 42 and 43 of this Annual Report.

The CEO, CFO, Company Secretary (who also has responsibility for AGL's Group Risk and Compliance function), Head of Group Audit and the external auditor attend Committee meetings at the discretion of the Committee. Other non-executive Directors may attend meetings.

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

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

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

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

Recommendation 4.3 – *The audit committee should have a formal charter*

The Committee operates under a formal Charter published on AGL's website. The Charter is required to be reviewed by the Committee and updated at least every two years. The Charter was most recently reviewed and updated in April 2012.

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

The Committee's primary responsibilities include:

> Monitoring the integrity of financial reporting;

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

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

> Monitoring the effectiveness of Group Audit;

> Monitoring legislative and regulatory compliance; and

> Monitoring the adequacy and completeness of internal controls.

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

appointment of, and for reviewing the independence of, the external auditor.

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

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

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

Principle 5: Make timely and balanced disclosure

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

Market Disclosure

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

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

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

Accountability

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

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

Financial market communications

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

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

Principle 6: Respect the rights of shareholders

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

AGL has not established a formal shareholder communications policy, but it does take appropriate measures to keep shareholders informed about its activities.

Electronic Communication

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

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

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

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

Meetings

Notices of meeting sent to AGL's shareholders comply with the "Guidelines for notices of meeting" issued by the ASX in August 2007. Shareholders are invited to submit questions before the meeting and, at the meeting, the Chairman attempts to answer as many of these as is practical. Almost 100 shareholders took the opportunity to submit questions in advance of the 2011 Annual General Meeting.

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

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

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

The external auditor attends AGL's Annual General Meeting. Shareholders may submit written questions to the auditor to be considered at the meeting in relation to the conduct of the audit and the preparation and content of the Independent Audit Report by providing the questions to AGL at least five business days before the day of the meeting. No questions were sent to the auditor in advance of the 2011 Annual General Meeting. Shareholders are also given a reasonable opportunity at the meeting to ask the auditor questions relevant to the conduct of the audit, the Independent Audit Report, the accounting policies adopted by AGL and the independence of the auditor.

Principle 7: Recognise and manage risk

Recommendation 7.1 – *Companies should establish risk management policies for the oversight of material business risks*
Recommendation 7.2 – *Companies should establish risk management and internal control systems to manage material business risk and require management to report to the Board on the effectiveness of these systems and the effectiveness of the material business risks*

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

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

Asset operating risk
making sure that AGL's assets, particularly electricity generation assets, operate reliably when required.

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

Compliance risk
AGL operates in a heavily regulated industry.

Energy policy risk
as an energy company, government policies on carbon emissions will affect AGL and its customers.

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

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

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

> Compliance Policy;

> Market Disclosure Policy;

> Code of Conduct;

> Delegations of Authority Manual;

> Health, Safety and Environment Policy;

> Wholesale Energy Risk Management Policy;

> Treasury Policy; and

> Privacy Policy.

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

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

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

The Committee has responsibility for approving the audit plan submitted annually by Group Audit. The audit plan is based on an assessment of AGL's main risk exposures.

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

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

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

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

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

Principle 8: Remunerate fairly and responsibly

Recommendation 8.1 – *The Board should establish a remuneration committee*
Recommendation 8.2 – *The remuneration committee should be structured appropriately*
The Board has established a People and Performance Committee (equivalent to a remuneration committee) comprising three non-executive and independent Directors. Max Ould (Chairman) and Belinda Hutchinson were members throughout the year. In March 2012, John Stanhope replaced Sandra McPhee as a Committee member.

The Committee has a formal Charter that is required to be reviewed at least every two years. The Charter was most recently reviewed by the Committee in July 2012, with changes to the Charter approved by the Board in August 2012. A copy of the Charter is available on AGL's website.

The Committee is responsible for:

> reviewing the performance and remuneration of senior management; and

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

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

> the remuneration of Directors;

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

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

> the superannuation arrangements in place for AGL employees; and

> AGL employment policy matters.

In making recommendations to the Board in relation to remuneration and remuneration policies, the Committee reviews the remuneration of female employees relative to the remuneration of male employees at all levels across AGL.

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

Recommendation 8.3 – *The Company should distinguish between non-executive Directors' remuneration and that of executive Directors and senior management*

AGL's remuneration structure distinguishes between non-executive Directors and that of the CEO and senior management. A Remuneration Report required under Section 300A(1) of the Corporations Act is provided in the Directors' Report on pages 48 to 63 of this Annual Report.

AGL's Website

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

> Annual Report

> Sustainability Report

> Corporate Governance Statement

> Board Charter

> People and Performance Committee Charter

> Audit and Risk Management Committee Charter

> Safety, Sustainability and Corporate Responsibility Charter

> Nominations Committee Charter

> Code of Conduct

> Securities Dealing Policy

> Compliance Policy

> Auditor Independence Policy

> Market Disclosure Policy

> Risk Management Policy

> Health, Safety and Environment Policy

> Privacy Policy

> Diversity and Inclusion Policy

> Wholesale Energy Risk Management Policy (summarised)

Reporting

The Directors present their Report together with the annual Financial Report of AGL Energy Limited (AGL) and its consolidated entities, being AGL and its controlled entities, for the year ended 30 June 2012 and the Independent Audit Report thereon.

AGL is the head entity of the AGL Energy Limited Group. Its shares are listed on ASX Limited under the code of 'AGK'.

Directors

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

Non-executive Directors

> Jeremy Maycock
> Les Hosking
> Belinda Hutchinson
> Sandra McPhee
> Max Ould
> Bruce Phillips
> John Stanhope

Executive Director

> Michael Fraser

Subsequent to the end of the financial year Graeme Hunt was appointed as a Non-executive Director and Max Ould announced his intention to retire as a Non-executive Director at the 2012 Annual General Meeting.

Jeremy Maycock

BEng (Mech) (Hons), FAICD, FIPENZ,

Age 60

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

Independent: Yes.

Committees: Chair of the Nominations Committee.

Directorships: Chairman of Port of Brisbane Pty Ltd (commenced in November 2010) and a Director of Nuplex Limited (commenced in September 2011).

Experience: Previously Managing Director and Chief Executive Officer of CSR Limited (commenced in 2007 and retired in 2010), Managing Director and Chief Executive Officer of Hastie Group Limited (commenced in 2003 and retired in 2007), inaugural Chairman of Cement Australia Pty Limited, Chief Executive Officer of Swiss-based Holcim Ltd in New Zealand and Australia, and Holcim Senior Vice President for Southern ASEAN countries and Australasia. His commercial experience spans 39 years, with his early career being with Shell Oil in the UK and in New Zealand.

Michael Fraser

BCom, CPA, FTIA – Managing Director,

Age 55

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

Independent: No.

Committees: Nil.

Directorships: Chairman of Clean Energy Council Limited (commenced in September 2011).

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

Les Hosking

Age 67

Term: Non-executive Director since November 2008.

Independent: Yes.

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

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

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

Belinda Hutchinson
AM, BEc, FCA, FAICD,
Age 59

Term: Non-executive Director since December 2010.

Independent: Yes.

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

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

Experience: Executive career included roles as Executive Director at Macquarie Group Limited from 2002 to 2006, and Vice President of Citibank Limited from 1981 to 2002. Previous appointments include Director of St Vincent's & Mater Health Sydney (commenced in 2001 and retired in 2009), Director of Coles Group Limited (commenced in 2005 and retired in 2007), Telstra Corporation Limited (commenced in 2001 and retired in 2007), TAB Limited (commenced in 1997 and retired in 2004), Energy Australia (commenced in 1997 and retired in 2005), Crane Group (commenced in 1997 and retired in 2004), Snowy Hydro Trading Limited (commenced in 1997 and retired in 1999), member of the State Library of New South Wales Council (commenced in 1997 and retired in 2006).

Sandra McPhee
Dip Ed, FAICD,
Age 66

Term: Non-executive Director since October 2006.

Independent: Yes.

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

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

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

Max Ould
BEc,
Age 65

Term: Non-executive Director since February 2006.

Independent: Yes.

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

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

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

Bruce Phillips
BSc (Hons) PESA, ASEG,
Age 57

Term: Non-executive Director since August 2007.

Independent: Yes.

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

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

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

John Stanhope
BCom (Economics and Accounting), FCPA, FCA, FAICD, FAIM, FAHRI,
Age 61

Term: Non-executive Director since March 2009.

Independent: Yes

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

Directorships: Director of The Bionics Institute of Australia (commenced in June 2012) and of Melbourne Jazz Limited (commenced in October 2009) and a member of the Council of Deakin University.

Experience: Previously, a member of the Financial Reporting Council (ceased on 30 June 2012), a Director of Telstra Corporation Limited (commenced in 2009 and retired in 2011) and Chief Financial Officer and Group Managing Director, Finance & Administration of Telstra (commenced in October 2003 and retired in 2011). In this latter role he was responsible for finance, treasury, risk management and assurance, investor relations, credit management, taxation, corporate security and investigations, procurement and billing. Prior to this he served as Director, Finance. In this role, which he assumed in 1995, he contributed to T1 and T2, cost reduction programs, growth strategies, debt raising, capital management and organisation restructures.

Directors' Interests

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

AGL Energy Limited Ordinary Shares	
Jeremy Maycock	65,290
Michael Fraser	671,267
Les Hosking	2,334
Belinda Hutchinson	7,630
Sandra McPhee	17,121
Max Ould	34,619
Bruce Phillips	33,834
John Stanhope	3,442

Jeremy Maycock holds 1,500 Subordinated Notes issued by AGL Energy Limited.

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

Company Secretaries

Paul McWilliams was appointed Company Secretary of AGL Energy Limited on 25 August 2006. Paul's educational qualifications include Bachelor of Arts (Accounting) from the University of South Australia, Master of Applied Finance from Macquarie University and a Graduate Diploma in Applied Corporate Governance. He is a member of the Institute of Chartered Accountants of Australia, Chartered Secretaries Australia and the Institute of Chartered Secretaries and Administrators. Paul has had more than 35 years of experience across a variety of roles in the Australian Taxation Office, chartered accounting and listed public companies.

John Fitzgerald was appointed an additional Company Secretary on 25 August 2010. John's qualifications are a Bachelor of Arts and a Bachelor of Laws from the University of New South Wales and a Masters in Arts from the National University of Ireland (University College Dublin). John is admitted as a Solicitor of the Supreme Court of New South Wales and is AGL's Head of Legal. John has been practising in projects, mining and energy law for approximately 16 years.

Directors' Meetings

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

	Regular Board Meetings		Special Board Meetings		Audit and Risk Management Committee		People and Performance Committee		Safety, Sustainability and Corporate Responsibility Committee		Nominations Committee	
Director's Name	A	B	A	B	A	B	A	B	A	B	A	B
Jeremy Maycock	12	12	4	4							9	9
Michael Fraser	12	12	4	4								
Les Hosking	12	12	4	4	5	5			4	4	8	9
Belinda Hutchinson	11	12	4	4	5	5	4	4			7	9
Sandra McPhee	12	12	4	4	2	2	4	4	4	4	9	9
Max Ould	12	12	4	4			4	4			7	9
Bruce Phillips	12	12	4	4	5	5			4	4	9	9
John Stanhope	12	12	4	4	5	5	1	1			9	9

A – number of meetings attended as a member

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

During the year, in aggregate, there were 13 occasions when the Non-executive Directors also attended some of the meetings of Committees, of which they were not members.

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

Review and Results of Operations

The consolidated profit after income tax attributable to Shareholders was $114.9 million (2010/2011 $558.7 million). The Underlying Profit was $482.0 million (2010/2011 $431.1 million).

Reconciliation of Underlying Profit

	Year ended 30 June 2012 $m	Year ended 30 June 2011 $m
Profit after tax attributable to Shareholders	**114.9**	558.7
Adjust for the following after tax items		
Significant items	**155.1**	27.3
Changes in fair value of financial instruments	**212.0**	(154.9)
Underlying Profit after tax	**482.0**	431.1

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

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

> remove significant items that are material items of revenue or expense that are unrelated to the underlying performance of the business thereby facilitating a more representative comparison of financial performance between financial periods and;

> remove changes in the fair value of financial instruments recognised in the income statement to remove the volatility caused by mismatches in valuing derivatives and the underlying asset differently.

Underlying Profit is presented with reference to the Australian Securities and Investment Commission Regulatory Guide 230 "Disclosing non-IFRS financial information" issued in December 2011. AGL's policy for reporting Underlying Profit is consistent with this guidance and the Directors have had the consistency of the application of the policy reviewed by the external auditor of AGL.

The following table reconciles Statutory EBIT to Operating EBIT:

	Year ended 30 June 2012 $m	Year ended 30 June 2011 $m
Statutory EBIT	**201.4**	819.1
Significant items	**211.7**	44.3
Changes in fair value of financial instruments	**304.6**	(218.8)
Finance income included in Operating EBIT	**12.7**	11.9
Operating EBIT	**730.4**	656.5

Operating EBIT for the year ended 30 June 2012 was $730.4 million compared with $656.5 million for the prior corresponding period. The Statutory and Operating EBIT by segment is presented in the following table:

	EBIT (Statutory)		EBIT (Operating)	
	Year ended 30 June 2012 $m	Year ended 30 June 2011 $m	Year ended 30 June 2012 $m	Year ended 30 June 2011 $m
Retail Energy	**332.8**	301.0	**332.8**	305.1
Merchant Energy	**224.2**	658.9	**549.7**	453.2
Upstream Gas	**(35.2)**	14.3	**0.6**	14.3
Energy Investments	**(140.2)**	35.6	**24.5**	40.5
Centrally managed expenses	**(180.2)**	(190.7)	**(177.2)**	(156.6)
EBIT	**201.4**	819.1	**730.4**	656.5
Depreciation and amortisation	**173.9**	148.0	**173.9**	148.0
EBITDA	**375.3**	967.1	**904.3**	804.5
Average funds employed	**7,917.2**	7,403.0	**7,917.2**	7,403.0
EBIT/Average funds employed	**2.5%**	11.1%	**9.2%**	8.9%

Operating EBIT/Average funds employed increased 0.3 percentage points (ppts) due to a $73.9 million, or 11.3%, increase in Operating EBIT. Partially offsetting the positive impact of an increase in Operating EBIT was an increase in average funds employed of $514.2 million or 6.9%.

Average funds employed increased due largely to investments in assets whereby the contribution to EBIT will not commence until the assets reach practical completion or gas production.

Retail Energy:

Operating EBIT of $332.8 million was up 9.1% on the prior corresponding period, due mainly to an increase of $58.6 million (9.8%) in gross margin and increased customer numbers. Total customer accounts increased by 5.5% to 3.47 million. AGL increased customer numbers in all states with dual fuel customer accounts growing by 10.2% during the year to 1.62 million.

Merchant Energy:

Operating EBIT of $549.7 million was up 21.3% on the prior corresponding period. Wholesale Electricity gross margin increased 25.4% to $381.5 million. The non-recurrance of the severe summer weather events experienced in February 2011 was a key factor behind the $77.2 million increase. Wholesale Gas gross margin increased 10.1% to $114.8 million. Eco-Markets gross margin increased 49.6% to $66.4 million due to effective portfolio management and increased renewable generation. Fees from the development of wind farms fell from $61.0 million in the prior corresponding period to $43.0 million this year.

Upstream Gas:
Operating EBIT decreased to $0.6 million compared with $14.3 million for the prior corresponding period. The major factor behind the decline was a significantly lower level of gas storage service fees which in the prior corresponding period amounted to $16.7 million.

Energy Investments:
Operating EBIT decreased to $24.5 million compared with $40.5 million in the prior corresponding period. Depressed electricity pool prices and the effect of financing costs led to a decrease in earnings from AGL's investment in Loy Yang A.

Centrally Managed Expenses:
Centrally managed expenses increased by $20.6 million to $177.2 million. Labour cost increased by $7.0 million (13.8%) in part due to provisions associated with long service leave and employee incentives. Other centrally managed expenses increased by $5.3 million (27.5%) including increases in land tax and centralisation of recruitment processes.

Changes in State of Affairs
The acquisition of Great Energy Alliance Corporation Pty Limited (GEAC) was completed on 29 June 2012 which included the 2,210 MW Loy Yang A power station and associated coal mine. This increased significantly the base load electricity capacity of AGL by substantially increasing the owned physical generation output of the business.

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

Principal Activities
> Buying and selling of gas and electricity;

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

> Development of natural gas production and storage facilities; and

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

Dividends
The following dividends have been paid or declared by the Directors since 30 June 2011:

Final dividend of 31.0 cents per share (100% franked) referred to in the previous Directors' Report and paid on 29 September 2011	$143.2 million
Interim dividend of 29.0 cents per share (100% franked) paid on 5 April 2012	$135.0 million
Final dividend of 32.0 cents per share (100% franked) payable on 27 September 2012	$174.7 million

Events Subsequent to Balance Date
Apart from matters discussed elsewhere in this Annual Report, the Directors are not aware of any other matter or circumstance which has arisen since 30 June 2012 that has significantly affected or may significantly affect the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in the future.

Likely Developments, Strategies and Prospects
Further information about likely developments in the operations of AGL and its consolidated entity and the expected results of those operations in the future has been included in this Annual Report except to the extent disclosure of the information would be likely to result in unreasonable prejudice to the consolidated entity.

Environmental Regulation
AGL businesses are subject to a range of environmental laws and regulations as well as project and site-specific environmental permits and approvals issued at both Federal and State Government levels.

Table 1 sets out notifiable environmental incidents and non-compliances that relate to these requirements, which occurred during the reporting period. There were no fines or infringement notices applied to AGL's operations during the reporting period.

Further information in respect of the Group's environmental performance is published in the AGL Sustainability Performance Report available on the AGL website.

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

Site	Key Environment and Planning legislation	Comments
Torrens Island Power Station, SA	Environment Protection Act 1993; and Environment Protection (Site Contamination) Regulations 2008	Voluntary sampling of soil and groundwater at Torrens Island Power Station in 2010 and 2011 detected notifiable levels of petroleum hydrocarbons and trichlorethene at a number of separate locations. The South Australian Environment Protection Authority (EPA) was notified under Section 83A of the Environment Protection Act. In line with EPA requirements, groundwater monitoring and investigations are continuing to determine the extent and nature of the impact, and the development of a management plan.
Torrens Island Power Station, SA	Environment Protection Act 1993	On 26 July 2011, approximately 2 litres of oil was spilt into the Port River from a cooling water screen gearbox. The oil was promptly contained and cleaned up, and the EPA and Port Authority were notified in accordance with the site licence.
Hallett 2 (Hallett Hill) Wind Farm, SA	Environment Protection Act 1993; and South Australian EPA Wind Farms Environmental Noise Guidelines 2009	A permanent acoustic treatment to the turbines at the Hallett Hill wind farm was implemented in late 2011 to address an audible tone that AGL detected at a nearby residence during certain wind conditions. Prior to implementation of this treatment the wind farm was operated with 16 turbines shut down at night. Comprehensive noise testing was undertaken in early 2012 to confirm that the tone was no longer audible at the residence. We have kept the resident and the EPA informed of the steps that we have taken in relation to this issue.
Hallett 4 (North Brown Hill) Wind Farm, SA	Environment Protection Act 1993; and South Australian EPA Wind Farms Environmental Noise Guidelines 2009	Post-construction noise testing was undertaken in late 2011 during which an occasional audible tone was detected at a neighbouring residence during certain wind conditions. This occasional audible tone resulted in a non-compliance with the noise criteria during the particular wind conditions. A permanent acoustic treatment is being implemented at the wind farm. We have communicated developments to the resident and the EPA.
Yarrawonga Power Station, Vic	Protection of the Environment Operations Act 1999	On 30 April 2012, an oil leak from Yarrawonga Power Station, which is situated on the Victorian-New South Wales border, resulted in a small volume of oil entering the tail bay waterway immediately downstream of the station. The oil did not enter the flowing Murray River. The spill was contained and cleaned up. The release was reported to the NSW EPA, NSW Fire Service and other agencies in accordance with the NSW EPA Incident Notification Protocol.
Werribee Biogas Facility, Vic	Environment Protection Act 1970	On 13 June 2012, a non-compliance with EPA licence air emission limits was identified on one of the nine generators located at the Werribee biogas facility following routine stack testing. Upon identification of the non-compliance, EPA was notified, and investigations are underway to determine the root cause and implement necessary corrective actions.
Camden Gas Project, NSW	Protection of the Environment Operations Act 1997; Petroleum (Onshore) Act 1991; and Environmental Planning and Assessment Act 1979 Environmental Planning and Assessment Act 1979 (NSW)	An independent environmental compliance audit of the Camden Gas Project was completed in September 2011, in accordance with the NSW Government's requirements under the various approvals and licences for the Camden Gas Project. The audit found that overall compliance was of a high standard, although some minor non-compliances were identified. The audit report was submitted to the Department of Planning and Infrastructure, and together with AGL's corrective action plan can be viewed at www.agl.com.au/camden. AGL incorrectly reported that it had complied with a requirement of the Environmental Protection Licence for the Rosalind Park Gas Plant. AGL confirmed that it had complied with an obligation to continuously monitor the discharge of pollutants. Due to technical problems with the monitoring equipment, AGL performed testing of emissions of pollutants on a quarterly basis and they were within approved limits. AGL has notified the EPA of the breaches.
Silver Springs Oil and Gas Project, Qld	Petroleum Act 1923; Environmental Protection Act 1994; and Queensland Petroleum and Gas (Production and Safety) Act 2004	On 13 September 2011, approximately 1,000 litres of hydrocarbon was released from failed equipment on a well pump. Most of the spill was collected within the well cellar and a small amount overflowed onto the ground. Clean up and isolation of the spill occurred as soon as it was identified. The incident was reported to the (then) Department of Environment and Resource Management as required by the relevant Environmental Authority.
Arrow Energy Moranbah Gas Project Joint Venture, Qld **(Operated by Arrow)**	Petroleum Act 1923; Environmental Protection Act 1994; and Queensland Petroleum and Gas (Production and Safety) Act 2004	On 17 August 2011, saline water was observed leaking from a pipe. Following identification of the leak, the pipeline was immediately shut in and isolated. The release was less than 10,000 litres and was reported to the (then) Department of Environment and Resource Management.

Proceedings on Behalf of the Company

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

Non-Audit Services

Non-audit services have been provided during the year by the external auditor, Deloitte Touche Tohmatsu. Disclosure of the details of these services can be found in this AGL Financial Report on page 103.

The Board has a formal policy on the provision of auditing and related services. Specifically, the external auditor is precluded from providing any services that might threaten its independence or conflict with its assurance and compliance role. Semi-annual reports on the provision of auditing and related services are provided to the Board through the Audit and Risk Management Committee. Directors are satisfied that the provision of $664,000 of non-audit services by the external auditor is compatible with the general standard of independence for auditors.

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

Indemnification and Insurance of Officers and Auditors

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

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

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

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

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

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

Auditor's Independence Declaration

A copy of the external auditor's declaration under Section 307C of the Corporations Act in relation to the audit for the financial year is on page 143 of this AGL Financial Report.

Rounding

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

Remuneration Report

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

The Directors present the Remuneration Report for AGL Energy Limited and its consolidated entities for the year ended 30 June 2012 in line with Section 300A of the Corporations Act.

This report covers the remuneration and benefits of AGL's key management personnel (KMP).

We have structured the report into 8 sections:

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

Key points for the year ended 30 June 2012

Total Fixed Remuneration (TFR)

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

Short-term incentive (STI)

STI payout for CEO was 95% of maximum (last year 48.75%)	The STI payment represents very good progress in achieving a number of AGL's strategic targets, including the acquisition of Loy Yang, achievement of an Underlying Profit outcome for 2011/12 within our market guidance and improved market share and customer service metrics. On the other hand there was some deterioration in the lagging safety indicators.
STI upon termination	Mr Fraser has advised AGL that he will not assert his entitlement to any STI payment in certain circumstances. Please refer to Termination Conditions on page 61.

Long-term incentive (LTI)

Positive amount charged to LTI notional bank accounts in 2012 (last year there was a negative amount charged to notional bank accounts). (40% of 'banked SPRs' vested to Executives and were converted into AGL shares)	AGL's performance against the relevant performance hurdles was positive and resulted in the following outcomes for the year: > Share Performance Rights (SPRs) being deposited into the Total Shareholder Return notional bank account; and > The EBIT/Funds Employed notional bank account returning to a positive balance and SPRs being deposited into the EBIT/Funds Employed notional bank account.
LTI upon termination	Mr Fraser has advised AGL that he will not assert his entitlement for any unvested SPRs to vest in certain circumstances. Please refer to Termination Conditions on page 61.

Total Remuneration Package

CEO's total remuneration up by 83% (last year down by 40%)	The CEO's total remuneration for the year increased from $3.4 million to $6.3 million which primarily reflects increases in both short and long-term incentives as a consequence of the improved financial results for the year. This included an improved EBIT/Funds Employed outcome and Total Shareholder Return performance for the 12 months to 30 June 2012 with AGL being in the top 14% of ASX 100 companies.

Non-executive Directors

Non-executive Directors' remuneration	Total fees paid to non-executive Directors in the year were $1.7 million, $0.34 million below the approved maximum aggregate to non-executive Directors' remuneration. The total fees paid represent a 12.0% increase over the previous year.

Abbreviations used in this report

Board:	AGL Board
Committee:	People and Performance Committee of the Board
EBIT:	Earnings before interest and tax
KMP:	Key management personnel (those Executives who have authority and responsibility for planning, directing and controlling the activities of AGL, either directly or indirectly)
Executive:	Executives other than the CEO who are KMP
LTI:	Long-term incentive
PDR:	Performance and development review
SGC:	Superannuation guarantee charge
SPR:	Share performance right
STI:	Short-term incentive
TFR:	Total fixed remuneration
TSR:	Total shareholder return
VWAP	Volume weighted average price

1. Our remuneration policy

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

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

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

> attract and retain key talent

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

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

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

> promote AGL as an employer of choice

> comply with relevant legislation and corporate governance principles.

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

External Advisors

The People and Performance Committee (Committee) retained PricewaterhouseCoopers (PwC) as their independent remuneration advisor throughout the year. PwC's role in this regard was to provide independent remuneration advice to the Committee and Board, as and when required.

Share Plan participation

AGL actively promotes employee participation in Share Plans.
AGL offers its employees participation in the following Share Plans:

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

> AGL Share Reward Plan: eligible employees are granted up to $1,000 worth of AGL shares each year subject to AGL meeting specific performance hurdles. Shares awarded under the Plan must be held for at least three years or until the employee ceases employment. (Note, participants in the Share Reward Plan are not eligible to participate in the LTIP described above).

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

The number of employees participating in the Share Reward Plan and Share Purchase Plan is 1,400 (out of 1,935) and the number of AGL shares held is 522,033.

2. Our remuneration framework

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

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

> total fixed remuneration (TFR)

> short-term incentive (STI) payments

> long-term incentive (LTI) payments.

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

A rigorous approach to establishing remuneration levels for each Executive is informed, in part, by relevant market remuneration data information sourced from Hay Group, an independent external organisation. Hay Group provided three remuneration market survey samples for Executives, as well as three remuneration market survey samples for the CEO which were considered when reviewing the remuneration of the Executives and CEO. These market survey samples were:

> A large survey sample containing executive positions in ASX Industrial & Service organisations was utilised for executives. For the CEO, only CEO positions in ASX Industrial & Service organisations were reviewed. This remuneration benchmark is useful because it is large, and hence, less volatile year-on-year. As such it is more likely to track indicative market trends over time in a more stable way.

> A smaller survey sample drawn from the same Industrial & Service organisations, but only containing positions that represent a close functional match to each executive position was utilised for executive positions.
This sample has the advantage of higher perceived relevance when used in conjunction with the larger sample because it assists in identifying market differentials for various positions. However, due to the smaller sample size, it is potentially more volatile from year to year.

> For both the CEO and executive positions, a specialist survey sourced from disclosed market remuneration data for the previous 12 months for ASX-listed entities ranked 10 to 50 by market capitalisation. These entities are chosen by size as they are 20 either side of AGL's market capitalisation. This sample, when used in conjunction with the other two surveys, assists in identifying remuneration differentials due to the market capitalisation of the organisation.

> For the CEO's position, a further specialist survey was sourced from disclosed market remuneration data for the previous 12 months for ASX-listed entities with a market capitalisation of between $5 billion and $10 billion. These entities are chosen because they are each side of AGL's market capitalisation of $8 billion. This sample, when used in conjunction with the other two CEO surveys, assists in identifying remuneration differentials due to the market capitalisation of the organisation.

Total Fixed Remuneration (TFR)

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

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

3. Linking remuneration to performance

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

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

Short-Term Incentive (STI)

STI varies from year to year, based on performance.

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

STI payments align individual performance with business outcomes in the areas of financial performance, customers, people management and strategic growth and innovation.

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

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

The maximum STI potential entitlement varies between 50% and 100% of TFR for Executives including the CEO.

In the year ended 30 June 2012, 165 employees participated in the STI plan.

How STI works

> Varies annually based on individual performance against specified targets.

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

STI is payable:

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

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

How STI was linked to performance this year

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

> Financial

> Customer

> People management

> Strategic growth and innovation.

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

> Financial 40%

> Customers and Strategic 40%

> People management 20%.

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

AGL Executives' performance objectives for 2011/12

Common objectives	What	Result
Financial results	All Executives had an objective related to AGL's Underlying Profit for 2011/12 as well as individual Business Unit operating expenses.	Underlying Profit was an 11.8% improvement over 2010/11 and was within our market guidance.
Safety performance	Completing specific plans to continue improving AGL's safety leadership and culture (including targets with respect to injury rates).	99% of all specific safety action plans for 2011/12 were completed. However in terms of lagging indicators the Lost Time Injury Frequency Rate for 2011/12 was 4.2 compared to 2.1 for 2010/11 and the Total Injury Frequency Rate (TIFR) for 2011/12 was 6.6 compared to 5.0 for 2010/11. These results were not in line with our safety targets of 100% completion of our safety action plans and TIFR target of 4.0. STI payments were adjusted downwards accordingly.
Customer satisfaction	All Executives had an objective to improve AGL's overall customer satisfaction, as measured against our competitors.	AGL outperformed key competitors across a range of customer service and satisfaction measures including Customer Services Benchmarking Australia.
Employee engagement	Specific initiatives are developed each year to build employee engagement and AGL invites all employees to take part in an engagement survey. All Executives had targets with respect to employee engagement.	Numerous initiatives to promote engagement were successfully implemented across the business. The overall 2012 survey result for employee engagement at AGL was 64% compared to a result of 54% for 2010/11. The 10 percentage point increase in 12 months is seen as a significant increase based on external benchmarks.

Specific individual objectives for Executives	What	Result
Executive's area of responsibility	Each Executive also has performance objectives related to their specific area of responsibility for AGL's business in the categories of: > Financial > Customer > People management > Strategic growth and innovation	Individual Executives generally achieved their specific individual key objectives for 2011/12.

The details of actual STI received for the year ended 30 June 2012 for KMP are set out in the remuneration table in section 6 on page 56.

Long-Term Incentive (LTI)

A LTI is designed to drive performance over longer time frames to create sustainable shareholder value.

AGL has both an 'Old' or legacy LTI Plan and, since 2009, a 'New' LTI Plan.

Both LTIs consist of Share Performance Rights (SPRs), which vest (ie convert into AGL shares owned by the relevant Executive) over time if specific applicable performance hurdles are met. (2012 is the last calendar year in which SPRs from the Old Plan may vest).

A SPR:

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

> does not carry dividend or voting rights; and

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

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

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

The maximum LTI notional allocation of SPRs varies between approximately 30% and 100% of TFR for Executives including the CEO.

In the year ended 30 June 2012, 22 employees participated in the LTI plan.

How the New LTI plan works

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

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

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

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

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

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

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

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

How LTI performance hurdles are set and performance is measured

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

LTI is measured according to two hurdles: annual Total Shareholder Return (TSR) and annual growth in EBIT/Funds Employed (ie EBIT divided by Funds Employed) calculated as set out below.

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

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

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

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

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

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

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

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

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

The calculation process is as follows:

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

Example: Calculation of financial year 2012 (FY2012) notional grant of Share Performance Rights:

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

$14.23 (Volume Weighted Average Price at which AGL's shares traded on the ASX during the 30 calendar days up to and including 30 June 2011)

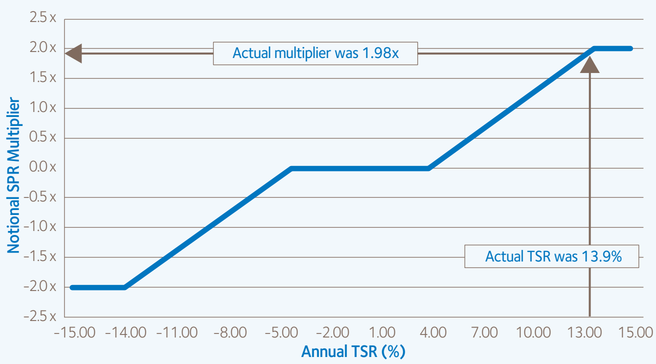
2. That notional grant is then split 50/50 between each performance hurdle – that is, half of the SPRs in the total notional grant are allocated to be tested against the TSR hurdle and the other half are allocated to be tested against the EBIT/Funds Employed hurdle, at the end of the financial year.

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

Hurdle 1: Annual TSR

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

The above table is presented in the chart below using actual FY2012 outcomes as an example.



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

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

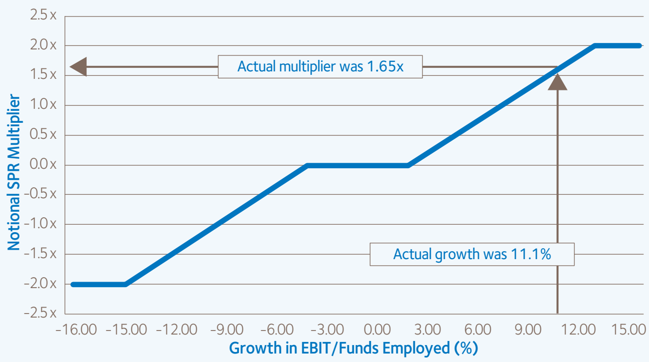
The financial penalty for management commences when TSR is less than minus 4%. Similar to the upside potential, there is a floor on the financial penalty at minus 14%. If the floor is triggered, the following year's opening share price is set at a level that would have achieved a TSR of minus 14%.

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

Hurdle 2: Annual growth in EBIT/Funds Employed

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

The above table is presented in the chart below using actual FY2012 outcomes as an example.



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

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

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

Note: SPRs banked under the LTIP can be both positive and negative. SPRs can only vest if there is a pre-determined improvement on the previous year. Importantly however, if performance falls below a pre-determined level in any year, previously banked SPRs will be clawed back to the extent calculated under the performance hurdles.

This feature provides the opportunity to assess performance over multiple years and therefore supports the intent of the LTIP to align shareholder and Executive interests over the long term.

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

The below example shows how the LTIP worked in July 2012 for the CEO (using actual figures).

Calculation of SPR award to CEO Michael Fraser

Total Fixed Remuneration	$2,080,000
Notional LTI allocation (100% of TFR)	$2,080,000
VWAP of share price to 30 June 2010 to calculate notional grant of SPRs	$14.23
Number of SPRs notionally granted	146,171
Adjustment to SPRs notionally granted for the effect of rights issue	5,357
Adjusted total number of SPRs notionally granted after rights issue	151,528

2012 TSR metric outcome calculation

Opening VWAP share price – 30/6/2011	$14.23
Closing VWAP share price – 30/06/2012	$15.03
Dividends paid in 2012	$0.60
Value of exercising rights	$0.57
TSR for 2012 ((15.03+0.60+0.57)/14.23)–1x100	13.9%
Award multiplier – based on TSR outcome above 4%	1.98

	Hurdle 1: Annual TSR	2012
A	Michael Fraser SPRs notionally granted for this hurdle (50% of 151,528 adjusted notional grant)	75,764
	TSR outcome	13.9%
B	Award multiplier	1.98
C	Opening SPR bank balance (carried forward from the 2010/2011 financial year)	30,031
D	Adjustment to SPRs opening bank balance for the effect of rights issue	1,101
E	Total SPR bank balance after rights issue (C + D)	31,132
F	Incentive (A x B)	150,013
G	Available (E + F)	181,145
H	Annual distribution at 40% (G x 40%)	72,458
I	Closing bank balance of SPRs (G – H)	108,687

2012 EBIT/Funds Employed metric outcome calculation

EBIT/Funds employed – 30/6/2011	10.45%
EBIT/Funds employed – 30/6/2012	11.61%
Annual change in EBIT/Funds employed for 2012 ((11.61–10.45)/10.45)x100	11.1%
Award multiplier – based on EBIT/Funds Employed outcome above 2%	1.65

	Hurdle 2: Annual growth in EBIT/Funds Employed	2012
A	Michael Fraser SPRs notionally granted for this hurdle (50% of 151,528 adjusted notional grant)	75,764
	EBIT/Funds Employed outcome	11.1%
B	Award multiplier	1.65
C	Opening SPR bank balance (carried forward from the 2010/2011 financial year)	minus 22,988
D	Adjustment to SPRs opening bank balance for the effect of rights issue	minus 843
E	Total SPR bank balance after rights issue (C + D)	minus 23,831
F	Incentive (A x B)	125,011
G	Available (E + F)	101,180
H	Annual distribution at 40% (G x 40%)	40,472
I	Closing bank balance of SPRs (G – H)	60,708

Old LTI plan

AGL currently has two types of LTI for Executives.

1. AGL's 'new' LTI, which is described in the section above, covered grants of SPRs, which were determined in September for each year between 2009 and 2012, and is intended to cover future grants (subject to periodic review by the Board).
2. Now purely as a legacy plan, AGL also has an 'old' LTI scheme under which SPRs were granted in October 2008.

Apart from a balance of 4,048 SPRs, granted in October 2008, the old LTI plan is no longer in operation. This plan will cease to operate entirely from September 2012.

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

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

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

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

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

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

Vesting of SPRs commences at the 40th percentile because independent analysis showed that the probability of vesting at the 50th percentile was quite low and in fact AGL had the lowest price volatility of ASX100 companies who used relative TSR as a performance hurdle. This low probability and higher risk presented limited incentive and retention benefit to Executives reducing the effectiveness of the LTI as a genuine performance incentive.

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

CEO LTI allocation: 2012 – 2014

AGL obtained shareholder approval in 2011 to issue an LTI allocation to Mr Fraser with a face value equivalent of up to a maximum of 100% of his TFR (total fixed remuneration) in respect of each of the financial years ending 30 June 2012, 30 June 2013 and 30 June 2014.

4. Remuneration mix

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

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

In respect of the 2011/12 financial year, the maximum remuneration mix within the Executive roles in AGL was as follows:

Maximum percentage of total target remuneration

	TFR	STI	LTI[1]
Chief Executive Officer	33.3%	33.3%	33.3%
Group General Managers and CFO	47%	29%	24%
Other Executives	55% to 65%	20% to 30%	5% to 20%

Note:

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

5. Key Management Personnel

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

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

> the Managing Director, who is the Chief Executive Officer

> the Executives

> the non-executive Directors of the Board.

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

Name	Position
Directors	
Jeremy Maycock	Chairman
Les Hosking	Non-executive Director
Belinda Hutchinson	Non-executive Director
Sandra McPhee	Non-executive Director
Max Ould	Non-executive Director
Bruce Phillips	Non-executive Director
John Stanhope	Non-executive Director
Managing Director and Chief Executive Officer	
Michael Fraser	Managing Director and Chief Executive Officer
Executives	
Anthony Fowler	Group General Manager Merchant Energy
Ken Hodgson	Group General Manager Retail Energy
Paul McWilliams	Group Head of Corporate Support Services and Company Secretary
Stephen Mikkelsen	Chief Financial Officer
Michael Moraza	Group General Manager Upstream Gas

6. Remuneration disclosures: KMP

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

Remuneration of Key Management Personnel for year ended 30 June 2012 (Senior Executives)

	Short-Term Benefits				Post-Employment Benefits		Other Long-Term Benefits	Termination Benefits	Share Based Payments			
Executives	Cash Salary & Fees $	Short-Term Incentives[a] $	Non-Monetary Benefits[b] $	Other Short-Term Benefits $	Super-annuation $	Retire-ment Benefits $	$	$	Rights[c] $	Other Share Plans[d] $	Total $	Value of Equity as a percentage of Total
Anthony Fowler	646,712	441,000	8,713	–	38,755[e]	–	–	–	344,746	–	1,479,926	23.3%
Michael Fraser	1,609,417	1,976,000	34,339	–	457,250	–	–	–	2,209,095	–	6,286,101	35.1%
Ken Hodgson	687,485	475,200	–	–	29,515[e]	–	–	–	359,582	–	1,551,782	23.2%
Paul McWilliams	497,016	256,500	24,142	–	48,775[e]	–	–	–	170,427	256,500	1,253,360	34.1%
Stephen Mikkelsen	754,225	468,000	–	–	15,775	–	–	–	400,964	–	1,638,964	24.5%
Michael Moraza	565,308	292,500	–	–	98,727	–	–	–	333,699	–	1,290,234	25.9%
Total	4,760,163	3,909,200	67,194	–	688,797	–	–	–	3,818,513	256,500	13,500,367	

(a) Earned in respect of 2011/2012 financial year and paid in September 2012.

(b) Includes the value of benefits such as cars, representational spouse travel and entertainment and Fringe Benefits Tax.

(c) The fair value of LTI SPRs has been calculated using the Black-Scholes and Monte Carlo simulation methods.

(d) Value of shares acquired under the AGL Share Purchase Plan and other deferred share based payments.

(e) Includes salary sacrifice contributions.

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

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

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

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

Remuneration of Key Management Personnel for year ended 30 June 2012 (non-executive Directors)

	Short-Term Benefits			Post-Employment Benefits		Share Based Payments			
Non-executive Directors	Cash Salary & Fees $	Short-Term Incentives $	Non-Monetary[a] Benefits $	Superannuation $	Retirement Benefits $	Rights $	Other Share Plans[b] $	Total[a] $	Value of Equity as a percentage of Total
Jeremy Maycock	381,225	–	–	33,775[c]	–	–	5,000	420,000	1.2%
Les Hosking	187,475	–	–	15,775	–	–	–	203,250	–
Belinda Hutchinson	187,475	–	–	15,775	–	–	–	203,250	–
Sandra McPhee	202,202	–	–	15,775	–	–	–	217,977	–
Max Ould	179,475	–	–	15,775	–	–	–	195,250	–
Bruce Phillips	187,475	–	–	15,775	–	–	–	203,250	–
John Stanhope	199,960	–	–	15,775	–	–	–	215,735	–
Total	1,525,287	–	–	128,425	–	–	5,000	1,658,712	

(a) No other benefits either short-term, long-term or termination were provided to non-executive Directors.
(b) Value of fees allocated to acquire shares under the AGL Share Purchase Plan.
(c) Includes salary sacrifice contributions.

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

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

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

Details of Share Performance Rights granted to Key Management Personnel as part of remuneration for the year ended 30 June 2012

	Balance at 1 July 2011	SPRs deposited (deducted) during the year[(a)]	SPRs notionally granted during the year	SPRs adjustments granted during the year[(b)]	Fair value per SPR at grant date[(c)]	SPRs vested during the year[(d)]	SPRs forfeited during the year	Balance at 30 June 2012
Michael Fraser								
TSR share bank account	50,051	–	–	1,101	Various	(20,020)	–	31,132
EBIT/Funds Employed share bank account	18,164	(41,152)	–	(843)	Various	–	–	(23,831)
Notional grant 22-Jun-12	–	–	146,171	5,357	$14.53	–	–	151,528
Notional grant 20-Jun-11	137,175	(137,175)	–	–	$7.08	–	–	–
Old LTIP grant 27-Oct-08	107,639	–	–	79	$10.30	(105,486)	–	2,232
	313,029	(178,327)	146,171	5,694		(125,506)	–	161,061
Anthony Fowler								
TSR share bank account	1,066	–	–	23	Various	(426)	–	663
EBIT/Funds Employed share bank account	386	(4,938)	–	(167)	Various	–	–	(4,719)
Notional grant 22-Jun-12	–	–	24,596	901	$14.53	–	–	25,497
Notional grant 20-Jun-11	16,461	(16,461)	–	–	$7.08	–	–	–
Old LTIP grant 27-Oct-08	5,209	–	–	4	$10.30	(5,104)	–	109
	23,122	(21,399)	24,596	761		(5,530)	–	21,550
Ken Hodgson								
TSR share bank account	5,584	–	–	123	Various	(2,234)	–	3,473
EBIT/Funds Employed share bank account	2,026	(7,222)	–	(190)	Various	–	–	(5,386)
Notional grant 22-Jun-12	–	–	25,299	927	$14.53	–	–	26,226
Notional grant 20-Jun-11	24,075	(24,075)	–	–	$7.08	–	–	–
	31,685	(31,297)	25,299	860		(2,234)	–	24,313
Paul McWilliams								
TSR share bank account	1,256	–	–	28	Various	(502)	–	782
EBIT/Funds Employed share bank account	456	(2,263)	–	(66)	Various	–	–	(1,873)
Notional grant 22-Jun-12	–	–	12,017	440	$14.53	–	–	12,457
Notional grant 20-Jun-11	7,545	(7,545)	–	–	$7.08	–	–	–
Old LTIP grant 27-Oct-08	3,132	–	–	2	$10.30	(3,069)	–	65
	12,389	(9,808)	12,017	404		(3,571)	–	11,431
Stephen Mikkelsen								
TSR share bank account	5,617	–	–	124	Various	(2,247)	–	3,494
EBIT/Funds Employed share bank account	2,038	(7,407)	–	(197)	Various	–	–	(5,566)
Notional grant 22-Jun-12	–	–	27,407	1,004	$14.53	–	–	28,411
Notional grant 20-Jun-11	24,692	(24,692)	–	–	$7.08	–	–	–
Old LTIP grant 27-Oct-08	14,000	–	–	10	$10.30	(13,720)	–	290
	46,347	(32,099)	27,407	941		(15,967)	–	26,629
Michael Moraza								
TSR share bank account	6,223	–	–	137	Various	(2,489)	–	3,871
EBIT/Funds Employed share bank account	2,258	(6,173)	–	(143)	Various	–	–	(4,058)
Notional grant 22-Jun-12	–	–	22,840	837	$14.53	–	–	23,677
Notional grant 20-Jun-11	20,577	(20,577)	–	–	$7.08	–	–	–
Old LTIP grant 27-Oct-08	7,639	–	–	6	$10.30	(7,486)	–	159
	36,697	(26,750)	22,840	837		(9,975)	–	23,649

(a) After testing the SPRs notionally granted on 20 June 2011 against the relevant performance hurdle, the SPRs are deposited into (or deducted from) the relevant share bank account for each participant.

(b) Adjustment grants made to adjust for dilution to the number of SPRs notionally granted on 22 June 2012 and to unvested SPRs for prior years as a result of the rights issue allotment in June 2012.

(c) Fair value of SPRs granted is determined using the Black-Scholes and Monte Carlo simulation methods.

(d) SPRs vest at no cost to the recipient providing the relevant performance hurdles are satisfied.

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

	Balance at 1 July 2010	SPRs deposited (deducted) during the year[(a)]	SPRs notionally granted during the year	Fair value per SPR at grant date[(b)]	SPRs vested during the year[(c)]	SPRs forfeited during the year	Balance at 30 June 2011
Michael Fraser							
TSR share bank account	–	83,418	–	Various	(33,367)	–	50,051
EBIT/Funds Employed share bank account	–	30,273	–	Various	(12,109)	–	18,164
Notional grant 20-Jun-11	–	–	137,175	$7.08	–	–	137,175
Notional grant 26-Feb-10	134,546	(134,546)	–	$12.09	–	–	–
Old LTIP grant 27-Oct-08	107,639	–	–	$10.30	–	–	107,639
Old LTIP grant 25-Feb-08	103,915	–		$7.66	(103,915)	–	–
	346,100	(20,855)	137,175		(149,391)	–	313,029
Jeff Dimery							
TSR share bank account	–	12,625	–	Various	(5,050)	(7,575)	–
EBIT/Funds Employed share bank account	–	4,582	–	Various	(1,833)	(2,749)	–
Notional grant 26-Feb-10	20,364	(20,364)	–	$12.09	–	–	–
Old LTIP grant 27-Oct-08	18,056	–	–	$10.30	–	(18,056)	–
Old LTIP grant 11-Jan-08	12,188	–	–	$9.16	(12,188)	–	–
	50,608	(3,157)	–		(19,071)	(28,380)	–
Anthony Fowler							
TSR share bank account	–	1,776	–	Various	(710)	–	1,066
EBIT/Funds Employed share bank account	–	644	–	Various	(258)	–	386
Notional grant 20-Jun-11	–	–	16,461	$7.08	–	–	16,461
Notional grant 26-Feb-10	2,864	(2,864)	–	$12.09	–	–	–
Old LTIP grant 27-Oct-08	5,209	–	–	$10.30	–	–	5,209
Old LTIP grant 11-Jan-08	2,111	–	–	$9.16	(2,111)	–	–
	10,184	(444)	16,461		(3,079)	–	23,122
Ken Hodgson							
TSR share bank account	–	9,307	–	Various	(3,723)	–	5,584
EBIT/Funds Employed share bank account	–	3,377	–	Various	(1,351)	–	2,026
Notional grant 20-Jun-11	–	–	24,075	$7.08	–	–	24,075
Notional grant 26-Feb-10	15,011	(15,011)	–	$12.09	–	–	–
	15,011	(2,327)	24,075		(5,074)	–	31,685

(a) After testing the SPRs notionally granted on 26 February 2010 against the relevant performance hurdle, the SPRs are deposited into (or deducted from) the relevant share bank account for each participant.

(b) Fair value of SPRs granted is determined using the Black-Scholes and Monte Carlo simulation methods.

(c) SPRs vest at no cost to the recipient providing the relevant performance hurdles are satisfied.

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

	Balance at 1 July 2010	SPRs deposited (deducted) during the year[(a)]	SPRs notionally granted during the year	Fair value per SPR at grant date[(b)]	SPRs vested during the year[(c)]	SPRs forfeited during the year	Balance at 30 June 2011
Paul McWilliams							
TSR share bank account	–	2,094	–	Various	(838)	–	1,256
EBIT/Funds Employed share bank account	–	760	–	Various	(304)	–	456
Notional grant 20-Jun-11	–	–	7,545	$7.08	–	–	7,545
Notional grant 26-Feb-10	3,379	(3,379)	–	$12.09	–	–	–
Old LTIP grant 27-Oct-08	3,132	–	–	$10.30	–	–	3,132
Old LTIP grant 11-Jan-08	6,140	–	–	$9.16	(6,140)	–	–
	12,651	(525)	7,545		(7,282)	–	12,389
Stephen Mikkelsen							
TSR share bank account	–	9,361	–	Various	(3,744)	–	5,617
EBIT/Funds Employed share bank account	–	3,397	–	Various	(1,359)	–	2,038
Notional grant 20-Jun-11	–	–	24,692	$7.08	–	–	24,692
Notional grant 26-Feb-10	15,099	(15,099)	–	$12.09	–	–	–
Old LTIP grant 27-Oct-08	14,000	–	–	$10.30	–	–	14,000
Old LTIP grant 11-Jan-08	19,647	–	–	$9.16	(19,647)	–	–
	48,746	(2,341)	24,692		(24,750)	–	46,347
Michael Moraza							
TSR share bank account	–	10,371	–	Various	(4,148)	–	6,223
EBIT/Funds Employed share bank account	–	3,764	–	Various	(1,506)	–	2,258
Notional grant 20-Jun-11	–	–	20,577	$7.08	–	–	20,577
Notional grant 26-Feb-10	16,728	(16,728)	–	$12.09	–	–	–
Old LTIP grant 27-Oct-08	7,639	–	–	$10.30	–	–	7,639
Old LTIP grant 11-Jan-08	5,294	–	–	$9.16	(5,294)	–	–
	29,661	(2,593)	20,577		(10,948)	–	36,697

(a) After testing the SPRs notionally granted on 26 February 2010 against the relevant performance hurdle, the SPRs are deposited into (or deducted from) the relevant share bank account for each participant.

(b) Fair value of SPRs granted is determined using the Black-Scholes and Monte Carlo simulation methods.

(c) SPRs vest at no cost to the recipient providing the relevant performance hurdles are satisfied.

7. Terms of Executive contracts

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

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

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

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

(a) AGL will provide 6 months notice in circumstances of unsatisfactory performance.

The CEO

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

Terms of appointment

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

Termination conditions

AGL may terminate Mr Fraser's appointment:

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

or

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

Mr Fraser may terminate his appointment:

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

or

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

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

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

> if he is terminated as a result of unsatisfactory performance, a pro rata STI based on 50% of his STI opportunity (however Mr Fraser has advised AGL that he will not assert his entitlement to any payment of a short-term incentive if his employment is terminated in this circumstance);

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

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

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

(a) death;

(b) total and permanent disablement;

(c) termination of his employment by AGL without cause (either with or without notice) (however Mr Fraser has advised AGL that he will not assert his entitlement for any unvested SPRs to vest if his employment terminates in this circumstance);

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

(e) redundancy;

(f) retirement; or

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

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

Remuneration

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

Total Fixed Remuneration

Mr Fraser's TFR, effective 1 September 2012, is $2,163,000 a year.

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

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

Short-Term Incentive

Mr Fraser is eligible to receive a maximum STI payment for the year ending 30 June 2013 of $2,163,000.

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

For year ending 30 June 2012, one half of any STI will be paid in cash in September 2012, with payment of the balance deferred for 12 months.

Any deferred STI component is payable in the following circumstances:

(a) death;

(b) total and permanent disablement;

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

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

(e) redundancy;

(f) retirement; or

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

Otherwise the deferred STI component is forfeited.

Long-Term Incentive

AGL has obtained shareholder approval to issue the maximum number of Share Performance Rights available to Mr Fraser in respect of each of the financial years ending 30 June 2012, 30 June 2013 and 30 June 2014.

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

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

Restraint

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

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

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

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

8. Non-executive Directors

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The fee structure for non-executive Directors, effective 1 January 2012, is as follows:

	Base Fee $	Audit and Risk Management Committee Fees $	Other Committee Fees $
Chairman of Board	440,000	–	–
Chairman of Committee	166,500	48,000	32,000
Director	166,500	24,000	16,000

Five year financial performance

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

Year ended 30 June	2008	2009	2010	2011	2012
Statutory Profit ($m)	229.0	1,596.1	356.1	558.7	114.9
Statutory EPS in cents[1]	50.9	346.6	76.8	118.5	23.8
Underlying Profit ($m)	341.0	378.8	428.9	431.1	482.0
Underlying EPS in cents[1]	75.8	82.3	92.5	91.4	100.0
Dividends in cents	53.0	54.0	59.0	60.0	61.0
Increase/(decrease) in share price (%)[1]	(5.7)	(5.9)	9.3	(0.3)	4.2
EBIT/Funds Employed (%)	10.6	9.7	9.4	8.9	9.2
Adjusted EBIT/Funds Employed (%)[2]	n/a	10.8	11.3	10.5	11.6
TSR(%)[2 & 3]	(5.9)	1.9	10.2	1.6	13.9

Notes:

1. Restated for the bonus element of the one-for-six share rights issue completed in June 2012.
2. Used since FY2010 to calculate Executives' long-term incentives. See page 53 for details for calculation.
3. Based on June VWAP in each financial year.

Approval of Directors' Report

This Directors' Report is made in accordance with a resolution of the Board of Directors and is signed for and on behalf of the Board this 22nd day of August 2012.

Jeremy Maycock
Chairman

Consolidated Income Statement

For the year ended 30 June 2012	Note	2012 $m	2011 $m
Continuing operations			
Revenue	5	**7,455.6**	7,072.5
Other income	6	**2.9**	–
Expenses	7	**(7,100.0)**	(6,139.0)
Share of profits of associates and jointly controlled entities accounted for using the equity method	18	**16.8**	33.6
Profit before net financing costs, depreciation and amortisation		**375.3**	967.1
Depreciation and amortisation	9	**(173.9)**	(148.0)
Profit before net financing costs		**201.4**	819.1
Finance income		**45.4**	47.9
Finance costs		**(83.9)**	(73.4)
Net financing costs	8	**(38.5)**	(25.5)
Profit before tax		**162.9**	793.6
Income tax expense	10	**(48.0)**	(234.9)
Profit for the year attributable to owners of AGL Energy Limited		**114.9**	558.7
Earnings per share[(a)]			
Basic earnings per share	37	**23.8 cents**	118.5 cents
Diluted earnings per share	37	**23.8 cents**	118.4 cents

(a) The comparative earnings per share for 2011 have been restated for the bonus element of the one-for-six share rights issue undertaken in June 2012; refer Note 37 for further details.

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

Consolidated Statement of Comprehensive Income

For the year ended 30 June 2012	Note	2012 $m	2011 $m
Profit for the year		**114.9**	558.7
Other comprehensive income			
Cash flow hedges			
Gain/(loss) in fair value of cash flow hedges	35	**14.1**	(118.4)
Reclassification adjustments transferred to profit or loss	35	**115.9**	178.4
Reclassification adjustments transferred to the initial carrying amounts of hedged items	35	**40.3**	4.6
Actuarial (loss)/gain on defined benefit plans	48	**(70.0)**	3.6
Share of other comprehensive income of associates	18	**(56.6)**	31.5
Reclassification adjustments of an associate transferred to profit or loss on acquisition of entity	35	**36.3**	–
Income tax relating to components of other comprehensive income	10	**(30.1)**	(22.2)
Other comprehensive income for the year, net of income tax		**49.9**	77.5
Total comprehensive income for the year attributable to owners of AGL Energy Limited		**164.8**	636.2

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

Consolidated Statement of Financial Position

As at 30 June 2012	Note	2012 $m	2011 $m
Current assets			
Cash and cash equivalents	12	**1,812.9**	753.1
Trade and other receivables	13	**1,531.4**	1,272.1
Inventories	14	**185.4**	127.4
Other financial assets	15	**295.6**	301.2
Other assets	16	**306.6**	276.6
Total current assets		**4,131.9**	2,730.4
Non-current assets			
Trade and other receivables	17	**–**	0.5
Investments accounted for using the equity method	18	**31.6**	240.7
Exploration and evaluation assets	19	**654.0**	658.0
Oil and gas assets	20	**483.8**	461.4
Property, plant and equipment	21	**5,185.7**	2,281.5
Intangible assets	22	**3,172.0**	3,137.2
Deferred tax assets	10	**611.1**	–
Other financial assets	23	**431.6**	164.5
Other assets	24	**36.7**	21.5
Total non-current assets		**10,606.5**	6,965.3
Total assets		**14,738.4**	9,695.7
Current liabilities			
Trade and other payables	25	**1,158.4**	853.1
Borrowings	26	**616.0**	886.7
Provisions	27	**132.3**	94.3
Current tax liabilities	10	**11.0**	167.2
Other financial liabilities	28	**441.8**	440.7
Other liabilities	29	**250.3**	15.1
Total current liabilities		**2,609.8**	2,457.1
Non-current liabilities			
Borrowings	30	**3,696.0**	284.5
Provisions	31	**265.8**	161.6
Deferred tax liabilities	10	**349.0**	302.7
Other financial liabilities	32	**436.3**	94.1
Other liabilities	33	**248.6**	54.2
Total non-current liabilities		**4,995.7**	897.1
Total liabilities		**7,605.5**	3,354.2
Net assets		**7,132.9**	6,341.5
Equity			
Issued capital	34	**5,227.3**	4,244.6
Reserves	35	**22.0**	(97.1)
Retained earnings	36	**1,883.6**	2,194.0
Total equity attributable to owners of AGL Energy Limited		**7,132.9**	6,341.5

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

Consolidated Statement of Changes in Equity

For the year ended 30 June 2012	Attributable to owners of AGL Energy Limited					
	Issued capital $m	Employee equity benefits reserve $m	Hedging reserve $m	Other reserve $m	Retained earnings $m	Total equity $m
Balance at 1 July 2011	**4,244.6**	**0.6**	**(97.3)**	**(0.4)**	**2,194.0**	**6,341.5**
Adjustment on correction of unbilled distribution liability, net of income tax (Note 3)	**–**	**–**	**–**	**–**	**(79.9)**	**(79.9)**
Restated total equity at 1 July 2011	**4,244.6**	**0.6**	**(97.3)**	**(0.4)**	**2,114.1**	**6,261.6**
Profit for the year	**–**	**–**	**–**	**–**	**114.9**	**114.9**
Other comprehensive income for the year, net of income tax	**–**	**–**	**116.7**	**0.4**	**(67.2)**	**49.9**
Total comprehensive income for the year	**–**	**–**	**116.7**	**0.4**	**47.7**	**164.8**
Transactions with owners in their capacity as owners:						
Issue of ordinary shares under AGL Dividend Reinvestment Plan	**92.4**	**–**	**–**	**–**	**–**	**92.4**
Issue of ordinary shares issued under the institutional and retail rights offers	**905.3**	**–**	**–**	**–**	**–**	**905.3**
Share issue transaction costs	**(21.5)**	**–**	**–**	**–**	**–**	**(21.5)**
Payment of dividends	**–**	**–**	**–**	**–**	**(278.2)**	**(278.2)**
Share-based payments	**–**	**2.0**	**–**	**–**	**–**	**2.0**
Income tax relating to transactions with owners	**6.5**	**–**	**–**	**–**	**–**	**6.5**
Balance at 30 June 2012	**5,227.3**	**2.6**	**19.4**	**–**	**1,883.6**	**7,132.9**
Balance at 1 July 2010	4,066.7	4.7	(163.6)	(0.5)	1,892.6	5,799.9
Profit for the year	–	–	–	–	558.7	558.7
Other comprehensive income for the year, net of income tax	–	–	66.3	0.1	11.1	77.5
Total comprehensive income for the year	–	–	66.3	0.1	569.8	636.2
Transactions with owners in their capacity as owners:						
Issue of ordinary shares under AGL Dividend Reinvestment Plan	61.9	–	–	–	–	61.9
Issue of ordinary shares for acquisition of subsidiary	116.0	–	–	–	–	116.0
Payment of dividends	–	–	–	–	(268.4)	(268.4)
Share-based payments	–	(4.1)	–	–	–	(4.1)
Balance at 30 June 2011	4,244.6	0.6	(97.3)	(0.4)	2,194.0	6,341.5

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

Consolidated Statement of Cash Flows

For the year ended 30 June 2012	Note	2012 $m	2011 $m
Cash flows from operating activities			
Receipts from customers		**8,780.3**	8,205.0
Payments to suppliers and employees		**(8,061.7)**	(7,620.0)
Dividends received		**26.7**	24.3
Finance income received		**24.0**	37.9
Finance costs paid		**(122.0)**	(77.2)
Income taxes paid		**(180.8)**	(0.7)
Net cash provided by operating activities	51(a)	**466.5**	569.3
Cash flows from investing activities			
Payments for property, plant and equipment		**(673.3)**	(474.3)
Payments for exploration and evaluation assets		**(38.3)**	(38.7)
Payments for oil and gas assets		**(48.8)**	(50.7)
Payments for interest acquired in a jointly controlled entity	18	**(1.6)**	–
Payments for investment securities		**(0.1)**	–
Payments for intangible assets		**(42.9)**	(15.6)
Payments for businesses and subsidiaries, net of cash acquired	51(b)	**217.5**	(5.1)
Proceeds from sale of property, plant and equipment		**133.4**	0.1
Proceeds from sale of exploration and evaluation assets		**5.4**	–
Proceeds from sale of oil and gas assets		**4.5**	–
Proceeds from sale of investments		**–**	0.9
Proceeds from sale of subsidiary, net of cash disposed	51(c)	**–**	163.9
Loans advanced to related parties		**(87.5)**	–
Proceeds from repayment of related party loans		**0.4**	0.2
Net cash used in investing activities		**(531.3)**	(419.3)
Cash flows from financing activities			
Proceeds from issue of shares, net of transaction costs	34	**883.8**	–
On-market share purchases		**(4.4)**	(6.1)
Proceeds from borrowings		**1,730.0**	337.8
Repayment of borrowings		**(1,299.0)**	(2.5)
Dividends paid	11	**(185.8)**	(206.5)
Net cash provided by financing activities		**1,124.6**	122.7
Net increase in cash and cash equivalents		**1,059.8**	272.7
Cash and cash equivalents at the beginning of the financial year		**753.1**	480.4
Cash and cash equivalents at the end of the financial year	51(d)	**1,812.9**	753.1

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

Note 1 – Summary of significant accounting policies

AGL Energy Limited (the Parent Entity) is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Securities Exchange (ASX). The address of its registered office is Level 22, 101 Miller Street North Sydney NSW 2060 Australia.

The consolidated financial statements comprise the Parent Entity and its subsidiaries (together referred to as the consolidated entity). For the purposes of preparing the consolidated financial statements, the Parent Entity is a for-profit entity.

The principal activities of the consolidated entity are described in Note 4.

(a) Statement of compliance

These consolidated financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards and Interpretations as issued by the Australian Accounting Standards Board (AASB) and the *Corporations Act 2001*.

The consolidated financial statements also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

The consolidated financial statements were authorised for issue by the Directors on 22 August 2012.

(b) Basis of preparation

The consolidated financial statements have been prepared on the basis of historical cost, except for derivative financial instruments and available-for-sale financial assets, which are measured at fair value. Historical cost is generally based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

The Parent Entity is a company of the kind referred to in ASIC Class Order 98/0100, dated 10 July 1998, and in accordance with that Class Order, amounts in the financial statements are rounded off to the nearest tenth of a million dollars, unless otherwise indicated.

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

(c) Significant accounting judgements, estimates and assumptions

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

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

(d) Adoption of new and revised accounting standards

The consolidated entity has adopted the following new and revised Standards and Interpretations that are relevant to its operations and effective for the current reporting period.

These new and revised Standards and Interpretations have not impacted on the accounting policies, financial position or performance of the consolidated entity, or on presentation or disclosure in the consolidated financial statements.

> AASB 124 *Related Party Disclosures* (2009) and AASB 2009-12 *Amendments to Australian Accounting Standards* [AASB 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 and Interpretations 2, 4, 16, 1039 & 1052]

> AASB 1054 *Australian Additional Disclosures* and AASB 2011-1 *Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project* [AASB 1, 5, 101, 107, 108, 121, 128, 132 & 134 and Interpretations 2, 112 & 113]

> AASB 2009-14 *Amendments to Australian Interpretation – Prepayments of a Minimum Funding Requirement* [AASB Interpretation 14]

> AASB 2010-4 *Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project* [AASB 1, 7, 101 & 134 and Interpretation 13]

> AASB 2010-5 *Amendments to Australian Accounting Standards* [AASB 1, 3, 4, 5, 101, 107, 112, 118, 119, 121, 132, 133, 134, 137, 139, 140, 1023 & 1038 and Interpretations 112, 115, 127, 132 & 1042]

> AASB 2010-6 *Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets* [AASB 1 & AASB 7]

(e) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Parent Entity and entities (including special purpose entities) controlled by the Parent Entity (its subsidiaries). Control is achieved where the Parent Entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Income and expense of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition and up to the effective date of disposal, as appropriate.

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

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

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

When the consolidated entity loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests.

In addition, any amounts previously recognised in other comprehensive income in respect of that subsidiary are accounted for as if the consolidated entity had directly disposed of the relevant assets (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by applicable Standards). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under AASB 139 *Financial Instruments: Recognition and Measurement* or, when applicable, the cost on initial recognition of an investment in an associate or jointly controlled entity.

Note 1 – Summary of significant accounting policies (continued)

(f) Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value which is calculated as the sum of the acquisition-date fair values of assets transferred, liabilities incurred and equity instruments issued by the consolidated entity. The consideration transferred also includes the fair value of any asset or liability resulting from a contingent consideration arrangement and the fair value of any previously held equity interest in the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

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

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Where the consideration transferred by the consolidated entity in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. All other subsequent changes in the fair value of contingent consideration classified as an asset or liability are accounted for in accordance with relevant Standards, with the corresponding gain or loss being recognised in profit or loss. If the contingent consideration is classified as equity, it is not remeasured and its subsequent settlement is accounted for within equity.

Where a business combination is achieved in stages, the consolidated entity's previously held interest in the acquired entity is remeasured to fair value at the acquisition date (i.e. the date the consolidated entity attains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

(g) Segment reporting

An operating segment is a component of the consolidated entity that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses relating to transactions with other components of the consolidated entity.

Operating segments are identified on the basis of internal reports about components of the consolidated entity that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance. The chief operating decision maker has been identified as the Board of Directors.

(h) Investments in associates and jointly controlled entities

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

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

Under the equity method, investments in associates and jointly controlled entities are initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the consolidated entity's share of the profit or loss and other comprehensive income of the associates and jointly controlled entities.

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

Any excess of the cost of acquisition over the consolidated entity's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate or jointly controlled entity recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the consolidated entity's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

The requirements of AASB 139 are applied to determine whether it is necessary to recognise any impairment loss with respect to the consolidated entity's investment in an associate or a jointly controlled entity. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with AASB 136 *Impairment of Assets* as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with AASB 136 to the extent that the recoverable amount of the investment subsequently increases.

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

(i) Jointly controlled operations and assets

The consolidated entity has certain contractual arrangements with other venturers to engage in joint venture activities that do not give rise to a jointly controlled entity. These arrangements involve the joint ownership of assets dedicated to the purposes of the joint venture. The assets are used to derive benefits for the venturers.

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

(j) Foreign currency

Functional and presentation currency

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

Foreign currency transactions and balances

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

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

Foreign exchange differences arising on translation are recognised in the income statement in the period in which they arise except for exchange differences on transactions entered into in order to hedge certain foreign currency risks (refer to Note 1(ab)).

Foreign operations

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

(k) Cash and cash equivalents

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

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

(l) Trade and other receivables

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

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

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

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

(m) Inventories

Stocks and materials are valued at the lower of cost and estimated net realisable value. Costs, including an appropriate portion of fixed and variable overhead expenses, are assigned to inventory on hand by the method most appropriate to each particular class of inventory, with the majority being valued on a first-in-first-out basis. Finished goods includes gas inventory.

(n) Financial assets

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

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

Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category 'financial assets at fair value through profit or loss'. Financial assets are classified as held for trading if acquired principally for the purpose of selling in the short-term. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on financial assets held for trading are recognised in profit or loss and the related assets are classified as current assets in the statement of financial position. Fair value is determined in the manner described in Note 53.

Available-for-sale financial assets

Listed shares held by the consolidated entity that are traded in an active market are classified as available-for-sale and are stated at fair value. Fair value is determined in the manner described in Note 53. Gains and losses arising from changes in fair value are recognised directly in other comprehensive income and accumulated in the investments revaluation reserve, with the exception of impairment losses, which are recognised in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

Loans and receivables

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

Note 1 – Summary of significant accounting policies (continued)

Impairment of financial assets

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

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

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

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

Derecognition of financial assets

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

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

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

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

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

(p) Exploration and evaluation assets

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

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

> exploration and evaluation expenditure is expected to be recovered through successful development and exploration of the area of interest, or alternatively, by its sale; or

> exploration and evaluation activities in the area of interest have not, at the end of the reporting period, reached a stage which permits reasonable assessment of the existence of economically recoverable reserves and active and significant operations in, or in relation to, the area of interest are continuing.

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

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

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

(q) Oil and gas assets

Assets in development

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

Producing assets

The costs of oil and gas assets in production are separately accounted for and include past exploration and evaluation costs, past development costs and the ongoing costs of continuing to develop reserves for production and to expand or replace plant and equipment and any associated land and buildings.

When production commences, the accumulated costs for the relevant area of interest are amortised over the life of the area according to the rate of depletion of the economically recoverable reserves.

(r) Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition or construction of the asset. Finance costs related to the acquisition or construction of qualifying assets are capitalised. Cost may also include transfers from other comprehensive income of any gain or loss on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the consolidated entity and the cost of the item can be measured reliably. All other repairs and maintenance are recognised in profit or loss as incurred.

The gain or loss arising on disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Depreciation is provided on property, plant and equipment, including freehold buildings but excluding land. Depreciation is calculated on a straight-line basis so as to write off the cost of each asset over its expected useful life to its estimated residual value. Leasehold improvements are amortised over the period of the relevant lease or estimated useful life, whichever is the shorter.

The estimated useful lives, residual values and depreciation method are reviewed, and adjusted if appropriate at the end of each annual reporting period.

The following estimated useful lives are used in the calculation of depreciation:

Freehold buildings	50 years
Leasehold improvements	lesser of lease period or 20 years
Plant and equipment	3 to 25 years or relevant units of use

(s) Leased assets

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

Assets held under finance leases are initially recognised as assets of the consolidated entity at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease liability.

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

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

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

(t) Intangible assets

Intangible assets acquired separately or in a business combination are initially measured at cost. The cost of an intangible asset acquired in a business combination is its fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over their estimated useful life and tested for impairment whenever there is an indication that the intangible asset may be impaired. The estimated useful life and amortisation method are reviewed at the end of each annual reporting period.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset are recognised in profit or loss when the asset is derecognised.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of the acquisition of the business (refer Note 1(f) above) less accumulated impairment losses, if any.

For the purpose of impairment testing, goodwill is allocated to each of the consolidated entity's cash-generating units expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss in the consolidated income statement. An impairment loss recognised for goodwill is not reversed in subsequent periods.

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

Licences

Licences are carried at cost less any accumulated impairment losses. Licences are considered to have indefinite useful lives, as they were either granted in perpetuity, or there is evidence that the licences will be renewed beyond the initial term and the cost of renewal is not significant. Licences with indefinite useful lives are not amortised, but are tested for impairment annually, or more frequently if events or changes in circumstances indicate that they might be impaired. Any impairment loss is recognised immediately in profit or loss.

Customer relationships and contracts

Customer relationships and contracts acquired in a business combination are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is recognised as an expense on a straight-line basis over the period during which economic benefits are expected to be received.

The direct costs of establishing customer contracts are recognised as an asset when they relate to a specific customer acquisition campaign. The direct costs are amortised over the minimum contract term. Direct costs include customer acquisition fees paid to channel partners and upfront account purchase payments. All other customer acquisition costs are expensed as incurred.

Note 1 – Summary of significant accounting policies (continued)

(u) Impairment of non-financial assets excluding goodwill

At the end of each reporting period, the consolidated entity reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the consolidated entity estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Intangible assets with indefinite useful lives are tested for impairment at least annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

(v) Trade and other payables

Trade and other payables represent liabilities for goods and services provided to the consolidated entity prior to the end of the reporting period that are unpaid and arise when the consolidated entity becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 30 days of recognition.

(w) Borrowings

Borrowings are initially recognised at fair value of the consideration received, net of transaction costs incurred. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method.

Borrowings are classified as current liabilities unless the consolidated entity has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

(x) Employee benefits

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave, long service leave and sick leave when it is probable that settlement will be required and they are capable of being measured reliably.

Liabilities recognised in respect of short-term employee benefits are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Liabilities recognised in respect of long-term employee benefits are measured as the present value of the estimated future cash outflows to be made by the consolidated entity in respect of services provided by employees up to the end of the reporting period.

Defined contribution superannuation plans

Contributions to defined contribution superannuation plans are recognised as an expense when employees have rendered service entitling them to the contributions.

Defined benefit superannuation plans

For defined benefit superannuation plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each reporting period. Actuarial gains and losses are recognised directly in other comprehensive income, in the period in which they occur.

Past service cost is recognised immediately in profit or loss to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the benefits become vested.

The defined benefit superannuation plan asset or liability recognised in the statement of financial position represents the present value of the defined benefit obligation at the end of the reporting period less the fair value of the plan's assets at that date and any unrecognised past service cost. Any asset resulting from this calculation is limited to unrecognised actuarial losses and past service cost, plus the present value of available refunds and reductions in future contributions to the plan.

(y) Share-based payments

The consolidated entity provides benefits to employees in the form of equity-settled share-based payments, whereby employees render services in exchange for shares or rights over shares.

The fair value of share performance rights (SPRs) granted to eligible employees under the AGL Long-Term Incentive Plan is recognised as an employee benefits expense, with a corresponding increase in the employee equity benefits reserve. The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the SPRs. The fair value at grant date is determined by an independent valuer. Details regarding the determination of the fair value of share-based payment plans are set out in Note 49.

At the end of each reporting period, the consolidated entity revises its estimate of the number of SPRs expected to vest. The amount recognised as an expense is only adjusted when the SPRs do not vest due to non-market related conditions.

Under the AGL Share Reward Plan, shares are issued to eligible employees for no consideration and vest immediately on grant date. On this date, the market value of the shares issued is recognised as an employee benefits expense, with a corresponding increase in the employee equity benefits reserve.

(z) Provisions

Provisions are recognised when the consolidated entity has a present obligation (legal or constructive) as a result of a past event, it is probable that the consolidated entity will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. The unwinding of the discount on the provision is recognised in the income statement as part of finance costs.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Onerous contracts
Present obligations arising under onerous contracts are recognised and measured as provisions. An onerous contract is considered to exist where the consolidated entity has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

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

The provision for future restoration costs is the best estimate of the present value of the expenditure required to settle the restoration obligation at the end of the reporting period, based on current legal requirements and current technology. Future restoration costs are reviewed annually and any changes in the estimate are reflected in the present value of the restoration provision at the end of each reporting period.

The initial estimate of the environmental restoration provision relating to exploration, development and production facilities is capitalised into the cost of the related asset and depreciated/amortised on the same basis as the related asset. Changes in the estimate of the provision for environmental restoration are treated in the same manner, except that the unwinding of the effect of discounting on the provision is recognised as a finance cost rather than being capitalised into the cost of the related asset.

Restructuring
A restructuring provision is recognised when the consolidated entity has developed a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it. The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring, which are those amounts that are both necessarily entailed by the restructuring and not associated with the ongoing activities of the entity.

(aa) Financial guarantee contracts
Financial guarantee contracts are recognised as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value and subsequently at the higher of the amount determined in accordance with AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* and the amount initially recognised less cumulative amortisation, where appropriate.

(ab) Derivative financial instruments and hedging
The consolidated entity enters into a variety of derivative financial instruments to manage its exposure to interest rate, foreign exchange rate and energy price risks arising in the normal course of business. The use of derivatives is subject to policies, procedures and limits approved by the Board of Directors. Further details of derivative financial instruments are disclosed in Note 53.

Derivatives are initially recognised at fair value at the date the derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

The consolidated entity designates certain derivatives as either hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedges), hedges of highly probable forecast transactions or hedges of foreign currency risk of firm commitments (cash flow hedges) or hedges of net investments in foreign operations. The consolidated entity currently does not have any net investment hedges. Derivatives that do not qualify for hedge accounting are required to be accounted for as trading instruments.

At the inception of the hedge relationship, the consolidated entity documents the relationship between the hedging instrument and hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the consolidated entity documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item.

A derivative with a positive fair value is recognised as a financial asset; a derivative with a negative fair value is recognised as a financial liability. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

Embedded derivatives
Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value through profit or loss.

Fair value hedges
Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognised in profit or loss immediately, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognised in the line of the income statement relating to the hedged item.

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

Note 1 – Summary of significant accounting policies (continued)

Cash flow hedges

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

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item is recognised in profit or loss, in the same line of the income statement as the recognised hedged item. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability.

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

Hedges of net investments in foreign operations

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in other comprehensive income and accumulated in the foreign currency translation reserve. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss.

Gains and losses on the hedging instrument relating to the effective portion of the hedge accumulated in the foreign currency translation reserve are reclassified to profit or loss when the foreign operation is disposed of.

Derivatives that do not qualify for hedge accounting – economic hedges

The consolidated entity has entered into certain derivative instruments for economic hedging purposes under the Board approved risk management policies which do not satisfy the requirements for hedge accounting under AASB 139 *Financial Instruments: Recognition and Measurement*. These derivatives are therefore required to be categorised as held for trading and are classified in the statement of financial position as economic hedges. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in profit or loss.

(ac) Issued capital

Ordinary shares are classified as equity. Ordinary shares issued by the consolidated entity are recorded at the proceeds received, less transaction costs directly attributable to the issue of new shares, net of any tax effects.

(ad) Revenue recognition

Revenue is recognised and measured at the fair value of the consideration received or receivable to the extent it is probable that the economic benefits will flow to the consolidated entity and the revenue can be reliably measured.

Revenue from gas and electricity services supplied is recognised once the gas and electricity has been delivered to the customer and is measured through a regular review of usage meters. Customers are billed on a periodic and regular basis. At the end of each reporting period, gas and electricity revenue includes an accrual for energy delivered to customers but not yet billed (unbilled revenue).

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

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

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

(ae) Net financing costs

Interest income is recognised as it accrues in profit or loss, using the effective interest method.

Finance costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other finance costs are recognised in profit or loss in the period in which they are incurred. Finance costs comprise interest expense on borrowings calculated using the effective interest method, amortisation of borrowing costs relating to long-term financing facilities, unwinding of the discount on provisions and gains and losses on certain hedging instruments that are recognised in profit or loss.

(af) Goods and services tax

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

> where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or

> for receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified within operating cash flows.

(ag) Income tax

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The consolidated entity's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax
Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the consolidated entity expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the consolidated entity intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the period
Current and deferred tax are recognised as an expense or income in profit or loss, except when they relate to items that are recognised outside profit or loss (whether in other comprehensive income or directly in equity), in which case the tax is also recognised outside profit or loss, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is included in the accounting for the business combination.

Tax consolidation
The Parent Entity and its wholly-owned Australian resident subsidiaries formed a tax-consolidated group under Australian taxation law with effect from 25 October 2006 and are therefore taxed as a single entity from that date. AGL Energy Limited is the head entity in the tax-consolidated group.

Tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using the 'stand alone taxpayer' approach by reference to the carrying amounts in the separate financial statements of each entity and the tax values applying under tax consolidation. Current tax liabilities and assets and deferred tax assets arising from unused tax losses and tax credits of the members of the tax-consolidated group are recognised by the Parent Entity (as head entity in the tax-consolidated group).

Due to the existence of a tax funding arrangement between the entities in the tax-consolidated group, amounts are recognised as payable to or receivable by the Parent Entity and each member of the group in relation to the tax contribution amounts paid or payable between the Parent Entity and the other members of the tax-consolidated group in accordance with the arrangement. Further information about the tax funding arrangement is detailed in Note 10 to the financial statements.

On 29 June 2012, AGL Generation Proprietary Limited, a subsidiary of AGL Energy Limited (AGL), acquired the remaining 67.46% of the shares in, and loan notes issued by, Great Energy Alliance Corporation Pty Limited (GEAC) and 100% of the shares in Loy Yang Marketing Holdings Pty Limited (LYMH) which it did not already own. GEAC, LYMH and their subsidiaries are not eligible to be members of the existing AGL tax-consolidated group. On 23 July 2012, the LYMH entities joined a new tax-consolidated group which was formed by AGL Generation Holdco Pty Ltd, a subsidiary of AGL. On 27 July 2012, the GEAC entities joined the new tax-consolidated group. AGL Generation Holdco Pty Ltd is the head entity in the new tax-consolidated group.

(ah) Earnings per share
Basic earnings per share is determined by dividing the profit for the year attributable to owners of AGL Energy Limited, by the weighted average number of ordinary shares outstanding during the period.

Diluted earnings per share is determined by dividing the profit for the year attributable to owners of AGL Energy Limited, by the weighted average number of ordinary shares outstanding during the period and dilutive potential ordinary shares.

(ai) Standards and Interpretations in issue not yet adopted
A number of Australian Accounting Standards have been issued by the AASB but are not effective for the year ended 30 June 2012, but will be applicable to the consolidated entity in future reporting periods.

> AASB 9 *Financial Instruments*, AASB 2009-11 *Amendments to Australian Accounting Standards arising from* AASB 9 and AASB 2010-7 *Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)* are expected to be effective for annual reporting periods beginning on or after 1 January 2015 (previously 1 January 2013).

The IASB has deferred the application date for the international equivalent to AASB 9, *IFRS 9*, until 1 January 2015. As a result, the AASB has issued a related exposure draft, ED 215 *Mandatory Effective Date of IFRS 9*. This proposed amendment to AASB 9 is in pending status at the reporting date.

AASB 9 *Financial Instruments* and its associated amending Standards introduce new requirements for the classification and measurement of financial assets and financial liabilities and for derecognition.

AASB 9 requires all recognised financial assets that are within the scope of AASB 139 *Financial Instruments*: *Recognition and Measurement* to be subsequently measured at amortised cost or fair value.

The most significant effect of AASB 9 regarding the classification and measurement of financial liabilities relates to the accounting for changes in fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. For financial liabilities designated at fair value, the portion of the change in fair value due to changes in own credit risk now generally must be presented in other comprehensive income, rather than through profit or loss.

AASB 9 will be mandatory for the consolidated entity's 30 June 2016 financial statements. The potential impact on the consolidated entity's financial statements has not yet been determined.

Note 1 – Summary of significant accounting policies (continued)

> AASB 10 *Consolidated Financial Statements* is effective for annual reporting periods beginning on or after 1 January 2013.

AASB 10 requires a parent to present consolidated financial statements as those of a single economic entity, replacing the requirements previously contained in AASB 127 *Consolidated and Separate Financial Statements* and Interpretation 112 *Consolidation – Special Purpose Entities.*

AASB 10 identifies the principles of control, determines how to identify whether an investor controls an investee and therefore must consolidate the investee, and sets out the principles for the preparation of consolidated financial statements.

The Standard introduces a single consolidation model for all entities based on control, irrespective of the nature of the investee (i.e. whether an entity is controlled through voting rights of investors or through other contractual arrangements as is common in 'special purpose entities').

AASB 10 will be mandatory for the consolidated entity's 30 June 2014 financial statements. The potential impact on the consolidated entity's financial statements has not yet been determined.

> AASB 11 *Joint Arrangements* is effective for annual reporting periods beginning on or after 1 January 2013.

AASB 11 replaces AASB 131 *Interests in Joint Ventures*. Requires a party to a joint arrangement to determine the type of joint arrangement in which it is involved by assessing its rights and obligations and then account for those rights and obligations in accordance with that type of joint arrangement. Joint arrangements are either joint operations or joint ventures.

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement (joint operators) have rights to the assets, and obligations for the liabilities, relating to the arrangement. Joint operators recognise their assets, liabilities, revenue and expenses in relation to their interest in a joint operation (including their share of any such items arising jointly).

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement (joint venturers) have rights to the net assets of the arrangement. A joint venturer applies the equity method of accounting for its investment in a joint venture in accordance with AASB 128 *Investments in Associates and Joint Ventures (2011).*

AASB 11 will be mandatory for the consolidated entity's 30 June 2014 financial statements. The potential impact on the consolidated entity's financial statements has not yet been determined.

> AASB 12 *Disclosure of Interests in Other Entities* is effective for annual reporting periods beginning on or after 1 January 2013.

AASB 12 requires the extensive disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with, interests in other entities and the effects of those interests on its financial position, financial performance and cash flows.

This new Standard contains the disclosure requirements for entities that have interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities.

AASB 12 will be mandatory for the consolidated entity's 30 June 2014 financial statements. The potential impact on the consolidated entity's financial statements has not yet been determined.

> AASB 13 *Fair Value Measurement* and AASB 2011-8 *Amendments to Australian Accounting Standards arising from AASB 13* are effective for annual reporting periods beginning on or after 1 January 2013.

AASB 13 replaces the guidance on fair value measurement in existing AASB accounting literature with a single standard.

AASB 13 defines fair value, provides guidance on how to determine fair value and requires disclosures about fair value measurements. However, AASB 13 does not change the requirements regarding which items should be measured or disclosed at fair value.

AASB 13 will be mandatory for the consolidated entity's 30 June 2014 financial statements. The potential impact on the consolidated entity's financial statements has not yet been determined.

> AASB 119 *Employee Benefits (2011)* and AASB 2011-10 *Amendments to Australian Accounting Standards arising from AASB 119* are effective for annual reporting periods beginning on or after 1 January 2013.

The amendments to AASB 119 focus on but are not limited to the accounting for defined benefit plans. In addition it changes the definition of short-term and other long-term employee benefits and some disclosure requirements.

AASB 119 will be mandatory for the consolidated entity's 30 June 2014 financial statements. The potential impact on the consolidated entity's financial statements has not yet been determined.

> AASB 127 *Separate Financial Statements (2011)* is effective for annual reporting periods beginning on or after 1 January 2013.

Amended version of AASB 127 which now only deals with the requirements for separate financial statements, which have been carried over largely unamended from AASB 127 *Consolidated and Separate Financial Statements*. Requirements for consolidated financial statements are now contained in AASB 10 *Consolidated Financial Statements.*

The Standard requires that when an entity prepares separate financial statements, investments in subsidiaries, associates, and jointly controlled entities are accounted for either at cost, or in accordance with AASB 9 *Financial Instruments.*

The Standard also deals with the recognition of dividends, certain group reorganisations and includes a number of disclosure requirements.

AASB 127 will be mandatory for the consolidated entity's 30 June 2014 financial statements. The potential impact on the consolidated entity's financial statements has not yet been determined.

> AASB 128 *Investments in Associates and Joint Ventures (2011)* is effective for annual reporting periods beginning on or after 1 January 2013.

This Standard supersedes AASB 128 *Investments in Associates* and prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.

The Standard defines significant influence and provides guidance on how the equity method of accounting is to be applied. It also prescribes how investments in associates and joint ventures should be tested for impairment.

AASB 128 will be mandatory for the consolidated entity's 30 June 2014 financial statements. The potential impact on the consolidated entity's financial statements has not yet been determined.

> AASB 2011-7 *Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards* is effective for annual reporting periods beginning on or after 1 January 2013.

AASB 2011-7 gives effect to many consequential amendments to a number of Standards and Interpretations arising from the issuance of the new consolidation and joint arrangements Standards.

The amendments, which will be mandatory for the consolidated entity's 30 June 2014 financial statements, are not expected to have any significant impact on the financial statements.

> AASB 2011-9 *Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income* is effective for annual reporting periods beginning on or after 1 July 2012.

These amendments arise from the issuance of the IASB Standard *Presentation of Items of Other Comprehensive Income (Amendments to IAS 1)* in June 2011.

The amendments require entities to present separately the items of other comprehensive income that would be reclassified to profit or loss in the future if specific conditions are met from those that would never be reclassified to profit or loss. Tax on items in other comprehensive income is also required to be allocated on the same basis.

The amendments will be mandatory for the consolidated entity's 30 June 2013 financial statements. The potential impact on the consolidated entity's financial statements has not yet been determined.

In addition to the above recently issued Standards, the following new and amendments to Standards are also applicable in future years. It is not expected these Standards will materially impact the consolidated entity's financial statements upon adoption.

> AASB 1053 *Application of Tiers of Australian Accounting Standards* and AASB 2010-2 *Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements*

> AASB 2010-8 *Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets*

> AASB 2011-4 *Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements*

> AASB 2012-2 *Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities*

> AASB 2012-3 *Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities*

> AASB 2012-5 *Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle*

Note 2 – Significant accounting judgements, estimates and assumptions

Management has identified the following critical accounting policies for which significant judgements, estimates and assumptions are made. Actual results may differ from these estimates under different assumptions and conditions and may materially affect financial results or the financial position reported in future periods.

Impairment of goodwill and other intangibles with indefinite useful lives

The consolidated entity determines whether goodwill and other intangibles with indefinite useful lives are impaired at least on an annual basis. This requires an estimation of the value in use of the recoverable amount of the cash-generating units, using a value in use discounted methodology, to which the goodwill and intangibles with indefinite useful lives are allocated. The assumptions used in the estimation of recoverable amount are discussed in Note 22.

Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. This method requires the application of fair values for both the consideration given and the assets and liabilities acquired. The calculation of fair values is often based on estimates and judgements including future cash flows, revenue streams and value in use calculations.

Allowance for doubtful debts

The collectability of trade receivables is reviewed on an ongoing basis. An allowance for doubtful debts is established when there is objective evidence that the consolidated entity will not be able to collect all amounts due. Management uses its judgement in determining the level of doubtful debt provisioning, taking into account the historic analysis of bad debt trends and the prevailing economic conditions. Refer to Note 13 for further details.

Unbilled revenue

The consolidated entity recognises revenue from gas and electricity services once the gas and/or electricity has been consumed by the customer. Customers are billed on a periodic and regular basis. Management estimates customer consumption between the last invoice date and the end of the reporting period when determining gas and electricity revenue for the financial period. Various assumptions and financial models are used to determine the estimated unbilled consumption. The carrying amount of unbilled revenue is disclosed in Note 13.

Exploration and evaluation expenditure

The consolidated entity's policy for exploration and evaluation expenditure is stated in Note 1(p). The application of this policy requires management to make certain estimates and assumptions as to future events and circumstances, particularly in relation to the assessment of whether economic quantities of reserves have been found. Any such estimates and assumptions may change as new information becomes available. If, after having capitalised exploration and evaluation expenditure, management concludes that the capitalised expenditure is unlikely to be recovered by future exploitation or sale, then the relevant capitalised amount will be written off to the income statement.

Fair value of financial instruments

Management uses their judgement in selecting an appropriate valuation technique for financial instruments not quoted in an active market. Valuation techniques commonly used by market practitioners are applied. For derivative financial instruments, assumptions are made based on quoted market rates adjusted for specific features of the instrument. Other financial instruments are valued using a discounted cash flow analysis based on assumptions supported, where possible, by observable market prices and rates. Refer to Note 53 for further details.

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

Provision for environmental restoration

The consolidated entity estimates the future removal and restoration costs of electricity generation assets, oil and gas production facilities, wells, pipelines and related assets at the time of installation of the assets. In most instances, removal of these assets will occur many years into the future. The calculation of this provision requires management to make assumptions regarding the removal date, application of environmental legislation, the extent of restoration activities required and available technologies. The carrying amount of the provision for environmental restoration is disclosed in Note 31.

Defined benefit superannuation plans

Various actuarial assumptions are utilised in the determination of the consolidated entity's defined benefit obligations. These assumptions and the related carrying amounts are discussed in Note 48.

Share-based payment transactions

The consolidated entity measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by an external valuer using the Black-Scholes and Monte Carlo simulation methods, with the assumptions detailed in Note 49. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact expenses and equity.

Carbon price

On 8 November 2011, the Federal Parliament passed the Clean Energy Legislative Package, which introduced a carbon price into the Australian economy from 1 July 2012 to reduce carbon pollution and move to a clean energy future.

The carbon pricing mechanism has a two phased approach: a fixed price mechanism, followed by an emission trading scheme (ETS). Under the carbon pricing scheme, as of 1 July 2012, every tonne of carbon dioxide equivalent (CO_2-e) produced by approximately 500 of Australia's largest emitters will be priced at $23 per tonne. For the first three years, the carbon price is fixed, rising annually by 2.5%. On 1 July 2015, the pricing mechanism will transition to the floating ETS.

To assist the electricity generation sector transition to lower carbon emissions and to maintain secure energy supplies, the Government established an Energy Security Fund. Under the Energy Security Fund, the Government is providing a total of $5.5 billion in the form of cash and free carbon permits to highly emissions-intensive coal-fired generators, over six years. Cash payments of $1 billion were made in June 2012 and eligible generators will share in four annual allocations of 41.7 million free carbon permits to the value of $4.5 billion, commencing on 1 September 2013.

On 22 June 2012, Great Energy Alliance Corporation Pty Limited (GEAC), the owner of the Loy Yang A power station, received a coal-fired generation assistance cash payment of $240.1 million from the Australian Government as part of this arrangement. GEAC, a subsidiary of AGL Energy Limited, also anticipates receiving allocations of approximately 10 million free carbon permits on 1 September 2013, 2014, 2015 and 2016, respectively that are conditional on Loy Yang A satisfying a power system reliability test and publishing a Clean Energy Investment Plan.

The impact of the carbon price on the consolidated entity's future cash flows has been included in the estimation of the recoverable amount of the consolidated entity's cash-generating units when testing for impairment at 30 June 2012. The introduction of the carbon price does not impact on the consolidated entity's operating results for the year ended 30 June 2012.

Note 3 – Correction of unbilled distribution liability

During the year ended 30 June 2012 AGL completed Project Spectrum. Project Spectrum transferred AGL's business customers onto the same SAP billing platform as its consumer customers (excluding 118,600 Powerdirect customers). This single SAP billing platform has materially enhanced the granularity of analysis that is able to be performed on customer balances. Using this enhanced capability, AGL undertook a comprehensive review of debtors, unbilled sales, creditors and unbilled distribution costs.

This review highlighted that, in prior periods, AGL had consistently but incorrectly estimated period-end distribution liabilities by using a methodology to accrue distribution charges based on an estimated number of days not yet billed by the relevant distributor in each state. AGL believed that this estimate fully accounted for invoices relating to the relevant period end that had yet to be received. However, this estimate has never fully accounted for invoices received after the relevant period end relating to distribution charges incurred prior to the period end.

It has been impracticable to allocate the increased liability between opening balance liabilities arising from business acquisitions and increased expenses in prior periods. Accordingly, opening retained earnings for the year ended 30 June 2012 has been reduced by $79.9 million as a result of an increase in the opening distribution liability of $114.1 million and a net decrease in tax liabilities of $34.2 million. Actual distribution expense for the year ended 30 June 2012 has been correctly reflected in current year operating profit.

Note 4 – Segment information

Operating segments

The consolidated entity reports segment information on the same basis as the internal management reporting structure, which drives how the consolidated entity is organised and managed.

The consolidated entity has identified its operating segments based on the internal reports that are regularly reviewed and used by the Board of Directors (the chief operating decision maker) in assessing performance and in determining the allocation of resources. Management has determined the operating segments based on the manner in which products are sold, whether retail or wholesale, and the nature of the services provided.

From 1 July 2011, the following changes were made to the consolidated entity's operating segments:

> Business customers (formerly commercial and industrial) previously reported in the Retail Energy operating segment are now included in the Merchant Energy operating segment; and

> Certain administration costs (mainly finance and information technology) previously reported in the Retail Energy, Merchant Energy and Upstream Gas operating segments are now included in Other.

Segment results are reported according to the internal management reporting structure at the reporting date. Segment comparative information has been restated to reflect the changes described above.

The consolidated entity has four reportable operating segments as follows:

> **Retail Energy** is responsible for selling natural gas, electricity and energy-related products and services to residential and small business customers.

> **Merchant Energy** is responsible for developing, operating and maintaining power generation assets and managing the risks associated with the procurement and delivery of gas and electricity for its wholesale portfolio and for the Retail Energy segment. Merchant Energy also sells natural gas and electricity to business customers and provides energy efficiency and carbon management services. Merchant Energy is also now responsible for managing and maintaining the Loy Yang A power station and adjacent brown coal mine.

> **Upstream Gas** Is responsible for investments and operations in gas exploration, development and production tenements, development and operation of gas storage facilities, as well as for exploration and development of geothermal renewable energy sources.

> **Energy Investments** includes equity accounted investments in the ActewAGL Retail Partnership and Diamantina Holding Company Pty Limited. The equity accounted investment in Great Energy Alliance Corporation Pty Limited (GEAC) was also included in this segment up until 29 June 2012, when AGL completed the acquisition of GEAC, increasing its ownership from 32.54% to 100%. GEAC owns the Loy Yang A power station and adjacent brown coal mine which are now reported in the Merchant Energy operating segment.

No operating segments have been aggregated to form the above reportable operating segments.

In the segment financial results, the 'Other' category consists of the various Corporate activities which includes the head office and central support functions. Corporate is not considered a reportable operating segment.

Segment financial results

The measurement of segment results is in line with the basis of information presented to the Board of Directors for internal management reporting purposes. The performance of each segment is measured based on their 'Operating EBIT contribution' to the consolidated entity. Certain items of income and expense are excluded from the segment results to show a measure of underlying performance. These items include changes in fair value of financial instruments and significant items.

Transfer prices between operating segments are on an arm's-length basis in a manner similar to transactions with third parties. Inter-segment revenue is eliminated on consolidation.

The accounting policies of the reportable segments are the same as the consolidated entity's accounting policies.

Information regarding the consolidated entity's reportable segments is presented below.

Note 4 – Segment information (continued)

	Retail Energy $m	Merchant Energy $m	Upstream Gas $m	Energy Investments $m	Other $m	Total $m
2012						
Revenue						
Total segment revenue	**4,194.3**	**4,955.7**	**80.1**	**–**	**0.1**	**9,230.2**
Inter-segment revenue	**–**	**(1,743.1)**	**(31.5)**	**–**	**–**	**(1,774.6)**
External revenue	**4,194.3**	**3,212.6**	**48.6**	**–**	**0.1**	**7,455.6**
Earnings before interest, tax, depreciation and amortisation (EBITDA)	**391.9**	**628.5**	**20.6**	**24.5**	**(161.2)**	**904.3**
Depreciation and amortisation	**(59.1)**	**(78.8)**	**(20.0)**	**–**	**(16.0)**	**(173.9)**
Operating EBIT	**332.8**	**549.7**	**0.6**	**24.5**	**(177.2)**	**730.4**
Net financing costs						**(51.2)**
Underlying profit before income tax						**679.2**
Income tax expense						**(197.2)**
Underlying profit						**482.0**
Segment assets	**3,455.0**	**6,656.8**	**1,360.4**	**116.9**	**116.1**	**11,705.2**
Segment liabilities	**424.1**	**1,392.9**	**101.9**	**–**	**136.5**	**2,055.4**
Other segment information						
Share of profits of associates and jointly controlled entities	**–**	**–**	**(0.1)**	**16.9**	**–**	**16.8**
Investments in associates and jointly controlled entities	**–**	**–**	**4.4**	**27.2**	**–**	**31.6**
Additions to non-current assets	**110.7**	**3,020.4**	**147.2**	**1.6**	**30.8**	**3,310.7**
Other non-cash expenses	**(61.7)**	**(5.2)**	**–**	**–**	**(6.4)**	**(73.3)**
(Loss)/gain in fair value of financial instruments	**–**	**(308.6)**	**–**	**4.0**	**–**	**(304.6)**
Significant expense items	**–**	**(15.9)**	**(35.8)**	**(157.0)**	**(3.0)**	**(211.7)**
2011						
Revenue						
Total segment revenue	3,662.7	4,988.4	80.7	–	–	8,731.8
Inter-segment revenue	–	(1,627.8)	(31.5)	–	–	(1,659.3)
External revenue	3,662.7	3,360.6	49.2	–	–	7,072.5
Earnings before interest, tax, depreciation and amortisation (EBITDA)	348.9	522.3	35.8	40.5	(143.0)	804.5
Depreciation and amortisation	(43.8)	(69.1)	(21.5)	–	(13.6)	(148.0)
Operating EBIT	305.1	453.2	14.3	40.5	(156.6)	656.5
Net financing costs						(37.4)
Underlying profit before income tax						619.1
Income tax expense						(188.0)
Underlying profit						431.1
Segment assets	3,219.7	3,704.6	1,278.9	351.0	91.8	8,646.0
Segment liabilities	213.7	773.1	83.8	–	107.7	1,178.3
Other segment information						
Share of profits of associates and jointly controlled entities	–	–	0.5	33.1	–	33.6
Investments in associates and jointly controlled entities	–	–	4.4	236.3	–	240.7
Additions to non-current assets	81.1	317.3	277.5	–	27.9	703.8
Impairment losses	–	–	(0.2)	–	–	(0.2)
Other non-cash expenses	(58.4)	(4.2)	–	–	(2.0)	(64.6)
Gain in fair value of financial instruments	–	213.0	–	5.8	–	218.8
Significant expense items	(4.1)	(6.1)	–	–	(34.1)	(44.3)

	2012 $m	2011 $m
Segment revenue reconciliation to the income statement		
Reconciliation of segment revenue to total revenue is as follows:		
Total segment revenue for reportable segments	**9,230.1**	8,731.8
Elimination of inter-segment revenue	**(1,774.6)**	(1,659.3)
Total revenue for reportable segments	**7,455.5**	7,072.5
Other	**0.1**	–
Total revenue	**7,455.6**	7,072.5
Revenue from major products and services		
The following is an analysis of the consolidated entity's revenue from its major products and services.		
Electricity	**5,074.8**	4,518.1
Gas	**1,885.3**	1,904.4
Generation sales to pool	**204.7**	256.5
Oil	**4.3**	3.8
Wind farm development fees	**43.0**	61.0
Green commodities scheme certificates	**109.7**	212.4
Management fees	**11.6**	10.9
Other goods and services revenue	**120.6**	104.7
Other revenue	**1.6**	0.7
Total revenue	**7,455.6**	7,072.5
Segment Operating EBIT reconciliation to the income statement		
Reconciliation of segment Operating EBIT to profit before tax is as follows:		
Operating EBIT for reportable segments	**907.6**	813.1
Other	**(177.2)**	(156.6)
	730.4	656.5
Amounts excluded from underlying results:		
– (loss)/gain in fair value of financial instruments	**(304.6)**	218.8
– significant expense items	**(211.7)**	(44.3)
Finance income included in Operating EBIT	**(12.7)**	(11.9)
Finance income	**45.4**	47.9
Finance costs	**(83.9)**	(73.4)
Profit before tax	**162.9**	793.6
Segment assets reconciliation to the statement of financial position		
Reconciliation of segment assets to total assets is as follows:		
Segment assets for reportable segments	**11,589.1**	8,554.2
Other	**116.1**	91.8
	11,705.2	8,646.0
Cash and cash equivalents	**1,812.9**	753.1
Deferred tax assets	**611.1**	–
Derivative financial instruments	**609.2**	296.6
Total assets	**14,738.4**	9,695.7
Segment liabilities reconciliation to the statement of financial position		
Reconciliation of segment liabilities to total liabilities is as follows:		
Segment liabilities for reportable segments	**1,918.9**	1,070.6
Other	**136.5**	107.7
	2,055.4	1,178.3
Borrowings	**4,312.0**	1,171.2
Current tax liabilities	**11.0**	167.2
Deferred tax liabilities	**349.0**	302.7
Derivative financial instruments	**625.4**	534.8
Deferred and contingent consideration liabilities	**252.7**	–
Total liabilities	**7,605.5**	3,354.2

Note 4 – Segment information (continued)

Geographical information

The consolidated entity operates in one principal geographical area – Australia.

The total of non-current assets other than derivative financial instruments and deferred tax assets located in Australia is $9,563.0 million (2011: $6,910.5 million), and the total of non-current assets located in other countries is $2.6 million (2011: $3.1 million).

The total external revenue is all from customers located in Australia for both 2012 and 2011.

Information about major customers

No single customer amounts to 10% or more of the consolidated entity's total external revenue for both 2012 and 2011.

	2012 $m	2011 $m
Note 5 – Revenue		
Revenue from sale of goods	**7,288.9**	6,898.7
Revenue from rendering of services	**165.1**	173.1
Other revenue		
Royalties	**1.6**	0.7
	7,455.6	7,072.5
Note 6 – Other income		
Gain on purchase of financial instruments	**2.9**	–
	2.9	–
Note 7 – Expenses		
Cost of sales	**5,918.4**	5,706.4
Loss/(gain) in fair value of electricity derivatives – economic hedges	**304.6**	(218.8)
	6,223.0	5,487.6
Administrative expenses	**165.0**	148.9
Employee benefits expense	**356.4**	330.6
Other expenses		
Impairment loss on trade receivables (net of bad debts recovered)	**55.7**	51.0
Impairment loss on exploration and evaluation assets	**35.8**	–
Impairment loss on available-for-sale equity investment	**–**	0.2
Loss on remeasurement to fair value of pre-existing equity interest in an acquired entity (Note 43)	**120.7**	–
Cumulative loss reclassified from equity of pre-existing equity interest in an acquired entity (Note 43)	**36.3**	–
Merger and acquisition related costs	**12.9**	17.3
Redundancy, termination, integration and restructure costs	**8.9**	27.0
Net loss on disposal of exploration and evaluation assets	**1.1**	–
Net loss on disposal of oil and gas assets	**0.1**	–
Net loss on disposal of property, plant and equipment	**0.3**	3.5
Operating lease rental expenses	**20.4**	20.9
Other	**63.4**	52.0
	7,100.0	6,139.0

	2012 $m	2011 $m
Note 8 – Net financing costs		
Finance income		
Interest income		
Associates and jointly controlled entities	**14.0**	10.7
Other entities	**31.4**	37.2
	45.4	47.9
Finance costs		
Interest expense		
Other entities	**94.2**	75.1
Finance costs capitalised	**(26.8)**	(15.4)
Unwinding of discounts on provisions	**10.7**	11.4
Unwinding of discount on contingent consideration	**0.2**	–
Other finance costs	**5.6**	2.3
	83.9	73.4
Net financing costs	**38.5**	25.5

The weighted average capitalisation rate on funds borrowed for finance costs capitalised is 7.25% (2011: 6.54%).

Note 9 – Profit before income tax

Profit before income tax has been arrived at after charging the following expenses.

	2012 $m	2011 $m
Depreciation and amortisation		
Property, plant and equipment	**118.2**	104.2
Oil and gas assets	**15.8**	17.0
Intangible assets	**34.1**	21.0
Other	**5.8**	5.8
	173.9	148.0
Employee benefits expense		
Wages and salaries	**300.6**	277.5
Defined benefit superannuation plans	**1.6**	2.1
Defined contribution superannuation plans	**15.8**	14.4
Share-based payment plans	**6.4**	2.0
Other employee benefits	**32.0**	34.6
	356.4	330.6
Significant expense/(income) items before income tax		
Impairment loss on exploration and evaluation assets	**35.8**	–
Loss on remeasurement to fair value of pre-existing equity interest in an acquired entity	**120.7**	–
Cumulative loss reclassified from equity of pre-existing equity interest in an acquired entity	**36.3**	–
Merger and acquisition related costs	**12.9**	17.3
Redundancy, termination, integration and restructure costs	**8.9**	27.0
Gain on purchase of financial instruments	**(2.9)**	–
	211.7	44.3
Income tax (income)/expense applicable:		
Impairment loss on exploration and evaluation assets	**(9.2)**	–
Loss on remeasurement to fair value of pre-existing equity interest in an acquired entity	**–**	–
Cumulative loss reclassified from equity of pre-existing equity interest in an acquired entity	**–**	–
Merger and acquisition related costs	**–**	(4.2)
Redundancy, termination, integration and restructure costs	**(2.5)**	(7.3)
Gain on purchase of financial instruments	**0.9**	–
	(10.8)	(11.5)
Recognition of a deferred tax asset due to the changes to the Petroleum Resource Rent Tax Legislation to cover onshore oil and gas projects	**(53.4)**	–
Effect of change in income tax treatment for surrender obligations under various green product schemes	**7.6**	–
Effect of retrospective changes to Tax Consolidation Legislation	**–**	(5.5)
	(56.6)	(17.0)
Significant expense items after income tax	**155.1**	27.3

Note 10 – Income tax

	2012 $m	2011 $m
Income tax recognised in the income statement		
The major components of income tax expense are:		
Current tax		
Current tax expense in respect of the current year	**104.3**	141.5
Adjustments in relation to current tax of prior years	**(11.1)**	(6.0)
Effect of retrospective changes to Tax Consolidation Legislation	**–**	(5.5)
Deferred tax		
Relating to the origination and reversal of temporary differences	**8.2**	104.9
Effect on deferred tax balances due to changes to the Petroleum Resource Rent Tax Legislation	**(53.4)**	–
Total income tax expense	**48.0**	234.9
Numerical reconciliation between tax expense and pre-tax accounting profit		
The prima facie income tax expense on pre-tax accounting profit reconciles to the income tax expense in the financial statements as follows:		
Profit before tax	**162.9**	793.6
Income tax expense calculated at the Australian tax rate of 30% (2011: 30%)	**48.9**	238.1
Impairment loss on exploration and evaluation assets	**1.5**	–
Non-deductible expenses	**11.6**	7.5
Gain on disposal of businesses and subsidiaries	**–**	1.9
Share of profits of associates and jointly controlled entities	**3.4**	(1.1)
Loss on remeasurement to fair value of pre-existing equity interest in an acquired entity	**36.2**	–
Cumulative loss reclassified from equity of pre-existing equity interest in an acquired entity	**10.9**	–
Effect on deferred tax balances due to changes to the Petroleum Resource Rent Tax Legislation	**(53.4)**	–
Effect of retrospective changes to Tax Consolidation Legislation	**–**	(5.5)
Adjustments in relation to current tax of prior years	**(11.1)**	(6.0)
	48.0	234.9
Income tax recognised directly in equity		
Current tax		
Share issue transaction costs	**(1.3)**	–
Deferred tax		
Share issue transaction costs	**(5.2)**	–
	(6.5)	–
Income tax recognised in other comprehensive income		
Deferred tax		
Cash flow hedges	**51.1**	21.1
Actuarial (loss)/gain on defined benefit plans	**(21.0)**	1.1
	30.1	22.2
Current tax liabilities		
Income tax payable	**11.0**	167.2
Deferred income tax recognised in the income statement		
Temporary differences		
Unbilled revenue	**39.2**	9.8
Allowance for doubtful debts	**(3.2)**	(0.3)
Other receivables	**(8.0)**	0.9
Jointly controlled entities	**(13.9)**	2.1
Exploration and evaluation assets	**12.2**	6.4
Oil and gas assets	**7.8**	7.4
Property, plant and equipment	**37.1**	19.4
Intangible assets	**7.1**	–
Defined benefit superannuation plans	**2.5**	2.8
Payables and accruals	**8.8**	(0.5)
Provisions	**5.8**	(1.1)
Derivative financial instruments	**(92.9)**	64.1
Deferred revenue	**2.0**	(6.0)
Share issue transaction costs	**1.3**	1.3
Other	**2.4**	(1.4)
	8.2	104.9

	2012 $m	2011 $m
Deferred tax balances		
Deferred tax assets/(liabilities) arise from the following:		
Unbilled revenue	**(254.2)**	(208.4)
Allowance for doubtful debts	**22.6**	19.4
Other receivables	**(0.3)**	(9.8)
Jointly controlled entities	**8.3**	(7.2)
Exploration and evaluation assets	**(158.4)**	(154.2)
Oil and gas assets	**(16.3)**	(34.2)
Property, plant and equipment	**(301.9)**	(109.2)
Intangible assets	**(10.1)**	–
Defined benefit superannuation plans	**67.1**	12.2
Payables and accruals	**5.2**	40.7
Borrowings	**(3.0)**	–
Provisions	**107.0**	71.0
Derivative financial instruments	**10.8**	57.0
Deferred revenue	**74.7**	6.5
Share issue transaction costs	**5.2**	–
Tax losses	**654.8**	11.5
Other	**(2.8)**	2.0
Net deferred tax assets/(liabilities) relating to income tax	**208.7**	(302.7)
Deferred tax assets relating to resource rent tax	**53.4**	–
Net deferred tax assets/(liabilities)	**262.1**	(302.7)
Recognised in the statement of financial position as follows:		
Deferred tax assets	**611.1**	–
Deferred tax liabilities	**(349.0)**	(302.7)
Net deferred tax assets/(liabilities)	**262.1**	(302.7)
Unrecognised deferred tax assets		
Deductible temporary differences	**–**	55.0

Tax consolidation

The Parent Entity and its wholly-owned Australian resident subsidiaries formed a tax-consolidated group under Australian taxation law with effect from 25 October 2006 and are therefore taxed as a single entity from that date. AGL Energy Limited is the head entity in the tax-consolidated group.

The members of the tax-consolidated group have entered into a tax sharing and tax funding agreement. The tax funding agreement requires payments to/from the head entity equal to the current tax liability (asset) assumed by the head entity and any tax-loss deferred tax asset assumed by the head entity. The payments are recorded as intercompany receivables/payables.

On 29 June 2012, AGL Generation Proprietary Limited, a subsidiary of AGL Energy Limited (AGL), acquired the remaining 67.46% of the shares in, and loan notes issued by, Great Energy Alliance Corporation Pty Limited (GEAC) and 100% of the shares in Loy Yang Marketing Holdings Pty Limited (LYMH) which it did not already own. GEAC, LYMH and their subsidiaries are not eligible to be members of the existing AGL tax-consolidated group. On 23 July 2012, the LYMH entities joined a new tax-consolidated group which was formed by AGL Generation Holdco Pty Ltd, a subsidiary of AGL. On 27 July 2012, the GEAC entities joined the new tax-consolidated group. AGL Generation Holdco Pty Ltd is the head entity in the new tax-consolidated group.

Revenue authority matters

During the year ended 30 June 2012, AGL received an unfavourable response from the Australian Taxation Office (ATO) to a request for a private binding ruling relating to the tax treatment of the supply of unbilled energy to AGL's mass market customers. AGL's current tax treatment is to pay income tax on energy when it is billed to customers. If the ATO view is correct, AGL would be required to pay income tax on energy when it is supplied to customers rather than when it is billed and AGL would be required to recognise the tax as a current tax liability rather than a deferred tax liability. AGL believes its current tax treatment is correct and has therefore lodged an objection to the private binding ruling.

Extension of Petroleum Resource Rent Tax to onshore projects

Changes to the Petroleum Resource Rent Tax (PRRT) Assessment Act 1987 extend the operation of the PRRT to onshore oil and gas projects from 1 July 2012. As the PRRT falls within the scope of AASB 112 *Income Taxes*, AGL is required to account for any associated deferred tax assets or deferred tax liabilities as at 30 June 2012. AGL has recognised a deferred tax asset of $53.4 million representing the difference between the PRRT starting base amount and the carrying value of the production permits to which the PRRT will apply.

	2012 $m	2011 $m
Note 11 – Dividends		
Recognised amounts		
Final dividend		
Final dividend for 2011 of 31.0 cents per share, fully franked at 30%, paid 29 September 2011 (2011: Final dividend for 2010 of 30.0 cents per share, unfranked, paid 30 September 2010)	**143.2**	135.3
Interim dividend		
Interim dividend for 2012 of 29.0 cents per share, fully franked, paid 5 April 2012 (2011: Interim dividend for 2011 of 29.0 cents per share, unfranked, paid 14 April 2011)	**135.0**	133.1
Total dividends	**278.2**	268.4
Dividends satisfied by the issue of shares under the AGL Dividend Reinvestment Plan (Note 34)	**(92.4)**	(61.9)
Dividends paid as per the statement of cash flows	**185.8**	206.5
Unrecognised amounts		
Since the end of the financial year, the Directors have declared a final dividend for 2012 of 32.0 cents per share, fully franked at 30%, (2011: 31.0 cents fully franked), payable 27 September 2012.	**174.7**	143.0

The financial effect of this dividend has not been recognised as a liability in these financial statements but will be brought to account in the 2013 financial year.

Dividend reinvestment plan

The AGL Dividend Reinvestment Plan (DRP) will be in operation and shares will be allotted at a 1.5% discount to the simple average of the daily weighted average market price at which AGL's ordinary shares are traded on ASX during each of the 10 trading days commencing on 7 September 2012.

	2012 $m	2011 $m
Dividend franking account		
Adjusted franking account balance	**36.3**	108.2
Impact on franking account balance of dividends proposed after the reporting date but not recognised as a liability	**(74.9)**	(61.3)

Note 12 – Cash and cash equivalents

	2012 $m	2011 $m
Cash at bank and on hand	**540.1**	201.4
Short-term deposits	**1,272.8**	551.7
	1,812.9	753.1

The carrying amounts of cash and cash equivalents represent fair value. Bank balances and short-term deposits earn interest at floating rates based upon market rates.

Short-term deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the consolidated entity. All deposits are held with financial institutions approved by the Board.

Restricted cash balances

Great Energy Alliance Corporation Pty Limited, a subsidiary acquired by the consolidated entity on 29 June 2012, has cash and cash equivalents at 30 June 2012 of $77.0 million which are held in reserve accounts which may only be used for the purposes specified under the project financing documents. This includes up to six months of debt repayments and a diminishing percentage of budgeted capital expenditure.

	2012 $m	2011 $m
Note 13 – Trade and other receivables (current)		
Trade receivables	**697.7**	551.9
Allowance for doubtful debts	**(75.3)**	(64.6)
	622.4	487.3
Unbilled revenue	**833.5**	694.6
Amounts owing by associates	**–**	4.1
Amounts owing by jointly controlled entities	**51.7**	54.8
Amounts owing by joint venture operations	**0.8**	–
Other receivables	**23.0**	31.3
	1,531.4	1,272.1
Allowance for doubtful debts		
Movements in the allowance for doubtful debts are detailed below:		
Balance at beginning of financial year	**64.6**	63.5
Impairment losses recognised on receivables	**66.9**	62.6
Amounts written off as uncollectible	**(56.2)**	(61.5)
Balance at end of financial year	**75.3**	64.6

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

	2012		2011	
	Total $m	Allowance $m	Total $m	Allowance $m
Not past due	**462.6**	**(5.6)**	360.7	(6.7)
Past due 31–60 days	**51.2**	**(7.1)**	49.8	(3.3)
Past due 61–90 days	**22.8**	**(6.7)**	20.8	(3.5)
Past 90 days	**161.1**	**(55.9)**	120.6	(51.1)
	697.7	**(75.3)**	551.9	(64.6)

The consolidated entity's policy requires customers to pay in accordance within agreed payment terms. Depending on the customer segment, settlement terms are generally less than 30 days from date of invoice. An allowance for doubtful debts is recognised when there is objective evidence that a trade receivable is impaired. Financial difficulties of the debtor, default payments or debts overdue are considered objective evidence of impairment. An impairment loss for doubtful debts of $66.9 million (2011: $62.6 million) has been recognised in the year and has been included in other expenses in Note 7.

At the end of the reporting period, trade receivables with a carrying amount of $166.8 million (2011: $133.3 million) were past due but not considered impaired. These trade receivables relate to customers for whom there has not been a significant change in credit quality and the amounts are considered recoverable.

Other balances within trade and other receivables are neither impaired nor past due. It is expected that these other balances will be received when due.

Unbilled revenue
Unbilled gas and electricity revenue is not collectible until such time as customers' meters are read and bills rendered.

Amounts owing by associates and jointly controlled entities
For terms and conditions relating to amounts owing by associates and jointly controlled entities, refer to Note 50.

Fair value and credit risk
Due to the short-term nature of these receivables, their carrying amount is assumed to approximate their fair value. The maximum exposure to credit risk at the reporting date is the carrying amount of each class of receivables. Collateral is not held as security.

	2012 $m	2011 $m

Note 14 – Inventories

	2012 $m	2011 $m
Raw materials and stores – at cost	**73.9**	28.9
Finished goods – at cost	**111.5**	98.5
	185.4	127.4

Note 15 – Other financial assets (current)

	2012 $m	2011 $m
Derivative financial instruments – at fair value (Note 53)		
– Energy derivatives – cash flow hedges	**120.6**	22.7
– Energy derivatives – economic hedges	**58.8**	222.2
	179.4	244.9
Loans to jointly controlled entities – at amortised cost	**89.7**	–
Futures deposits and margin calls	**26.5**	56.3
	295.6	301.2

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

Note 16 – Other assets (current)

	2012 $m	2011 $m
Green commodities scheme certificates and instruments	**267.5**	250.0
Prepayments	**39.1**	26.6
	306.6	276.6

Note 17 – Trade and other receivables (non-current)

	2012 $m	2011 $m
Other receivables	**–**	0.5

Note 18 – Investments accounted for using the equity method

	2012 $m	2011 $m
Investments in associates – unlisted	**2.1**	214.1
Investments in jointly controlled entities – unlisted	**29.5**	26.6
	31.6	240.7

Reconciliation of movements in investments accounted for using the equity method

	2012 $m	2011 $m
Balance at beginning of financial year	**240.7**	200.8
Additions	**1.6**	–
Disposals	**–**	(0.9)
Carrying value of investment converted to a subsidiary (Note 43)	**(144.2)**	–
Share of profits after income tax	**16.8**	33.6
Share of other comprehensive income	**(56.6)**	31.5
Dividends received	**(26.7)**	(24.3)
Balance at end of financial year	**31.6**	240.7

Name of entity	Principal activities	Country of incorporation	Reporting date	Ownership interest 2012 %	Ownership interest 2011 %	Carrying value 2012 $m	Carrying value 2011 $m
Associates							
Great Energy Alliance Corporation Pty Limited[(a)]	Electricity generation	Australia	–	**–**	32.54	**–**	212.0
CSM Energy Limited	Coal mine methane gas extraction	Australia	30 June	**35.0**	35.0	**2.1**	2.1
Jointly controlled entities							
ActewAGL Retail Partnership	Energy and water services	Australia	30 June	**50.0**	50.0	**25.6**	24.3
Energy Infrastructure Management Pty Ltd	Pipeline management services	Australia	30 June	**50.0**	50.0	**1.9**	1.9
Central Queensland Pipeline Pty Ltd	Gas pipeline development	Australia	30 June	**50.0**	50.0	**0.4**	0.4
Diamantina Holding Company Pty Limited[(b)]	Electricity generation	Australia	30 June	**50.0**	–	**1.6**	–
						31.6	240.7

(a) On 29 June 2012, the consolidated entity completed the acquisition of Great Energy Alliance Corporation Pty Limited, increasing its ownership from 32.54% to 100%. Refer Note 43 for further details.

(b) On 6 October 2011, the consolidated entity entered into a 50:50 joint venture with the APA Group to construct a gas-fired power station in Mt Isa to be known as Diamantina Power Station. Under the arrangement, the consolidated entity acquired a 50% ownership interest in Diamantina Holding Company Pty Limited. The consideration for the acquisition was $1.6 million including acquisition related costs.

Underpinning the development of the power station, the joint venture entered into a long-term Energy Supply Agreement with Mount Isa Mines Limited, a wholly-owned subsidiary of Xstrata plc; and a Power Purchase Agreement with Ergon Energy Queensland Pty Ltd, a Queensland government owned corporation.

	2012 $m	2011 $m
Summarised financial information of associates		
Current assets	**0.3**	362.9
Non-current assets	**–**	3,599.3
Total assets	**0.3**	3,962.2
Current liabilities	**–**	216.1
Non-current liabilities	**–**	3,114.8
Total liabilities	**–**	3,330.9
Net assets	**0.3**	631.3
Revenue	**631.8**	648.7
Net (loss)/profit after tax	**(34.4)**	9.8
Consolidated entity's share of associates' (loss)/profit	**(11.2)**	3.1
Summarised financial information of jointly controlled entities		
Current assets	**185.6**	175.8
Non-current assets	**250.5**	36.5
Total assets	**436.1**	212.3
Current liabilities	**375.5**	150.3
Non-current liabilities	**4.5**	3.6
Total liabilities	**380.0**	153.9
Net assets	**56.1**	58.4
Revenue	**647.6**	678.8
Expenses	**(591.4)**	(618.0)
Consolidated entity's share of jointly controlled entities' profit	**28.0**	30.5

Dividends received from associates and jointly controlled entities

During the year, the consolidated entity received dividends of $nil (2011: $nil) from its associates and $26.7 million (2011: $24.3 million) from its jointly controlled entities.

Capital commitments and contingent liabilities

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

Note 19 – Exploration and evaluation assets

	2012 $m	2011 $m
Balance at beginning of financial year	**658.0**	607.5
Additions	**38.3**	30.7
Acquisitions through business combinations (Note 43)	**–**	19.8
Impairment loss	**(35.8)**	–
Disposals	**(6.5)**	–
Balance at end of financial year	**654.0**	658.0

Impairment loss

At 30 June 2012, the consolidated entity reviewed the carrying amount of its exploration and evaluation assets for indicators of impairment in accordance with the consolidated entity's accounting policy (refer note 1 (p)). As a result, the recoverable amounts of some specific exploration and evaluation assets were formally reassessed. Estimates of recoverable amounts of exploration and evaluation assets are based on the assets' fair value less costs to sell.

The review resulted in the recognition of an impairment loss of $21.8 million in relation to the consolidated entity's 40% interest in the exploration permit ATP 1056P, located in the Cooper Basin in south-west Queensland.

An impairment loss of $14.0 million was also recognised in relation to the consolidated entity's geothermal exploration assets located in Victoria, Queensland and New South Wales.

The impairment loss of $35.8 million (2011: $nil) is included in other expenses in the line item 'impairment loss on exploration and evaluation assets' in Note 7. The impairment loss of $35.8 million has been recognised in the Upsteam Gas operating segment.

Note 20 – Oil and gas assets

	2012 $m	2011 $m
Producing assets		
Balance at beginning of financial year	**461.4**	333.4
Additions	**66.0**	55.0
Acquisitions through business combinations (Note 43)	**–**	104.5
Fair value adjustments on prior year acquisitions	**(20.0)**	–
Transferred to property, plant and equipment (Note 21)	**–**	(14.5)
Disposals	**(7.8)**	–
Depreciation and amortisation expense	**(15.8)**	(17.0)
Balance at end of financial year	**483.8**	461.4
Cost (gross carrying amount)	**574.1**	536.0
Accumulated depreciation, amortisation and impairment	**(90.3)**	(74.6)
Net carrying amount	**483.8**	461.4

Depreciation and amortisation expense

Depreciation and amortisation expense of $15.8 million (2011: $17.0 million) is included in the line item 'depreciation and amortisation' in the income statement.

Note 21 – Property, plant and equipment

	Freehold land and buildings $m	Leasehold improvements $m	Plant and equipment $m	Total $m
Year ended 30 June 2012				
Balance at 1 July 2011, net of accumulated depreciation and impairment	**24.6**	**16.0**	**2,240.9**	**2,281.5**
Additions	**26.3**	**1.7**	**654.2**	**682.2**
Acquisitions through business combinations (Note 43)	**48.1**	**–**	**2,425.8**	**2,473.9**
Disposals	**–**	**–**	**(133.7)**	**(133.7)**
Depreciation expense	**(0.2)**	**(2.3)**	**(115.7)**	**(118.2)**
Balance at 30 June 2012, net of accumulated depreciation and impairment	**98.8**	**15.4**	**5,071.5**	**5,185.7**
Balance at 1 July 2011				
Cost (gross carrying amount)	**26.3**	**27.7**	**2,861.1**	**2,915.1**
Accumulated depreciation and impairment	**(1.7)**	**(11.7)**	**(620.2)**	**(633.6)**
Net carrying amount	**24.6**	**16.0**	**2,240.9**	**2,281.5**
Balance at 30 June 2012				
Cost (gross carrying amount)	**100.7**	**29.4**	**5,807.3**	**5,937.4**
Accumulated depreciation and impairment	**(1.9)**	**(14.0)**	**(735.8)**	**(751.7)**
Net carrying amount	**98.8**	**15.4**	**5,071.5**	**5,185.7**
Year ended 30 June 2011				
Balance at 1 July 2010, net of accumulated depreciation and impairment	24.7	18.1	2,013.4	2,056.2
Additions	0.1	0.1	469.5	469.7
Acquisitions through business combinations (Note 43)	–	–	8.4	8.4
Transferred from oil and gas assets (Note 20)	–	–	14.5	14.5
Transferred from intangible assets (Note 22)	–	–	6.4	6.4
Disposals	–	–	(3.6)	(3.6)
Derecognised on disposal of subsidiaries (Note 44)	–	–	(165.9)	(165.9)
Depreciation expense	(0.2)	(2.2)	(101.8)	(104.2)
Balance at 30 June 2011, net of accumulated depreciation and impairment	24.6	16.0	2,240.9	2,281.5
Balance at 1 July 2010				
Cost (gross carrying amount)	26.2	27.6	2,539.8	2,593.6
Accumulated depreciation and impairment	(1.5)	(9.5)	(526.4)	(537.4)
Net carrying amount	24.7	18.1	2,013.4	2,056.2
Balance at 30 June 2011				
Cost (gross carrying amount)	26.3	27.7	2,861.1	2,915.1
Accumulated depreciation and impairment	(1.7)	(11.7)	(620.2)	(633.6)
Net carrying amount	24.6	16.0	2,240.9	2,281.5

Acquisitions through business combinations
On 29 June 2012, the consolidated entity completed the acquisition of Great Energy Alliance Corporation Pty Limited (GEAC), increasing its ownership from 32.54% to 100%. The provisional fair value of the GEAC property, plant and equipment as at the date of acquisition was $2,473.6 million. Refer Note 43 for further details.

Depreciation expense
Depreciation expense of $118.2 million (2011: $104.2 million) is included in the line item 'depreciation and amortisation' in the income statement.

Leased plant and equipment
The net carrying amount of plant and equipment disclosed above includes plant and equipment held under finance leases of $136.4 million (2011: $134.3 million).

Property, plant and equipment under construction
The net carrying amount of plant and equipment disclosed above includes expenditure recognised in relation to plant and equipment which is in the course of construction of $777.6 million (2011: $424.0 million).

Note 22 – Intangible assets

	Goodwill $m	Licences $m	Customer relationships and contracts $m	Wind farm development rights $m	Other $m	Total $m
Year ended 30 June 2012						
Balance at 1 July 2011, net of accumulated amortisation	**2,624.8**	**301.2**	**178.3**	**30.9**	**2.0**	**3,137.2**
Additions	**–**	**–**	**41.5**	**–**	**1.4**	**42.9**
Acquisitions through business combinations (Note 43)	**14.9**	**–**	**–**	**11.1**	**–**	**26.0**
Amortisation expense	**–**	**–**	**(34.1)**	**–**	**–**	**(34.1)**
Balance at 30 June 2012, net of accumulated amortisation	**2,639.7**	**301.2**	**185.7**	**42.0**	**3.4**	**3,172.0**
Balance at 1 July 2011						
Cost (gross carrying amount)	**2,624.8**	**301.2**	**263.9**	**30.9**	**3.7**	**3,224.5**
Accumulated amortisation	**–**	**–**	**(85.6)**	**–**	**(1.7)**	**(87.3)**
Net carrying amount	**2,624.8**	**301.2**	**178.3**	**30.9**	**2.0**	**3,137.2**
Balance at 30 June 2012						
Cost (gross carrying amount)	**2,639.7**	**301.2**	**305.4**	**42.0**	**5.1**	**3,293.4**
Accumulated amortisation	**–**	**–**	**(119.7)**	**–**	**(1.7)**	**(121.4)**
Net carrying amount	**2,639.7**	**301.2**	**185.7**	**42.0**	**3.4**	**3,172.0**
Year ended 30 June 2011						
Balance at 1 July 2010, net of accumulated amortisation	2,624.8	301.2	183.6	37.3	2.1	3,149.0
Additions	–	–	15.6	–	–	15.6
Transferred to property, plant and equipment (Note 20)	–	–	–	(6.4)	–	(6.4)
Amortisation expense	–	–	(20.9)	–	(0.1)	(21.0)
Balance at 30 June 2011, net of accumulated amortisation	2,624.8	301.2	178.3	30.9	2.0	3,137.2
Balance at 1 July 2010						
Cost (gross carrying amount)	2,624.8	301.2	248.3	37.3	3.7	3,215.3
Accumulated amortisation	–	–	(64.7)	–	(1.6)	(66.3)
Net carrying amount	2,624.8	301.2	183.6	37.3	2.1	3,149.0
Balance at 30 June 2011						
Cost (gross carrying amount)	2,624.8	301.2	263.9	30.9	3.7	3,224.5
Accumulated amortisation	–	–	(85.6)	–	(1.7)	(87.3)
Net carrying amount	2,624.8	301.2	178.3	30.9	2.0	3,137.2

Amortisation expense

Amortisation expense of $34.1 million (2011: $21.0 million) is included in the line item 'depreciation and amortisation' in the income statement.

Impairment testing for goodwill and intangibles with indefinite useful lives

Goodwill and other intangible assets deemed to have indefinite lives, that are significant in comparison to the consolidated entity's total carrying amount of intangible assets with indefinite lives, have been allocated to cash-generating units (CGUs) for the purpose of impairment testing as follows:

	Goodwill $m	Licences $m	Total intangible assets with indefinite lives $m
Year ended 30 June 2012			
Cash-generating unit			
Retail Energy	**2,053.8**	**–**	**2,053.8**
Merchant Energy	**585.9**	**301.2**	**887.1**
	2,639.7	**301.2**	**2,940.9**
Year ended 30 June 2011			
Cash-generating unit			
Retail Energy	2,053.8	–	2,053.8
Merchant Energy	571.0	301.2	872.2
	2,624.8	301.2	2,926.0

The licences $301.2 million (2011: $301.2 million) to operate hydro-electric power stations within the Merchant Energy CGU have been assessed as having indefinite lives. The factors considered in determining the useful lives of these licences are the long-term nature of the initial licences, the expectation that the licences will be renewed, the insignificant cost of renewal, and compliance with licensing obligations.

Impairment testing for Retail Energy and Merchant Energy

The recoverable amounts for the Retail Energy and Merchant Energy CGUs have been determined using value in use models. The key assumptions in the calculation of value in use are customer numbers, energy procurement costs and regulatory outcomes.

The estimate of regulatory outcomes is based on actual regulatory decisions for the current price reset period, which are publicly available, together with the consolidated entity's expectations of regulatory decisions beyond the current reset period. Customer numbers are estimated based on historical experience in various segments, together with marketing strategies for the retention and winning of customers. Energy procurement costs are estimated based on the actual hedge portfolio, together with an estimate of future hedging prices and volumes beyond the period of the actual hedge portfolio.

The recoverable amounts for the Retail Energy and Merchant Energy CGUs have been determined using value in use models, including an appropriate terminal value. Cash flow forecasts are based on Board approved budgets and the most recent three-year plan extrapolated out to 10 years using forecast CPI. The terminal value is based on final year free cash flow capitalised in perpetuity. Discount rates used are the pre-tax weighted average cost of capital of 13.4% (2011: 13.4%).

No impairment loss has been recognised for the Retail Energy or the Merchant Energy CGUs for the year ended 30 June 2012 (2011: $nil).

	2012 $m	2011 $m
Note 23 – Other financial assets (non-current)		
Derivative financial instruments – at fair value (Note 53)		
– Interest rate swap contracts – cash flow hedges	**0.1**	0.5
– Energy derivatives – cash flow hedges	**429.7**	51.2
	429.8	51.7
Available-for-sale financial assets – at fair value		
– Shares in listed entities	**0.3**	0.3
Loans to associates and jointly controlled entities – at amortised cost	**1.5**	112.5
	431.6	164.5

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

	2012 $m	2011 $m
Note 24 – Other assets (non-current)		
Prepayments	**21.0**	–
Generation dispatch agreements	**15.3**	21.1
Other	**0.4**	0.4
	36.7	21.5

	2012 $m	2011 $m
Note 25 – Trade and other payables (current)		
Trade payables and accrued expenses	**1,153.3**	840.4
Goods and services tax payable	**3.9**	12.7
Amounts owing to jointly controlled entities	**1.2**	–
	1,158.4	853.1

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

For terms and conditions relating to amounts owing to jointly controlled entities, refer to Note 50.

Note 26 – Borrowings (current)

	2012 $m	2011 $m
At amortised cost		
Bank loans – secured (Note 30)	**614.5**	–
Bank loans – unsecured (Note 30)	**–**	886.7
Finance lease liabilities – secured (Note 39)	**1.5**	–
	616.0	886.7

Note 27 – Provisions (current)

	2012 $m	2011 $m
Employee benefits	**77.5**	51.1
Environmental restoration (Note 31)	**5.3**	8.2
Restructuring (Note 31)	**2.2**	12.9
Onerous contracts (Note 31)	**47.3**	20.9
Other	**–**	1.2
	132.3	94.3

Note 28 – Other financial liabilities (current)

	2012 $m	2011 $m
Derivative financial instruments – at fair value (Note 53)		
– Interest rate swap contracts – cash flow hedges	**3.0**	1.3
– Forward foreign exchange contracts – cash flow hedges	**10.6**	56.7
– Energy derivatives – cash flow hedges	**27.0**	123.2
– Energy derivatives – economic hedges	**368.1**	259.5
	408.7	440.7
Deferred consideration (Note 43)	**30.0**	–
Contingent consideration (Note 43)	**3.1**	–
	441.8	440.7

Note 29 – Other liabilities (current)

	2012 $m	2011 $m
Deferred revenue		
– Government assistance	**240.1**	–
– Other	**10.2**	15.1
	250.3	15.1

Government assistance

On 8 November 2011, the Federal Parliament passed the Clean Energy Legislative Package, which sets out the way that Australia will introduce a carbon price to reduce Australia's carbon pollution and move to a clean energy future. Under the Clean Energy Act 2011, which is the central Act of the package, an Energy Security Fund was established to support a secure energy market transition to a clean energy future.

On 22 June 2012, Great Energy Alliance Corporation Pty Limited, the owner of the Loy Yang A power station, received a coal-fired generation assistance cash payment of $240.1 million from the Australian Government under the Energy Security Fund.

In accordance with the requirements of AASB 1020 *Accounting for Government Grants and Disclosure of Government Assistance*, the $240.1 million has been recognised as deferred revenue at 30 June 2012 and will be released to the income statement during the 2013 financial year, reducing the impact of the carbon price expense in the first year of the scheme.

Note 30 – Borrowings (non-current)

	2012 $m	2011 $m
At amortised cost		
USD senior notes – unsecured	**337.5**	274.4
Subordinated notes – unsecured	**650.0**	–
Bank loans – secured	**1,835.8**	–
Bank loans – unsecured	**750.0**	–
Other loans – unsecured	**150.0**	–
Finance lease liabilities – secured (Note 39)	**14.5**	11.9
Deferred borrowing costs	**(41.8)**	(1.8)
	3,696.0	284.5
Financing facilities		
The consolidated entity has access to the following committed bank facilities:		
Total facilities		
USD senior notes – unsecured	**337.8**	337.8
Subordinated notes – unsecured	**650.0**	–
Bank loans – secured	**2,450.3**	–
Bank loans – unsecured	**1,000.0**	886.7
Other loans – unsecured	**200.0**	–
Bank guarantees	**600.0**	485.0
	5,238.1	1,709.5
Amounts used		
USD senior notes – unsecured	**337.8**	337.8
Subordinated Notes – unsecured	**650.0**	–
Bank loans – secured	**2,450.3**	–
Bank loans – unsecured	**750.0**	886.7
Other loans – unsecured	**150.0**	–
Bank guarantees	**468.8**	446.3
	4,806.9	1,670.8
Amounts unused	**431.2**	38.7

USD senior notes
On 8 September 2010, AGL Energy Limited issued US$300.0 million of fixed rate unsecured senior notes in the US private placement market, comprising two tranches of 12 year and 15 year maturities for US$165.0 million and US$135.0 million, respectively. To manage the foreign exchange risk arising from the future principal and interest payments required on the US$300.0 million, the notes were converted back to A$337.8 million through cross currency interest rate swaps.

Subordinated notes
On 4 April 2012, AGL Energy Limited issued $650.0 million of unsecured AGL Energy Subordinated Notes in the Australian retail bond market. The notes have a 27 year maturity with a non-recall period of seven years. The notes will generally be redeemed for their face value plus any outstanding interest. Interest on these notes is charged at market rates plus a margin of 3.80% and is paid on a quarterly basis:

Bank loans – secured
As at 30 June 2012, AGL Energy Limited had assumed $2,450.3 million of secured bank debt from the acquisition of Great Energy Alliance Corporation Pty Limited on 29 June 2012. This amount included $1,473.1 million of amortising facilities with the following maturities: Amortiser A and B in November 2015 and the CPI Bonds in May 2027. The amount also includes $977.2 million of non-amortising facilities with the following maturities: Bullet B in November 2012 and the AR facility in November 2015.

On 13 August 2012, AGL repaid $978.1 million of non-amortising facilities, comprising the Bullet B and AR facilities.

Bank loans – unsecured
On 20 July 2011, AGL Energy Limited entered into a $1.0 billion syndicated loan facility, comprising a $600.0 million three year term loan tranche and a $400.0 million five year revolving tranche. The funds were partially used to refinance $886.7 million of debt, repaid in October 2011. As at 30 June 2012, $750.0 million of the facility had been utilised.

Other loans
On 5 July 2011, AGL Energy Limited entered into a $200.0 million loan facility with EKF, the Danish export credit agency. The funds will be used to partially fund the consolidated entity's 50% interest in the construction of the Macarthur Wind Farm. Amortising over 18 years, the loan matures in 2031. As at 30 June 2012, $150.0 million of the facility had been utilised.

	2012 $m	2011 $m
Note 31 – Provisions (non-current)		
Employee benefits	**37.2**	7.4
Environmental restoration	**105.1**	49.6
Onerous contracts	**123.5**	104.6
	265.8	161.6

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

	Environmental restoration $m	Restructuring $m	Onerous contracts $m	Other $m	Total $m
Year ended 30 June 2012					
Balance at beginning of financial year	**57.8**	**12.9**	**125.5**	**1.2**	**197.4**
Additional provisions recognised	**16.7**	**–**	**–**	**–**	**16.7**
Acquisitions through business combinations (Note 43)	**43.3**	**–**	**58.1**	**–**	**101.4**
Provisions utilised	**(7.0)**	**(10.4)**	**(20.8)**	**(0.4)**	**(38.6)**
Provisions reversed	**–**	**(0.3)**	**–**	**(0.8)**	**(1.1)**
Disposals	**(3.1)**	**–**	**–**	**–**	**(3.1)**
Unwinding of discount	**2.7**	**–**	**8.0**	**–**	**10.7**
Balance at end of financial year	**110.4**	**2.2**	**170.8**	**–**	**283.4**
Current	**5.3**	**2.2**	**47.3**	**–**	**54.8**
Non-current	**105.1**	**–**	**123.5**	**–**	**228.6**
	110.4	**2.2**	**170.8**	**–**	**283.4**

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

Restructuring
A restructuring provision is recognised when the consolidated entity has developed a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it. The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring, which are those amounts that are both necessarily entailed by the restructuring and not associated with the ongoing activities of the entity.

Onerous contracts
A provision for onerous contracts is recognised where the consolidated entity has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

	2012 $m	2011 $m
Note 32 – Other financial liabilities (non-current)		
Derivative financial instruments – at fair value (Note 53)		
– Cross currency swap contracts – cash flow and fair value hedges	**20.4**	85.9
– Interest rate swap contracts – cash flow hedges	**191.0**	3.1
– Forward foreign exchange contracts – cash flow hedges	**–**	2.0
– Energy derivatives – cash flow hedges	**5.3**	3.1
	216.7	94.1
Deferred consideration (Note 43)	**218.2**	–
Contingent consideration (Note 43)	**1.4**	–
	436.3	94.1

	2012 $m	2011 $m
Note 33 – Other liabilities (non-current)		
Defined benefit superannuation plan liability (Note 48)	**223.6**	40.6
Deferred revenue – other	**12.5**	6.7
Other	**12.5**	6.9
	248.6	54.2

Note 34 – Issued capital

	2012 $m	2011 $m
545,861,083 fully-paid ordinary shares (2011: 461,311,732)	**5,227.3**	4,244.6

	2012		2011	
	Number	$m	Number	$m
Movement in fully-paid ordinary shares				
Balance at beginning of financial year	**461,311,732**	**4,244.6**	450,076,509	4,066.7
Shares issued under AGL Dividend Reinvestment Plan (a)(b)	**6,505,209**	**92.4**	4,251,051	61.9
Shares issued under the institutional and retail rights offers (c)	**78,044,142**	**905.3**	–	–
Shares issued for acquisition of subsidiary	**–**	**–**	6,984,172	116.0
Transaction costs relating to the institutional and retail rights offers		**(21.5)**		–
Deferred tax credit recognised directly in equity		**6.5**		–
Balance at end of financial year	**545,861,083**	**5,227.3**	461,311,732	4,244.6

(a) On 29 September 2011, 3,291,932 ordinary shares were issued at $14.20 per share to participating shareholders under the AGL Dividend Reinvestment Plan.

(b) On 5 April 2012, 3,213,277 ordinary shares were issued at $14.20 per share to participating shareholders under the AGL Dividend Reinvestment Plan.

(c) On 6 June 2012, 31,286,362 ordinary shares were issued at $11.60 per share to participating institutional shareholders under the institutional rights offer. On 29 June 2012, 46,757,780 ordinary shares were issued at $11.60 per share to participating retail shareholders under the retail rights offer.

The terms of the rights offer was one new AGL Energy Limited ordinary share offered for every six existing shares at $11.60 per share. The institutional and retail issues were fully underwritten. The net proceeds from the rights issues of $883.8 million were used to fund the acquisition of the 67.46% of Great Energy Alliance Corporation Pty Limited (GEAC) not previously owned, to allow partial repayment of existing GEAC bank loans, and for general corporate purposes including renewable energy generation.

The rights issues were at a discount to the then market price. Accordingly, earnings per share for all periods up to the date on which the shares were issued have been adjusted for the bonus element of the rights issues being 1.0329. The comparative earnings per share for 2011 have been restated accordingly (refer Note 37).

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding-up of the Parent Entity in proportion to the number of shares held. Every ordinary Shareholder present at a meeting of the Parent Entity, in person or by proxy, is entitled to one vote per share.

Changes to the then Corporations Law abolished the authorised capital and par value concept in relation to share capital from 1 July 1998. Therefore, the Parent Entity does not have a limited amount of authorised capital and issued shares do not have a par value.

	2012 $m	2011 $m
Note 35 – Reserves		
Employee equity benefits	**2.6**	0.6
Hedging	**19.4**	(97.3)
Other	**–**	(0.4)
	22.0	(97.1)
Movement in reserves		
Employee equity benefits reserve		
Balance at beginning of financial year	**0.6**	4.7
Share-based payment plans expense	**6.4**	2.0
Purchase of shares on-market under AGL Share Reward Plan	**(1.1)**	(1.6)
Purchase of shares on-market under AGL Long-Term Incentive Plan	**(3.3)**	(4.5)
Balance at end of financial year	**2.6**	0.6

The employee equity benefits reserve is used to record the value of share-based payments to employees, including key management personnel, as part of their remuneration. Refer to Note 49 for further information on share-based payment plans.

Hedging reserve		
Balance at beginning of financial year	**(97.3)**	(163.6)
Gain/(loss) arising on changes in fair value of cash flow hedges	**14.1**	(118.4)
Income tax related to gains/(losses) recognised in other comprehensive income	**(4.2)**	35.5
Cumulative loss arising on changes in fair value of cash flow hedges reclassified to profit or loss	**115.9**	178.4
Income tax related to amounts reclassified to profit or loss	**(34.8)**	(55.2)
Transferred to initial carrying amount of hedged item	**40.3**	4.6
Income tax related to amounts transferred to initial carrying amount of hedged item	**(12.1)**	(1.4)
Share of (loss)/gain in reserve attributable to an associate	**(38.7)**	22.8
Cumulative loss reclassified to profit or loss of pre-existing equity interest in an acquired entity	**36.2**	–
Balance at end of financial year	**19.4**	(97.3)

The hedging reserve represents the cumulative effective portion of gains and losses arising on changes in fair value of hedging instruments entered into for cash flow hedges. The cumulative gain or loss on changes in fair value of the hedging instruments will be reclassified to profit or loss only when the hedged transaction affects the profit or loss, or is included as a basis adjustment to the non-financial hedged item.

Other reserve		
Balance at beginning of financial year	**(0.4)**	(0.5)
Share of gain in reserve attributable to an associate	**0.3**	0.1
Cumulative loss reclassified to profit or loss of pre-existing equity interest in an acquired entity	**0.1**	–
Balance at end of financial year	**–**	(0.4)

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

Note 36 – Retained earnings

	2012 $m	2011 $m
Balance at beginning of financial year	**2,194.0**	1,892.6
Adjustment on correction of unbilled distribution liability, net of income tax (Note 3)	**(79.9)**	–
Restated balance at beginning of financial year	**2,114.1**	1,892.6
Profit for the year attributable to owners of AGL Energy Limited	**114.9**	558.7
Dividends paid or provided (Note 11)	**(278.2)**	(268.4)
Actuarial (loss)/gain on defined benefit plans, net of tax	**(49.0)**	2.5
Share of actuarial (loss)/gain on defined benefit plans attributable to associates	**(18.2)**	8.6
Balance at end of financial year	**1,883.6**	2,194.0

Note 37 – Earnings per share (EPS)

	2012	Restated[(a)] 2011
Statutory earnings per share		
Basic earnings per share	**23.8 cents**	118.5 cents
Diluted earnings per share	**23.8 cents**	118.4 cents
Underlying earnings per share		
Basic earnings per share	**100.0 cents**	91.4 cents
Diluted earnings per share	**99.9 cents**	91.4 cents

	2012 $m	2011 $m
Earnings used in calculating basic and diluted earnings per share		
Profit for the year attributable to owners of AGL Energy Limited	**114.9**	558.7
Statutory earnings used to calculate basic and diluted EPS	**114.9**	558.7
Significant expense items after income tax	**155.1**	27.3
Loss/(gain) in fair value of financial instruments after income tax	**212.0**	(154.9)
Underlying earnings used to calculate basic and diluted EPS	**482.0**	431.1

	2012 Number	Restated[(a)] 2011 Number
Weighted average number of ordinary shares		
Number of ordinary shares used in the calculation of basic EPS pre adjusting for bonus element of the rights issue	**466,950,538**	456,469,567
Bonus element of the rights issue	**15,288,603**	15,022,413
Number of ordinary shares used in the calculation of basic EPS	**482,239,141**	471,491,980
Effect of dilution – LTIP share performance rights	**109,855**	398,995
Number of ordinary shares used in the calculation of diluted EPS	**482,348,996**	471,890,975

(a) In accordance with AASB 133 *Earnings per Share*, the comparative earnings per share calculations for 2011 have been restated for the bonus element of the one-for-six share rights issue undertaken in June 2012. The previously reported 2011 weighted average number of shares has been adjusted by a factor of 1.0329 being the market price of one ordinary share at the close of the last day at which the shares traded together with the rights of $14.93, divided by the theoretical ex-rights price per share of $14.45. Other information relating to the rights issue is included in Note 34.

	2012 $m	2011 $m
Note 38 – Capital and other expenditure commitments		
Capital expenditure commitments		
Property, plant and equipment		
No longer than one year	**28.8**	89.3
Longer than one year and not longer than five years	**9.2**	5.4
Longer than five years	**–**	–
	38.0	94.7
Consolidated entity's share of joint venture operations capital commitments		
No longer than one year	**94.0**	343.8
Longer than one year and not longer than five years	**7.8**	88.2
Longer than five years	**–**	–
	101.8	432.0
Consolidated entity's share of associates' and jointly controlled entities' capital commitments		
No longer than one year	**115.7**	2.3
Longer than one year and not longer than five years	**20.5**	–
Longer than five years	**–**	–
	136.2	2.3
Other expenditure commitments		
Exploration and evaluation expenditure		
No longer than one year	**0.5**	6.8
Longer than one year and not longer than five years	**2.3**	–
Longer than five years	**2.3**	–
	5.1	6.8
Consolidated entity's share of joint venture operations other expenditure commitments		
No longer than one year	**1.4**	4.4
Longer than one year and not longer than five years	**–**	–
Longer than five years	**–**	–
	1.4	4.4
Other – Information technology services		
No longer than one year	**40.8**	37.3
Longer than one year and not longer than five years	**78.8**	70.7
Longer than five years	**–**	6.8
	119.6	114.8

Note 39 – Lease commitments

Finance lease liabilities	Minimum future lease payments 2012 $m	Present value of payments 2012 $m	Minimum future lease payments 2011 $m	Present value of payments 2011 $m
No longer than one year	**1.7**	**1.5**	–	–
Longer than one year and not longer than five years	**2.0**	**1.8**	0.3	–
Longer than five years	**178.4**	**12.7**	178.4	11.9
Minimum future lease payments*	**182.1**	**16.0**	178.7	11.9
Less future finance charges	**(166.1)**	**–**	(166.8)	–
Present value of minimum lease payments	**16.0**	**16.0**	11.9	11.9
Included in the financial statements as:				
Current borrowings (Note 26)		**1.5**		–
Non-current borrowings (Note 28)		**14.5**		11.9
		16.0		11.9

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

Finance leases primarily relate to the land and property, plant and equipment affixed to that land at the Kiewa and Rubicon hydro electric schemes. These leases have terms of 60 years and payments are not required under the lease agreements until the year 2028.

	2012 $m	2011 $m
Operating leases		
Non-cancellable operating lease rentals are payable as follows:		
No longer than one year	**15.5**	16.9
Longer than one year and not longer than five years	**50.2**	49.7
Longer than five years	**14.5**	23.7
	80.2	90.3

The consolidated entity has entered into commercial non-cancellable operating leases on certain properties and other plant and equipment. Leases vary in contract period depending on the asset involved. Renewal terms are included in certain contracts, whereby renewal is at the option of the specific entity that holds the lease. There are no restrictions placed upon the lessee by entering into these leases.

Note 40 – Contingent liabilities and contingent assets

Contingent liabilities

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

(a) On 29 June 2012, AGL completed the acquisition of the remaining 67.46% of shares and loan notes issued by Great Energy Alliance Corporation Pty Ltd (GEAC) that it did not already own. AGL has received external advice that GEAC was not land rich for the purposes of Section 71 of the Duties Act 2000 (Vic) at the time of the acquisition. Consequently, AGL believes that there should not be any liability for stamp duty in relation to this acquisition.

(b) 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.

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

Contingent assets

There are no contingent assets for the consolidated entity.

	2012 $'000	2011 $'000
Note 41 – Remuneration of auditors		
Auditor of the Parent Entity		
Audit and review of financial reports	**1,315**	1,253
Other regulatory audit services	**44**	38
Other assurance services	**36**	144
New South Wales electricity privatisation due diligence and accounting advice	**–**	1,494
Other accounting advice and services	**664**	380
	2,059	3,309

The auditor of AGL Energy Limited is Deloitte Touche Tohmatsu.

Note 42 – Subsidiaries

Name of subsidiary	Note	Country of incorporation	Ownership interest and voting power held 2012 %	2011 %
AGL Energy Limited	(a)	Australia		
Subsidiaries				
AGL Limited		New Zealand	**100**	100
AGL ACT Retail Investments Pty Limited	(a)	Australia	**100**	100
AGL Corporate Services Pty Limited	(a)	Australia	**100**	100
AGL DPS Pty Limited	(a)(c)	Australia	**100**	–
AGL Electricity (VIC) Pty Limited	(a)	Australia	**100**	100
Victorian Energy Pty Limited	(a)	Australia	**100**	100
AGL Sales Pty Limited	(a)	Australia	**100**	100
AGL Sales (Queensland) Pty Limited	(a)	Australia	**100**	100
AGL Sales (Queensland Electricity) Pty Limited	(a)	Australia	**100**	100
AGL Torrens Island Holdings Pty Limited	(a)	Australia	**100**	100
AGL SA Generation Pty Limited	(a)	Australia	**100**	100
AGL Torrens Island Pty Limited	(a)	Australia	**100**	100
AGL South Australia Pty Limited	(a)	Australia	**100**	100
AGL Utility Services Pty Limited	(a)	Australia	**100**	100
AGL Energy Limited		New Zealand	**100**	100
AGL Energy Sales & Marketing Limited	(a)	Australia	**100**	100
AGL Energy Services Pty Limited	(a)	Australia	**100**	100
AGL Gas Developments (Hunter) Pty Limited	(a)	Australia	**100**	100
AGL Gas Developments (PNG) Pty Limited	(a)	Australia	**100**	100
AGL Gas Developments (Sydney) Pty Limited	(a)	Australia	**100**	100
AGL Generation Holdco Pty Ltd	(c)	Australia	**99.99**	–
AGL Generation Proprietary Limited	(c)	Australia	**100**	–
Great Energy Alliance Corporation Pty Limited	(b)(e)	Australia	**100**	–
GEAC Operations Pty Limited	(b)	Australia	**100**	–
LYP Partner 1 Pty Ltd	(b)	Australia	**100**	–
Loy Yang Power (Partnership)	(b)	Australia	**25**	–
Loy Yang Power Management Pty Limited	(b)	Australia	**25**	–
Loy Yang Power Projects Pty Limited	(b)	Australia	**25**	–
LYP Partner 2 Pty Ltd	(b)	Australia	**100**	–
Loy Yang Power (Partnership)	(b)	Australia	**25**	–
Loy Yang Power Management Pty Limited	(b)	Australia	**25**	–
Loy Yang Power Projects Pty Limited	(b)	Australia	**25**	–
LYP Partner 3 Pty Ltd	(b)	Australia	**100**	–
Loy Yang Power (Partnership)	(b)	Australia	**24.63**	–
Loy Yang Power Management Pty Limited	(b)	Australia	**24.63**	–
Loy Yang Power Projects Pty Limited	(b)	Australia	**24.63**	–
LYP Partner 4 BV	(b)	Netherlands	**100**	–
Loy Yang Power (Partnership)	(b)	Australia	**25.37**	–
Loy Yang Power Management Pty Limited	(b)	Australia	**25.37**	–
Loy Yang Power Projects Pty Limited	(b)	Australia	**25.37**	–
Loy Yang Marketing Holdings Pty Limited	(b)	Australia	**100**	–
Loy Yang Marketing Management Company Pty Limited	(b)	Australia	**100**	–
AGL Gloucester MG Pty Ltd	(a)	Australia	**100**	100
AGL HP1 Pty Limited	(a)	Australia	**100**	100
AGL Hydro Partnership		Australia	**49.5**	49.5
AGL Southern Hydro (New South Wales) Pty Limited	(a)	Australia	**100**	100

Name of subsidiary	Note	Country of incorporation	Ownership interest and voting power held 2012 %	2011 %
AGL HP2 Pty Limited	(a)	Australia	**100**	100
AGL Hydro Partnership		Australia	**20.0**	20.0
AGL HP3 Pty Limited	(a)	Australia	**100**	100
AGL Hydro Partnership		Australia	**30.5**	30.5
AGL Power Generation Pty Limited	(a)	Australia	**100**	100
AGL Power Generation (Wind) Pty Limited	(a)	Australia	**100**	100
Australia Plains Wind Farm Pty Ltd	(a)	Australia	**100**	100
Barn Hill Wind Farm Pty Ltd	(a)	Australia	**100**	100
Ben Lomond Wind Farm Pty Ltd	(a)	Australia	**100**	100
Box Hill Wind Farm Pty Limited	(a)	Australia	**100**	100
Crows Nest Wind Farm Pty Ltd	(a)	Australia	**100**	100
Highfields Wind Farm Pty Limited	(a)	Australia	**100**	100
Worlds End Wind Farm Pty Ltd	(a)	Australia	**100**	100
AGL PV Solar Holdings Pty Limited	(c)	Australia	**100**	–
AGL PV Solar Developments Pty Limited	(c)	Australia	**100**	–
AGL Retail Energy Limited	(a)	Australia	**100**	100
AGL Share Plan Pty Limited		Australia	**100**	100
AGL (SG) (Camden) Operations Pty Limited	(a)	Australia	**100**	100
AGL (SG) (Hunter) Operations Pty Limited	(a)	Australia	**100**	100
AGL (SG) Operations Pty Limited	(a)	Australia	**100**	100
AGL Upstream Gas (Mos) Pty Limited	(a)	Australia	**100**	100
AGL Cooper Basin Pty Ltd	(a)	Australia	**100**	100
AGL Gas Storage Pty Ltd	(a)	Australia	**100**	100
Mosaic Oil NZ Limited		New Zealand	**100**	100
AGL Upstream Infrastructure Investments Pty Limited	(a)	Australia	**100**	100
AGL Upstream Investments Pty Limited	(a)	Australia	**100**	100
AGL Wholesale Gas Limited	(a)	Australia	**100**	100
AGL Wholesale Gas (SA) Pty Limited	(a)	Australia	**100**	100
Coopers Gap Wind Farm Pty Ltd	(a)	Australia	**100**	100
Dual Fuel Systems Pty Limited	(a)	Australia	**100**	100
Geogen Victoria Pty Ltd	(a)	Australia	**100**	100
Hallett 5 Pty Ltd	(c)(d)	Australia	**–**	–
H C Extractions Pty Limited	(a)	Australia	**100**	100
Macarthur Wind Farm Pty Ltd	(a)	Australia	**100**	100
Powerdirect Pty Ltd	(a)	Australia	**100**	100
Silverton Wind Farm Holdings Pty Limited	(a)(b)	Australia	**100**	–
Silverton Wind Farm Developments Pty Limited	(a)(b)	Australia	**100**	–
Silverton Wind Farm Transmission Pty Limited	(a)(b)	Australia	**100**	–
The Australian Gas Light Company	(a)	Australia	**100**	100

Names inset indicate that shares are held by the company immediately above the inset.

(a) These wholly-owned subsidiaries are parties to a Deed of Cross Guarantee as detailed in Note 46.
(b) Acquired during the financial year.
(c) Incorporated during the financial year.
(d) Disposed during the financial year.
(e) AGL Energy Limited holds 32.54% of the shareholding in Great Energy Alliance Corporation Pty Limited.

Note 43 – Acquisition of subsidiaries and businesses

2012

Acquisition of Great Energy Alliance Corporation Pty Limited

On 29 June 2012, the consolidated entity completed the acquisition of the remaining 67.46% of the voting shares in, and loan notes issued by, Great Energy Alliance Corporation Pty Limited (GEAC), increasing its ownership from 32.54% to 100%. The consolidated entity also acquired 100% of the voting shares in Loy Yang Marketing Holdings Pty Limited.

The consideration paid was $598.0 million, and comprised the fair value of the consolidated entity's pre-existing interest in GEAC of $150.0 million, deferred consideration payable of $248.2 million and cash of $199.8 million.

GEAC owns the 2,210 MW Loy Yang A power station and the adjacent brown coal mine which supplies all the coal required to meet the current and future operating requirements of the power station. Loy Yang A power station is Victoria's largest power station, producing 30% of the State's electricity requirement, and is one of the lowest cost generators in the National Electricity Market.

Acquisition-related costs amounting to $12.9 million have been excluded from the consideration paid and have been recognised as an expense in the year, within the 'other expenses' line item in the income statement.

From the date of acquisition, GEAC has contributed $nil to the revenue and $nil to the profit before tax of the consolidated entity. It is considered impracticable to estimate what the revenue and profit before tax of the consolidated entity would have been if the acquisition had been effected at 1 July 2011.

Fair value of pre-existing interest in GEAC

Prior to completing the GEAC acquisition, AGL's 32.54% interest in GEAC was accounted for as an equity investment. Under AASB 3 *Business Combinations*, the pre-existing equity interest is required to be remeasured at the acquisition date fair value with the resulting gain or loss recognised in the income statement.

The remeasurement to fair value of AGL's existing 32.54% interest in GEAC resulted in a loss of $120.7 million, which has been included in other expenses in Note 7.

	$m
Carrying value of equity accounted investment at the acquisition date (Note 18)	**144.2**
Carrying value of loan notes at the acquisition date (Note 50)	**126.5**
Carrying value of pre-existing interest	**270.7**
Fair value of pre-existing interest at the acquisition date	**150.0**
Loss on remeasurement to fair value of pre-existing interest	**120.7**

AASB 3 also requires that any amounts previously recognised in other comprehensive income are reclassified to the income statement. AGL's share of losses recognised in the hedge reserve and other reserve at date of acquisition of $36.3 million have been reclassified to the income statement and are included in other expenses in Note 7.

	$m
Share of loss in hedge reserve reclassified	**36.2**
Share of loss in other reserve reclassified	**0.1**
Share of losses reclassified to the income statement	**36.3**

Deferred consideration

As part of the purchase agreement with four of the previous shareholders of GEAC, a deferred consideration arrangement has been agreed to. The consolidated entity will pay the four parties the deferred consideration in the form of an annuity stream over 15 years.

As at the acquisition date, the fair value of the deferred consideration was estimated to be $248.2 million, using a discount rate of 7.6%.

Acquisition of Silverton Wind Farm Holdings Pty Ltd

On 30 April 2012, AGL Energy Limited acquired the development rights for the Silverton wind farm in New South Wales through the acquisition of 100% of the voting shares in Silverton Wind Farm Holdings Pty Ltd. The consideration was paid in cash.

The wind farm site is located near the township of Silverton, approximately 25 kilometres north-west of Broken Hill. Silverton wind farm has development approval for 282 wind turbines in Stage 1 and concept approval for a further 316 wind turbines in subsequent stages. Subject to electricity network capacity, the consolidated entity will develop up to 300 MW in Stage 1, with the option for subsequent stages to bring the site capacity up to 1,000 MW.

Acquisition-related costs amounting to $0.7 million have been excluded from the consideration paid and have been recognised as an expense in the year, within the 'other expenses' line item in the income statement.

From the date of acquisition, the entity has contributed $nil to the revenue and $nil to the profit before tax of the consolidated entity.

Acquisition of EKO Energy solar business

On 25 July 2011, the consolidated entity acquired the Victorian based solar photovoltaic business, EKO Energy, from the privately owned company, Rezeko Pty Ltd. The consideration paid comprised cash and contingent consideration.

EKO Energy specialises in solar systems, from design through to installation, for both residential and commercial properties in Victoria, South Australia, Queensland and New South Wales.

Acquisition-related costs amounting to $0.6 million have been excluded from the consideration paid and have been recognised as an expense in the year, within the 'other expenses' line item in the income statement.

From the date of acquisition, the business has contributed $21.8 million to the revenue and $1.0 million to the profit before tax of the consolidated entity. It is considered impracticable to estimate what the revenue and profit before tax of the consolidated entity would have been if the acquisition had been effected at 1 July 2011.

Contingent consideration

As part of the purchase agreement with the four founders of the EKO Energy business, a contingent consideration arrangement has been agreed. There will be additional cash payments to the four founders of the business of:

> $3.1 million, representing 20% of the purchase consideration which is payable one year from the acquisition date; and

> $1.55 million, representing 10% of the purchase consideration which is payable two years from the acquisition date.

If a founder has ceased or given notice to cease employment at the relevant deferred payment date, then their share of the contingent consideration amount is forfeited.

As at the acquisition date, the fair value of the contingent consideration was estimated to be $4.3 million, using a pre-tax discount rate of 13.4%.

The contingent consideration as at 30 June 2012 has been increased by $0.2 million to $4.5 million reflecting the fair value of the discounted cash payment. The fair value adjustment of $0.2 million is included in finance costs in the line item 'unwinding of discount on contingent consideration' in Note 8.

Note 43 – Acquisition of subsidiaries and businesses (continued)

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

Assets acquired and liabilities assumed	GEAC $m	Others $m	Total $m
Current assets			
Cash and cash equivalents	439.3	–	439.3
Trade and other receivables	67.8	0.1	67.9
Inventories	36.5	–	36.5
Other financial assets	50.1	–	50.1
Other assets	4.5	–	4.5
Total current assets	598.2	0.1	598.3
Non-current assets			
Property, plant and equipment	2,473.6	0.3	2,473.9
Intangible assets	–	11.1	11.1
Deferred tax assets	557.7	–	557.7
Other financial assets	435.6	–	435.6
Total non-current assets	3,466.9	11.4	3,478.3
Total assets	4,065.1	11.5	4,076.6
Current liabilities			
Trade and other payables	87.0	–	87.0
Borrowings	616.0	–	616.0
Provisions	51.4	0.1	51.5
Other financial liabilities	39.2	–	39.2
Other liabilities	240.1	–	240.1
Total current liabilities	1,033.7	0.1	1,033.8
Non-current liabilities			
Borrowings	2,055.0	–	2,055.0
Provisions	102.4	–	102.4
Other financial liabilities	153.4	–	153.4
Other liabilities	122.6	–	122.6
Total non-current liabilities	2,433.4	–	2,433.4
Total liabilities	3,467.1	0.1	3,467.2
Fair value of identifiable net assets acquired	598.0	11.4	609.4
Goodwill arising on acquisition	–	14.9	14.9
Purchase consideration	598.0	26.3	624.3
Purchase consideration			
Cash paid	199.8	22.0	221.8
Fair value of pre-existing interest	150.0	–	150.0
Deferred consideration	248.2	–	248.2
Contingent consideration	–	4.3	4.3
Total consideration	598.0	26.3	624.3

The goodwill arising on the acquisition of EKO Energy was attributable to the benefit of expected future market development opportunities and the technical skills of the workforce. The goodwill is not expected to be deductible for tax purposes.

The accounting for the above acquisitions has only been provisionally determined at the reporting date. Subject to the finalisation of the provisional acquisition accounting, all identifiable intangible assets have been recognised separately from goodwill. In accordance with the requirements of AASB 3 *Business Combinations*, the consolidated entity has 12 months from the date of acquisition to finalise its acquisition accounting, and therefore the information presented should be considered provisional.

2011

Acquisition of Mosaic Oil NL

On 14 July 2010, AGL Energy Limited (AGL) and Mosaic Oil NL (Mosaic) entered into a Scheme Implementation Deed, under which AGL proposed to acquire all of the issued shares in Mosaic by way of a Scheme of Arrangement (Scheme). Under the Scheme, Mosaic shareholders could elect to receive either $0.15 cash per Mosaic share or 1.01 AGL shares for every 100 Mosaic shares.

The Scheme was implemented on 20 October 2010, on which date AGL acquired 100% of the voting shares in Mosaic and obtained control. The consideration paid was $142.6 million, and comprised an issue of equity instruments and cash. The fair value of shares issued was determined using the published price at the date of exchange. 6,984,172 ordinary shares in AGL were issued on 20 October 2010 at a closing price of $16.61.

Mosaic's principal activities are the production of, and development and exploration for, oil and gas. Mosaic's main producing assets are located in the Surat-Bowen Basin in south-east Queensland. Mosaic operates fields and discoveries in 10 petroleum leases, owns and operates the Silver Springs processing facility, and now owns 100% of the Wallumbilla LPG plant and associated pipeline. Mosaic holds varying interests in exploration permits in the Surat-Bowen Basin, Cooper-Eromanga Basin south-west Queensland and New Zealand's Taranaki Basin. Mosaic also has a 33.3% interest in an oil storage tank and unloading facility at Lytton in Brisbane.

AGL carried out a comprehensive review of Mosaic's businesses and assets to determine which were core and non-core to AGL's integrated energy strategy going forward. AGL has disposed of Mosaic's interest in the exploration permit in the Carnarvon Basin offshore Western Australia and is in the process of selling Mosaic's interests in the exploration permits in New Zealand's Taranaki Basin.

AGL has now completed the development of a gas storage facility at Mosaic's depleted Silver Springs/Renlim gas fields in the Surat Basin.

Acquisition-related costs amounting to $3.5 million were excluded from the consideration paid and were recognised as an expense in the 2011 financial year, within the 'other expenses' line item in the income statement.

The fair value of the identifiable assets acquired and liabilities assumed at the date of acquisition were as follows:

Assets acquired and liabilities assumed	Mosaic provisional fair value on acquisition $m	Fair value adjustment $m	Mosaic adjusted fair value on acquisition $m
Current assets			
Cash and cash equivalents	21.5	–	21.5
Trade and other receivables	5.9	–	5.9
Inventories	2.9	–	2.9
Other assets	0.6	–	0.6
Total current assets	30.9	–	30.9
Non-current assets			
Exploration and evaluation assets	19.8	–	19.8
Oil and gas assets	104.5	(20.0)	84.5
Property, plant and equipment	8.4	–	8.4
Deferred tax assets	23.9	(9.7)	14.2
Other assets	0.3	–	0.3
Total non-current assets	156.9	(29.7)	127.2
Total assets	187.8	(29.7)	158.1
Liabilities			
Trade and other payables	2.8	–	2.8
Provisions	2.3		2.3
Total current liabilities	5.1	–	5.1
Non-current liabilities			
Borrowings	0.3	–	0.3
Provisions	8.0	–	8.0
Deferred tax liabilities	31.4	(29.7)	1.7
Other liabilities	0.4	–	0.4
Total non-current liabilities	40.1	(29.7)	10.4
Total liabilities	45.2	(29.7)	15.5
Fair value of identifiable net assets acquired	142.6	–	142.6
Goodwill arising on acquisition	–	–	–
Purchase consideration	142.6	–	142.6
Purchase consideration			
Fair value of shares issued	116.0	–	116.0
Cash paid	26.6	–	26.6
Total consideration	142.6	–	142.6

Note 43 – Acquisition of subsidiaries and businesses (continued)

The fair values of the assets and liabilities acquired as part of the Mosaic acquisition had only been provisionally determined at 30 June 2011. Upon finalisation of the acquisition accounting, the fair values of identifiable net assets of the acquisition at the date of acquisition have been amended.

	2012 $m	2011 $m
Net cash (inflow)/outflow on acquisitions		
Cash paid	**221.8**	26.6
Less: cash and cash equivalent balances acquired	**(439.3)**	(21.5)
	(217.5)	5.1

Note 44 – Disposal of subsidiaries

2012

There were no disposals in the year ending 30 June 2012.

2011

On 24 June 2011, the consolidated entity disposed of its 100% interest in Oaklands Hill Pty Ltd and on 27 June 2011, the consolidated entity disposed of its 100% interest in Oaklands Hill Wind Farm Pty Ltd, the subsidiary that was constructing the 67.2 MW Oaklands Hill Wind Farm in Victoria. The total proceeds on these disposals of $163.9 million was received in cash.

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

	2012 $m	2011 $m
Assets		
Property, plant and equipment	**–**	165.9
Liabilities		
Deferred tax liabilities	**–**	(2.0)
Net assets disposed	**–**	163.9
Consideration received		
Consideration received in cash	**–**	163.9
Costs directly attributable to the disposal paid	**–**	–
	–	163.9
Gain on disposal of subsidiaries		
Consideration received	**–**	163.9
Net assets disposed	**–**	(163.9)
	–	–
Net cash inflow on disposal of subsidiaries		
Consideration received in cash	**–**	163.9
Costs directly attributable to the disposal paid	**–**	–
	–	163.9

Note 45 – Jointly controlled operations and assets

Joint venture/area	Principal activities	Output interest 2012 %	2011 %
Bowen Basin – Queensland			
Moranbah Gas Project – PL 191, PL 196, PLA 222, PL 223, PL 224 & ATP 1103P	Gas production and exploration	**50.0**	50.0
Spring Gully Project – ATP 592P, PL 195 & PL 203	Gas production and exploration	**0.8**	0.8
Spring Gully Project – PL 204	Gas production	**0.04**	0.04
Galilee Basin – Queensland			
Galilee Gas Project – ATP 529P	Gas exploration	**50.0**	50.0
Cooper/Eromanga Basin – South Australia			
PEL 101[a]	Gas exploration	**–**	35.0
PEL 103, PEL 103A, PRL 14, PRL 17 & PRL 18[a]	Gas exploration and oil production	**–**	37.5
Surat Basin – Queensland			
ATP 471P (Bainbilla Block)	Oil and gas exploration	**75.3**	75.3
ATP 471P (Spring Grove #2 sole risk)	Oil and gas exploration	**52.8**	52.8
ATP 471P (Weribone)	Oil and gas exploration	**28.7**	28.7
PL 1 (Cabawin)	Oil production	**15.0**	15.0
PL 30 (Riverslea)	Oil production	**10.0**	10.0
PL 74 (Major)	Oil production	**16.0**	16.0
PL 441 (Downlands)	Oil and gas production	**75.3**	75.3
Cooper/Eromanga Basin – Queensland			
ATP 934P (under application)	Oil and gas exploration	**20.0**	20.0
ATP 1056P	Oil exploration	**40.0**	40.0
Taranaki Basin – New Zealand			
PEP 51149	Oil and gas exploration	**18.6**	18.6
PEP 51151[b]	Oil and gas exploration	**–**	50.0
PEP 52181[c]	Oil and gas exploration	**42.9**	15.0
PEP 53247	Oil and gas exploration	**75.0**	75.0
Others			
North Queensland Energy Joint Venture	Sale of gas and electricity	**50.0**	50.0
Macarthur Wind Farm Joint Venture	Wind farm construction and owner	**50.0**	50.0
Lytton Joint Venture	Crude oil storage terminal	**33.3**	33.3

(a) On 6 December 2011, the consolidated entity disposed of its 37.5% interest in permits PRL 14, 17 & 18 and PEL 103 & 103A and its 35% interest in PEL 101 located in the Cooper Basin in South Australia.

(b) On 13 October 2011, the consolidated entity disposed of its 50% interest in exploration permit PEP 51151 in New Zealand's Taranaki Basin.

(c) During the financial year, the consolidated entity's interest in PEP 52181 increased from 15.0% to 42.9% through the withdrawal of two joint venture partners.

The consolidated entity's interest in assets employed in the above jointly controlled operations and assets is detailed below. The amounts are included in the consolidated financial statements under their respective asset categories.

	2012 $m	2011 $m
Current assets		
Cash and cash equivalents	**75.0**	43.7
Trade and other receivables	**10.3**	10.0
Inventories	**0.0**	1.0
Other assets	**2.6**	3.8
Total current assets	**88.1**	58.5
Non-current assets		
Exploration and evaluation assets	**18.7**	26.6
Oil and gas assets	**293.8**	251.9
Property, plant and equipment	**387.2**	56.6
Total non-current assets	**699.7**	335.1
Total assets	**787.8**	393.6

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

Note 46 – Deed of cross guarantee

Pursuant to ASIC Class Order 98/1418 (as amended), the wholly-owned subsidiaries identified in Note 42 are relieved from the *Corporations Act 2001* requirements to prepare and lodge an audited financial report, and a directors' report.

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

The following wholly-owned subsidiaries became a party to the Deed of Cross Guarantee on 28 June 2012, by virtue of a Deed of Assumption.

AGL DPS Pty Limited

Silverton Wind Farm Developments Pty Limited

Silverton Wind Farm Holdings Pty Limited

Silverton Wind Farm Transmission Pty Limited

Set out below is the consolidated income statement, statement of comprehensive income, statement of financial position and a summary of movements in retained earnings of the entities party to the Deed of Cross Guarantee.

	Closed Group	
	2012 $m	2011 $m
Income statement		
Revenue	**7,032.2**	6,403.7
Other income	**2.9**	–
Expenses	**(6,612.1)**	(5,565.1)
Share of profits of associates and jointly controlled entities accounted for using the equity method	**16.8**	33.6
Profit before net financing costs, depreciation and amortisation	**439.8**	872.2
Depreciation and amortisation	**(156.0)**	(131.1)
Profit before net financing costs	**283.8**	741.1
Finance income	**71.1**	42.6
Finance costs	**(86.7)**	(53.4)
Net financing costs	**(15.6)**	(10.8)
Profit before tax	**268.2**	730.3
Income tax expense	**(48.0)**	(234.9)
Profit for the year	**220.2**	495.4

	2012 $m	2011 $m
Statement of comprehensive income		
Profit for the year	**220.2**	495.4
Other comprehensive income		
Cash flow hedges	**120.6**	117.0
Actuarial (loss)/gain on defined benefit plans	**(70.0)**	3.6
Share of other comprehensive income of an associate	**(56.6)**	31.5
Reclassification adjustments of an associate transferred to profit or loss on acquisition of entity	**36.3**	–
Income tax relating to components of other comprehensive income	**(30.1)**	(22.2)
Other comprehensive income for the year, net of income tax	**0.2**	129.9
Total comprehensive income for the year	**220.4**	625.3

	Closed Group 2012 $m	Closed Group 2011 $m
Statement of financial position		
Current assets		
Cash and cash equivalents	**1,407.4**	752.9
Trade and other receivables	**1,392.5**	1,182.4
Inventories	**134.6**	112.7
Other financial assets	**153.1**	195.1
Other assets	**45.5**	25.9
Total current assets	**3,133.1**	2,269.0
Non-current assets		
Trade and other receivables	**–**	0.5
Investments accounted for using the equity method	**31.6**	240.7
Exploration and evaluation assets	**651.8**	655.1
Oil and gas assets	**483.8**	461.4
Property, plant and equipment	**1,974.7**	1,543.8
Intangible assets	**2,334.8**	2,300.0
Deferred tax assets	**53.4**	–
Other financial assets	**2,496.4**	1,709.3
Other assets	**0.4**	0.4
Total non-current assets	**8,026.9**	6,911.2
Total assets	**11,160.0**	9,180.2
Current liabilities		
Trade and other payables	**1,047.5**	769.2
Borrowings	**–**	886.7
Provisions	**80.7**	94.3
Current tax liabilities	**11.0**	167.2
Other financial liabilities	**483.0**	466.5
Other liabilities	**8.6**	15.1
Total current liabilities	**1,630.8**	2,399.0
Non-current liabilities		
Borrowings	**1,865.0**	272.9
Provisions	**163.4**	161.6
Deferred tax liabilities	**349.0**	302.7
Other financial liabilities	**282.7**	92.2
Other liabilities	**124.5**	54.2
Total non-current liabilities	**2,784.6**	883.6
Total liabilities	**4,415.4**	3,282.6
Net assets	**6,744.6**	5,897.6
Equity		
Issued capital	**5,227.3**	4,244.6
Reserves	**32.0**	(37.4)
Retained earnings	**1,485.3**	1,690.4
Total equity	**6,744.6**	5,897.6
Summary of movements in retained earnings		
Retained earnings at beginning of financial year	**1,690.4**	1,452.3
Adjustment on correction of unbilled distribution liability, net of income tax	**(79.9)**	–
Restated balance at beginning of financial year	**1,610.5**	1,452.3
Profit for the year	**220.2**	495.4
Dividends paid or provided	**(278.2)**	(268.4)
Actuarial (loss)/gain on defined benefit plans, net of tax	**(49.0)**	2.5
Share of actuarial (loss)/gain on defined benefit plans attributable to associates	**(18.2)**	8.6
Retained earnings at end of financial year	**1,485.3**	1,690.4

Note 47 – Key management personnel disclosures

Key management personnel

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

The following persons were key management personnel of the consolidated entity during the financial year. Unless otherwise indicated they were key management personnel for the entire period.

Name	Position
Non-Executive Directors	
Jeremy Maycock	Chairman, Non-executive Director
Les Hosking	Non-executive Director
Belinda Hutchinson	Non-executive Director
Sandra McPhee	Non-executive Director
Max Ould	Non-executive Director
Bruce Phillips	Non-executive Director
John Stanhope	Non-executive Director
Executive Directors	
Michael Fraser	Managing Director and Chief Executive Officer
Executives	
Anthony Fowler	Group General Manager Merchant Energy
Ken Hodgson	Group General Manager Retail Energy
Paul McWilliams	Group Head of Corporate Support Services and Company Secretary
Stephen Mikkelsen	Chief Financial Officer
Michael Moraza	Group General Manager Upstream Gas

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

	2012 $	2011 $
Remuneration by category		
Short-term employee benefits	**10,261,844**	9,352,192
Post-employment benefits	**817,223**	814,553
Share-based payments	**4,080,013**	693,371
	15,159,080	10,860,116

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

Share performance rights over ordinary shares

Details of movements during the financial year in the number of share performance rights (SPRs) over ordinary shares in the Parent Entity held directly, indirectly or beneficially, by each key management person, including their related parties, are set out below:

2012 Share performance rights	Balance at 1 July 2011	Deposited (deducted) during the year[(a)]	Notionally granted during the year	Adjustments granted during the year[(b)]	Vested during the year	Forfeited during the year	Balance at 30 June 2012
Managing Director and CEO							
Michael Fraser							
– TSR share bank account	50,051	–	–	1,101	(20,020)	–	31,132
– EBIT/Funds Employed share bank account	18,164	(41,152)	–	(843)	–	–	(23,831)
– Notional grant 22/6/12	–	–	146,171	5,357	–	–	151,528
– Notional grant 20/6/11	137,175	(137,175)	–	–	–	–	–
– Old LTIP grant 27/10/08	107,639	–	–	79	(105,486)	–	2,232
	313,029	(178,327)	146,171	5,694	(125,506)	–	161,061
Executives							
Anthony Fowler							
– TSR share bank account	1,066	–	–	23	(426)	–	663
– EBIT/Funds Employed share bank account	386	(4,938)	–	(167)	–	–	(4,719)
– Notional grant 22/6/12	–	–	24,596	901	–	–	25,497
– Notional grant 20/6/11	16,461	(16,461)	–	–	–	–	–
– Old LTIP grant 27/10/08	5,209	–	–	4	(5,104)	–	109
	23,122	(21,399)	24,596	761	(5,530)	–	21,550
Ken Hodgson							
– TSR share bank account	5,584	–	–	123	(2,234)	–	3,473
– EBIT/Funds Employed share bank account	2,026	(7,222)	–	(190)	–	–	(5,386)
– Notional grant 22/6/12	–	–	25,299	927	–	–	26,226
– Notional grant 20/6/11	24,075	(24,075)	–	–	–	–	–
	31,685	(31,297)	25,299	860	(2,234)	–	24,313
Paul McWilliams							
– TSR share bank account	1,256	–	–	28	(502)	–	782
– EBIT/Funds Employed share bank account	456	(2,263)	–	(66)	–	–	(1,873)
– Notional grant 22/6/12	–	–	12,017	440	–	–	12,457
– Notional grant 20/6/11	7,545	(7,545)	–	–	–	–	–
– Old LTIP grant 27/10/08	3,132	–	–	2	(3,069)	–	65
	12,389	(9,808)	12,017	404	(3,571)	–	11,431
Stephen Mikkelsen							
– TSR share bank account	5,617	–	–	124	(2,247)	–	3,494
– EBIT/Funds Employed share bank account	2,038	(7,407)	–	(197)	–	–	(5,566)
– Notional grant 22/6/12	–	–	27,407	1,004	–	–	28,411
– Notional grant 20/6/11	24,692	(24,692)	–	–	–	–	–
– Old LTIP grant 27/10/08	14,000	–	–	10	(13,720)	–	290
	46,347	(32,099)	27,407	941	(15,967)	–	26,629
Michael Moraza							
– TSR share bank account	6,223	–	–	137	(2,489)	–	3,871
– EBIT/Funds Employed share bank account	2,258	(6,173)	–	(143)	–	–	(4,058)
– Notional grant 22/6/12	–	–	22,840	837	–	–	23,677
– Notional grant 20/6/11	20,577	(20,577)	–	–	–	–	–
– Old LTIP grant 27/10/08	7,639	–	–	6	(7,486)	–	159
	36,697	(26,750)	22,840	837	(9,975)	–	23,649

(a) After testing the SPRs notionally granted on 20 June 2011 against the relevant performance hurdle, the SPRs are deposited into (or deducted from) the relevant share bank account for each participant.
(b) Adjustment grants were made to adjust for dilution to the number of SPRs notionally granted on 22 June 2012 and to unvested SPRs for prior years as a result of the rights issue allotment in June 2012.

There were nil SPRs vested but not exercisable at 30 June 2012.

Note 47 – Key management personnel disclosures (continued)

Details of SPRs notionally granted to key management personnel during the 2012 financial year are as follows:

Date granted	Number of SPRs	Performance period	Vesting date	Weighted average fair value
22 June 2012	**258,330**	**1 July 2011–30 June 2012**	**1 September 2012**	**$14.53**

The SPRs have been provided at no cost to the recipients. No SPRs have been granted since the end of the reporting period.

For further details, including the key terms and conditions, grant and vesting dates for SPRs granted to key management personnel, refer Note 49.

2011 Share performance rights	Balance at 1 July 2010	Deposited (deducted) during the year[a]	Notionally granted during the year	Vested during the year	Forfeited during the year	Balance at 30 June 2011
Managing Director and CEO						
Michael Fraser						
– TSR share bank account	–	83,418	–	(33,367)	–	50,051
– EBIT/Funds Employed share bank account	–	30,273	–	(12,109)	–	18,164
– Notional grant 20/6/11	–	–	137,175	–	–	137,175
– Notional grant 26/2/10	134,546	(134,546)	–	–	–	–
– Old LTIP grant 27/10/08	107,639	–	–	–	–	107,639
– Old LTIP grant 25/2/08	103,915	–	–	(103,915)	–	–
	346,100	(20,855)	137,175	(149,391)	–	313,029
Executives						
Jeff Dimery						
– TSR share bank account	–	12,625	–	(5,050)	(7,575)	–
– EBIT/Funds Employed share bank account	–	4,582	–	(1,833)	(2,749)	–
– Notional grant 26/2/10	20,364	(20,364)	–	–	–	–
– Old LTIP grant 27/10/08	18,056	–	–	–	(18,056)	–
– Old LTIP grant 11/1/08	12,188	–	–	(12,188)	–	–
	50,608	(3,157)	–	(19,071)	(28,380)	–
Anthony Fowler						
– TSR share bank account	–	1,776	–	(710)	–	1,066
– EBIT/Funds Employed share bank account	–	644	–	(258)	–	386
– Notional grant 20/6/11	–	–	16,461	–	–	16,461
– Notional grant 26/2/10	2,864	(2,864)	–	–	–	–
– Old LTIP grant 27/10/08	5,209	–	–	–	–	5,209
– Old LTIP grant 11/1/08	2,111	–	–	(2,111)	–	–
	10,184	(444)	16,461	(3,079)	–	23,122
Ken Hodgson						
– TSR share bank account	–	9,307	–	(3,723)	–	5,584
– EBIT/Funds Employed share bank account	–	3,377	–	(1,351)	–	2,026
– Notional grant 20/6/11	–	–	24,075	–	–	24,075
– Notional grant 26/2/10	15,011	(15,011)	–	–	–	–
	15,011	(2,327)	24,075	(5,074)	–	31,685
Paul McWilliams						
– TSR share bank account	–	2,094	–	(838)	–	1,256
– EBIT/Funds Employed share bank account	–	760	–	(304)	–	456
– Notional grant 20/6/11	–	–	7,545	–	–	7,545
– Notional grant 26/2/10	3,379	(3,379)	–	–	–	–
– Old LTIP grant 27/10/08	3,132	–	–	–	–	3,132
– Old LTIP grant 11/1/08	6,140	–	–	(6,140)	–	–
	12,651	(525)	7,545	(7,282)	–	12,389

2011 Share performance rights	Balance at 1 July 2010	Deposited (deducted) during the year[a]	Notionally granted during the year	Vested during the year	Forfeited during the year	Balance at 30 June 2011
Stephen Mikkelsen						
– TSR share bank account	–	9,361	–	(3,744)	–	5,617
– EBIT/Funds Employed share bank account	–	3,397	–	(1,359)	–	2,038
– Notional grant 20/6/11	–	–	24,692	–	–	24,692
– Notional grant 26/2/10	15,099	(15,099)	–	–	–	–
– Old LTIP grant 27/10/08	14,000	–	–	–	–	14,000
– Old LTIP grant 11/1/08	19,647	–	–	(19,647)	–	–
	48,746	(2,341)	24,692	(24,750)	–	46,347
Michael Moraza						
– TSR share bank account	–	10,371	–	(4,148)	–	6,223
– EBIT/Funds Employed share bank account	–	3,764	–	(1,506)	–	2,258
– Notional grant 20/6/11	–	–	20,577	–	–	20,577
– Notional grant 26/2/10	16,728	(16,728)	–	–	–	–
– Old LTIP grant 27/10/08	7,639	–	–	–	–	7,639
– Old LTIP grant 11/1/08	5,294	–	–	(5,294)	–	–
	29,661	(2,593)	20,577	(10,948)	–	36,697

(a) After testing the SPRs notionally granted on 26 February 2010 against the relevant performance hurdle, the SPRs are deposited into (or deducted from) the relevant share bank account for each participant.

There were nil SPRs vested but not exercisable at 30 June 2011.

Details of SPRs notionally granted to key management personnel during the 2011 financial year are as follows:

Date granted	Number of SPRs	Performance period	Vesting date	Weighted average fair value
20 June 2011	230,525	1 July 2010–30 June 2011	1 September 2011	$7.08

Shareholdings of key management personnel

Details of movements during the financial year in the number of ordinary shares in the Parent Entity held directly, indirectly or beneficially, by each key management person, including their related parties, are set out below:

2012 Ordinary shares	Balance at 1 July 2011	AGL Share Purchase Plan[a]	Dividend Reinvestment Plan[b]	Received on vesting of SPRs	Net change other[c]	Balance at 30 June 2012	Balance held nominally
Non-executive Directors							
Jeremy Maycock	**55,625**	**352**	**–**	**–**	**9,313**	**65,290**	**–**
Les Hosking	**2,000**	**–**	**–**	**–**	**334**	**2,334**	**–**
Belinda Hutchinson	**6,540**	**–**	**–**	**–**	**1,090**	**7,630**	**–**
Sandra McPhee	**12,750**	**–**	**–**	**–**	**4,371**	**17,121**	**–**
Max Ould	**28,662**	**–**	**1,011**	**–**	**4,946**	**34,619**	**–**
Bruce Phillips	**29,000**	**–**	**–**	**–**	**4,834**	**33,834**	**–**
John Stanhope	**–**	**–**	**69**	**–**	**3,373**	**3,442**	**–**
Executive Directors							
Michael Fraser	**519,865**	**–**	**–**	**125,506**	**25,896**	**671,267**	**–**
Executives							
Anthony Fowler	**3,079**	**–**	**–**	**5,530**	**1,435**	**10,044**	**–**
Ken Hodgson	**5,179**	**–**	**317**	**2,234**	**1,289**	**9,019**	**–**
Paul McWilliams	**11,033**	**–**	**–**	**3,571**	**2,434**	**17,038**	**–**
Stephen Mikkelsen	**32,990**	**–**	**–**	**15,967**	**(24,000)**	**24,957**	**–**
Michael Moraza	**23,920**	**–**	**–**	**9,975**	**5,650**	**39,545**	**–**

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

(b) Shares issued as a result of participation in the AGL Dividend Reinvestment Plan.

(c) Includes shares purchased and disposed in the ordinary course of trading on the ASX, and shares acquired as a result of their take-up of the pro-rata entitlements under the rights issue in June 2012.

Note 47 – Key management personnel disclosures (continued)

2011 Ordinary shares	Balance at 1 July 2010	AGL Share Purchase Plan[a]	Dividend Reinvestment Plan[b]	Received on vesting of SPRs	Net change other[c]	Balance at 30 June 2011	Balance held nominally
Non-executive Directors							
Jeremy Maycock	45,620	303	–	–	9,702	55,625	–
Mark Johnson[d]	271,125	–	1,113	–	–	–	–
Les Hosking	2,000	–	–	–	–	2,000	–
Belinda Hutchinson	–	–	–	–	6,540	6,540	–
Sandra McPhee	10,200	–	–	–	2,550	12,750	–
Max Ould	27,755	–	907	–	–	28,662	–
Bruce Phillips	29,000	–	–	–	–	29,000	–
John Stanhope	–	–	–	–	–	–	–
Executive Directors							
Michael Fraser	370,474	–	–	149,391	–	519,865	–
Executives							
Jeff Dimery[e]	11,443	308	–	19,071	–	–	–
Anthony Fowler	–	–	–	3,079	–	3,079	–
Ken Hodgson	–	–	105	5,074	–	5,179	–
Paul McWilliams	3,751	–	–	7,282	–	11,033	–
Stephen Mikkelsen	18,240	–	–	24,750	(10,000)	32,990	–
Michael Moraza	12,972	–	–	10,948	–	23,920	–

(a) Shares acquired under the AGL Share Purchase Plan in lieu of remuneration non-executive Directors and executives would have received. Beneficial interest held subject to the conditions of the Plan.
(b) Shares issued as a result of participation in the AGL Dividend Reinvestment Plan.
(c) Includes shares purchased and disposed in the ordinary course of trading on the ASX.
(d) Mr Johnson retired as a Director on 21 October 2010 and the number of shares represent those held at the date of leaving office.
(e) Mr Dimery resigned as an Executive on 27 September 2010 and the number of shares represent those held at the date of leaving office.

Loans to key management personnel

There are no loans between key management personnel and the consolidated entity.

Other transactions with key management personnel and their personally related entities

Transactions entered into during the year with key management personnel which are within normal employee, customer or supplier relationships on terms and conditions no more favourable than dealings in the same circumstances on an arm's length basis include:

> the receipt of dividends from AGL Energy Limited;

> participation in the AGL Dividend Reinvestment Plan;

> participation in the AGL Long-Term Incentive Plan and the AGL Share Purchase Plan;

> reimbursement of expenses; and

> purchase of goods and services.

Note 48 – Defined benefit superannuation plans

The consolidated entity operates three superannuation plans that provide defined benefit amounts to employees or their dependants upon retirement, resignation or death. The plans provide, in the majority of cases, benefits in the form of a lump sum based on the employee's years of service and final average salary. Contributions to the plans are predominantly based on a percentage of employees' salaries and wages. These defined benefit plans are all closed to new members. All new members receive accumulation benefits only.

The three plans are the SuperSolution Master Trust – AGL Division (SSMT), Equipsuper Fund (EF) and Electricity Industry Superannuation Scheme (EISS).

On 29 June 2012, the consolidated entity acquired Loy Yang Power. A number of employees of this entity are members of a separate defined benefit section of the Equipsuper Fund.

The consolidated entity also contributes to defined contribution superannuation plans for employees, which are also provided by these plans. Contributions made to these defined contribution plans are expensed as incurred.

	2012 $m	2011 $m
Amounts recognised in the statement of comprehensive income		
Actuarial (loss)/gain incurred during the year and recognised in the statement of comprehensive income		
Actuarial (loss)/gain	**(70.0)**	3.6
Tax effect	**21.0**	(1.1)
Actuarial (loss)/gain, net of tax	**(49.0)**	2.5
Cumulative actuarial loss recognised in the statement of comprehensive income	**(99.8)**	(50.8)
Amounts recognised in the income statement		
Current service cost	**3.8**	4.7
Interest cost	**9.0**	9.2
Expected return on plan assets	**(11.1)**	(10.8)
Effect of curtailments	**(0.1)**	(1.0)
Expense recognised in the income statement as part of employee benefits expense (Note 9)	**1.6**	2.1
Amounts included in the statement of financial position		
Fair value of plan assets	**396.4**	157.6
Present value of defined benefit obligations	**(621.3)**	(198.2)
Deficit	**(224.9)**	(40.6)
Past service cost not yet recognised	**1.3**	–
Net liability – non-current	**(223.6)**	(40.6)
Net liability at beginning of year	**(40.6)**	(53.4)
Net liabilities assumed in a business combination	**(121.4)**	–
Expense recognised in the income statement	**(1.6)**	(2.1)
Amount recognised in the statement of comprehensive income	**(70.0)**	3.6
Employer contributions	**10.0**	11.3
Net liability at end of year	**(223.6)**	(40.6)
Movements in the present value of defined benefit obligations		
Opening defined benefit obligations	**198.2**	209.1
Liabilities assumed in a business combination	**355.9**	–
Current service cost	**3.8**	4.7
Interest cost	**9.0**	9.2
Contributions by plan participants	**2.4**	2.7
Actuarial loss/(gain)	**71.5**	(1.9)
Benefits paid	**(13.4)**	(12.0)
Taxes and premiums paid	**(1.7)**	(1.9)
Net transfers in	**0.9**	0.1
Curtailments	**(0.1)**	(1.0)
Settlements	**(5.2)**	(10.8)
Closing defined benefit obligations	**621.3**	198.2
Movements in the fair value of plan assets		
Opening fair value of plan assets	**157.6**	155.7
Assets acquired in a business combination	**233.2**	–
Expected return on plan assets	**11.1**	10.8
Actuarial gain	**1.5**	1.7
Employer contributions	**10.0**	11.3
Contributions by plan participants	**2.4**	2.7
Benefits paid	**(13.4)**	(12.0)
Taxes and premiums paid	**(1.7)**	(1.9)
Net transfers in	**0.9**	0.1
Settlements	**(5.2)**	(10.8)
Closing fair value of plan assets	**396.4**	157.6

Note 48 – Defined benefit superannuation plans (continued)

History of experience adjustments

	2012 $m	2011 $m	2010 $m	2009 $m	2008 $m
Present value of defined benefit obligations	**(621.3)**	(198.2)	(209.1)	(188.8)	(154.7)
Fair value of plan assets	**396.4**	157.6	155.7	135.5	158.5
(Deficit)/surplus	**(224.9)**	(40.6)	(53.4)	(53.3)	3.8
Experience adjustments on plan assets	**1.5**	1.7	5.1	(32.8)	(15.2)
Experience adjustments on plan liabilities	**(3.8)**	(1.3)	(1.8)	(7.0)	(4.2)

The consolidated entity expects to contribute $29.8 million (2011: $10.6 million) to the defined benefit plans during the next financial year.

The fair value of plan assets does not include any amounts relating to any property occupied by, or other assets used by, the consolidated entity. Less than 0.5% of the fair value of the plan assets in the SuperSolution Master Trust – AGL Division comprises ordinary shares in the Parent Entity.

The expected return on plan assets is determined by weighting the expected long-term return for each asset class by the target allocation of assets to each class and allowing for correlations of the investment returns between asset classes. The returns used for each asset class are net of investment tax and investment fees. An allowance for administration expenses has been deducted from the expected return.

The actual return on plan assets was $12.6 million (2011: $12.5 million).

Categories of plan assets

The major categories of plan assets as a percentage of the fair value of total plan assets at the reporting date are as follows:

	SSMT		EF		EISS	
	2012 %	2011 %	2012 %	2011 %	2012 %	2011 %
Australian equities	**31.2**	30.7	**35.0**	35.0	**28.0**	30.0
International equities	**27.7**	28.6	**27.0**	27.0	**23.0**	18.0
Fixed interest securities	**13.5**	25.8	**11.0**	12.0	**13.0**	15.0
Property	**4.5**	5.0	**10.0**	10.0	**13.0**	12.0
Cash	**4.0**	4.7	**7.0**	6.0	**6.0**	7.0
Other	**19.1**	5.2	**10.0**	10.0	**17.0**	18.0

Principal actuarial assumptions

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

	SSMT		EF		EISS	
	2012 %	2011 %	2012 %	2011 %	2012 %	2011 %
Discount rate (after tax) active members	**2.8**	4.8	**2.6**	4.7	**2.8**	4.8
Discount rate (after tax) pensioners	**–**	–	**–**	–	**3.0**	5.2
Expected return on plan assets – active members	**6.3**	7.0	**7.0**	7.0	**7.0**	6.7
Expected return on plan assets – pensioners	**–**	–	**–**	–	**8.0**	7.7
Expected salary increase rate	**4.0**	4.0	**4.0**	4.0	**4.0**	4.0
Expected pension increase rate	**–**	–	**–**	–	**2.8**	3.0

Defined contribution superannuation plans

The consolidated entity makes contributions to a number of defined contribution superannuation plans. The amount recognised as an expense for the financial year ended 30 June 2012 was $15.8 million (2011: $14.4 million).

Note 49 – Share-based payment plans

The Parent Entity (AGL) has the following share-based payment plans:

> AGL Share Reward Plan;

> AGL Share Purchase Plan; and

> AGL Long-Term Incentive Plan.

AGL Share Reward Plan

The AGL Energy Limited Board of Directors approved the AGL Share Reward Plan (SRP) on 5 October 2006. Under the SRP, eligible employees may be invited on an annual basis to acquire up to $1,000 worth of fully-paid ordinary shares in AGL for no consideration. The Board determines whether to make an offer of shares based on the consolidated entity's performance measured against specific performance hurdles set by the Board each financial year.

Eligible employees include full-time or permanent part-time employees who have completed 12 months continuous service (or such lesser period as the Board determines) and who have attained the age of 18 years. Casual employees and employees who are resident overseas can only participate at the Board's discretion. Employees participating in the AGL Long-Term Incentive Plan and the Directors of AGL are not eligible to participate.

The trustee of the SRP applies amounts contributed by entities in the consolidated entity in purchasing shares on behalf of participating employees in the ordinary course of trading on the ASX; or subscribing for shares on behalf of the participating employees. All shares acquired by the trustee are acquired at the market value of the shares.

Market value means in relation to a subscription for shares, the weighted average of the prices at which AGL's ordinary shares are traded on the ASX during the five business days up to and including the day on which the subscription occurs. Market value in relation to a purchase of shares means the price at which the shares are actually acquired in the ordinary course of trading on the ASX.

SRP shares may not be disposed before the earlier of three years after the date of acquisition or the date on which the participating employee ceases to be employed by the consolidated entity. During this period, the trustee is entitled to retain custody of share certificates or holding statements in respect of the SRP shares and to implement procedures to prevent any dealing with those shares.

SRP shares rank pari passu in all respects with all other shares and carry the same rights and entitlements, including dividend and voting rights, as those conferred by other shares.

Details of share movements in the AGL Share Reward Plan during the year are set out below:

Grant date	Balance at beginning of the year Number	Granted during the year Number	Fair value per share $	Distributed during the year Number	Balance at end of the year Number
2012					
30 September 2011	**–**	**76,097**	**$14.17**	**(9,310)**	**66,787**
22 September 2010	**83,753**	**–**	**–**	**(15,006)**	**68,747**
22 September 2009	**79,132**	**–**	**–**	**(13,505)**	**65,627**
22 September 2008	**53,900**	**–**	**–**	**(53,900)**	**–**
	216,785	**76,097**		**(91,721)**	**201,161**
2011					
22 September 2010	–	96,319	$16.21	(12,566)	83,753
22 September 2009	97,309	–	–	(18,177)	79,132
22 September 2008	66,360	–	–	(12,460)	53,900
20 September 2007	48,195	–	–	(48,195)	–
	211,864	96,319		(91,398)	216,785

During the year, there were 1,553 eligible employees (2011: 1,579) who were each granted 49 ordinary shares in AGL (2011: 61). All shares granted were purchased on-market and the fair value per share is market value (as defined above).

The total expense recognised in the income statement as part of employee benefits expense during the year in relation to the AGL Share Reward Plan was:

	2012 $m	2011 $m
Employee benefits expense	**1.1**	1.5

Note 49 – Share-based payment plans (continued)

AGL Share Purchase Plan

The AGL Energy Limited Board of Directors approved the AGL Share Purchase Plan (SPP) on 5 October 2006. Under the SPP, the Board may in its discretion, from time to time invite any eligible employees to acquire fully-paid ordinary shares in AGL with funds provided in lieu of remuneration they would have received. The Directors of AGL may also participate in the SPP. The total amount that can be allocated to the purchase of shares under the SPP in any financial year commencing on or after 1 July 2009 is $5,000. Eligible employees include full-time or permanent part-time employees of entities in the consolidated entity who have attained the age of 18 years. Employees who are resident overseas can only participate at the Board's discretion.

The trustee of the SPP applies amounts contributed by entities in the consolidated entity in lieu of remuneration entitlements which eligible employees or Directors would otherwise have received in purchasing shares on behalf of participating employees or Directors in the ordinary course of trading on the ASX; or subscribing for shares on behalf of the participating employees or Directors. All shares acquired by the trustee are acquired at the market value of the shares.

Market value means in relation to a subscription for shares, the weighted average of the prices at which AGL's ordinary shares are traded on the ASX during the five business days up to and including the day on which the subscription occurs. Market value in relation to a purchase of shares means the price at which the shares are actually acquired in the ordinary course of trading on the ASX.

SPP shares may not be disposed before the earlier of seven years after the date of acquisition (or, in the case of SPP shares acquired on or before 31 May 2010, 10 years), the date on which the participating employee ceases to be employed by the consolidated entity, and the Board or the trustee determines that the shares should be freed from this restriction following the written request of the participating employee. During this period, the trustee is entitled to retain custody of share certificates or holding statements in respect of the SPP shares and to implement procedures to prevent any dealing with those shares.

SPP shares rank pari passu in all respects with all other shares and carry the same rights and entitlements, including dividend and voting rights, as those conferred by other shares.

Details of share movements in the AGL Share Purchase Plan during the year are set out below:

Share movements	Balance at beginning of the year Number	Purchased during the year Number	Fair value per share $	Distributed during the year Number	Balance at end of the year Number
2012					
Non-executive Directors	**26,709**	**352**	**$14.20**	**–**	**27,061**
Managing Director and Chief Executive Officer	**169,300**	**–**	**–**	**–**	**169,300**
Employees	**118,385**	**96,140**	**$15.35**	**(90,014)**	**124,511**
	314,394	**96,492**		**(90,014)**	**320,872**
2011					
Non-executive Directors	82,675	303	$14.81	(56,269)	26,709
Managing Director and Chief Executive Officer	169,300	–	–	–	169,300
Employees	105,549	100,948	$15.33	(88,112)	118,385
	357,524	101,251		(144,381)	314,394

At the reporting date, there were two non-executive Directors (2011: two) and 201 employees including the Managing Director (2011: 190) participating in the SPP. All shares were purchased on-market and the fair value per share is market value (as defined above).

No expense is recognised in the income statement in relation to shares purchased under the SPP as they are acquired out of salary sacrificed remuneration.

AGL Long-Term Incentive Plan

The AGL Energy Limited Board of Directors approved the AGL Long-Term Incentive Plan (LTIP) on 5 October 2006 and was amended by the Board on 19 August 2009. The LTIP is an integral part of AGL's remuneration policy. It is designed to generate long-term value for shareholders by linking the performance of AGL executives with the achievement of specific business and strategic goals.

Under the LTIP, participants are granted Share Performance Rights (SPRs), which vest over time if specific applicable hurdles are met. A SPR is an entitlement to one fully-paid ordinary share in AGL. On vesting, SPRs are exercised and converted to fully-paid ordinary shares in AGL. SPRs do not carry dividend or voting rights. SPRs participate in bonus issues, rights issues and reconstructions and reorganisations of the capital of AGL in the same manner as AGL ordinary shares.

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

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

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

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

All SPRs will vest in the event that a change in control of AGL occurs, subject to the performance conditions applicable to those SPRs being satisfied at that time unless the Board, in its absolute discretion, determines that it is appropriate to waive the satisfaction of the performance conditions.

AGL may issue shares or purchase shares in the ordinary course of trading on the ASX to satisfy SPRs which have vested.

Managing Director and Senior Executives

Grants of SPRs to eligible participants are made on an annual basis or such other times as the Board in its discretion may determine. Eligible participants are employees of any entity in the consolidated entity who are determined by the Board in its discretion to be eligible to participate in the LTIP.

The Board has an absolute discretion to determine the number of SPRs issued to an LTIP participant, and the performance conditions which must be satisfied before SPRs can vest and the period over which SPRs vest.

At the 2011 Annual General Meeting, shareholder approval was obtained for the grant of SPRs under the LTIP to Mr Fraser (Managing Director and Chief Executive Officer) in respect of the financial years ending 30 June 2012, 30 June 2013 and 30 June 2014.

On 22 June 2012, Mr Fraser received an initial notional grant of 146,171 SPRs in respect of the year ended 30 June 2012. The number of SPRs notionally granted was determined by dividing Mr Fraser's Total Fixed Remuneration (TFR) as at 1 September 2011 of $2,080,000 by $14.23 (being the volume weighted average price (VWAP) at which AGL's shares traded on the ASX during the 30 calendar days up to and including 30 June 2011).

On 22 June 2012, 21 executives received an initial notional grant of 217,395 SPRs in respect of the year ended 30 June 2012. The number of SPRs notionally granted was determined by taking the participant's TFR as at 1 September 2011 multiplied by their pre-agreed percentage LTI component, and divided by $14.23 (being the volume weighted average price (VWAP) at which AGL's shares traded on the ASX during the 30 calendar days up to and including 30 June 2011).

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

> Total Shareholder Return (TSR); and

> Growth in Earnings before interest and tax (EBIT)/Funds Employed

TSR measures the total change in the value of AGL shares over the measurement period including dividends and other distributions. TSR calculates what a dollar investment in AGL would return in percentage terms at the end of a specified period. TSR rewards consistent performance in the generation of sustained shareholder value over the long term.

EBIT/Funds Employed measures the return AGL is getting from its funds invested. EBIT/Funds Employed encourages the efficient use of capital in a capital intensive industry.

Participants will be awarded a number of SPRs in respect of each performance condition, determined by multiplying 50% of the number of their initial grant of SPRs by the multiplier indicated in the tables below which corresponds with the TSR outcome and the growth in EBIT/Funds Employed outcome for the financial year ending 30 June 2012.

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

In the event the TSR outcome is greater than 14%, the opening share price for measuring the following year's TSR is set at a level that would have achieved 14%. In the event the TSR outcome is less than minus 14%, the opening share price for measuring the following year's TSR is set at a level that would have achieved minus 14%.

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

Note 49 – Share-based payment plans (continued)

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

SPRs awarded can be positive and negative. This means shares can only be awarded if there is a predetermined improvement on the prior year. Importantly however, if performance falls below a predetermined level in any year, then previously awarded SPRs will be clawed back to the extent calculated under the performance hurdles.

Each participant has two notional share bank accounts (one for TSR, the other for EBIT/Funds Employed) and these operate independently of each other in determining whether a distribution is made.

The SPRs awarded are deposited into a notional share bank account. An annual calculation is made as soon as practicable for the year ended 30 June to determine the number of SPRs to be added or deducted from the notional share bank accounts.

If there is a positive notional share bank balance in a bank account following the calculation, 40% of that balance is distributed to participants during the next AGL share trading window.

There is no distribution from a bank account if there is a negative notional share bank balance in that account following the calculation and any negative balance is carried forward to the following year.

Under the old LTIP, SPRs granted on 27 October 2008 are subject to a performance condition based on TSR with the level of vesting being dependent upon AGL's TSR performance measured against a comparable group of the ASX100 listed companies as at 1 October 2008.

The performance condition was tested initially on 1 October 2011 and the number of SPRs that vested at that time was determined in accordance with the table below. To the extent that full vesting did not occur at that point, the performance condition will be retested on 1 October 2012.

AGL's TSR ranking relative to ASX100	Percentage of SPRs that vest
TSR below 40th percentile	0%
TSR between 40th and 50th percentile	Progressive vesting on a straight-line basis from 40% to 50%
TSR between 51st and 84th percentile	Progressive vesting on a straight-line basis from >50% and <100%
TSR equal to or greater than 85th percentile	100%

The following table sets out details of SPRs notionally granted to executives during the year:

SPRs grant	Number of SPRs	Performance period	Vesting date	Weighted average fair value
2012				
22 June 2012	**363,566**	**1 July 2011–30 June 2012**	**1 September 2012**	**$14.53**
2011				
20 June 2011	298,265	1 July 2010–30 June 2011	1 September 2011	$7.08

Details of SPRs movements in the AGL Long-Term Incentive Plan during the year are set out below:

SPRs grant	Balance at beginning of the year	Deposited (deducted) during the year(a)	Notionally granted during the year	Adjustments granted during the year(b)	Vested during the year	Forfeited during the year	Balance at end of the year
2012							
TSR share bank account	**85,935**	**–**	**–**	**1,872**	**(34,897)**	**–**	**52,910**
EBIT/Funds Employed share bank account	**31,184**	**(89,475)**	**–**	**(2,149)**	**(316)**	**–**	**(60,756)**
Notional grant 22/6/12	**–**	**–**	**363,566**	**13,321**	**–**	**–**	**376,887**
Notional grant 20/6/11	**298,265**	**(298,265)**	**–**	**–**	**–**	**–**	**–**
Old LTIP grant 27/10/08	**200,640**	**–**	**–**	**142**	**(195,301)**	**(1,462)**	**4,019**
	616,024	**(387,740)**	**363,566**	**13,186**	**(230,514)**	**(1,462)**	**373,060**

(a) After testing the SPRs notionally granted on 20 June 2011 against the relevant performance hurdle, the SPRs are deposited into (or deducted from) the relevant share bank account for each participant.
(b) Adjustment grants were made to adjust for dilution to the number of SPRs notionally granted on 22 June 2012 and to unvested SPRs for prior years as a result of the rights issue allotment in June 2012.

There were nil SPRs vested but not exercisable at 30 June 2012.

SPRs grant	Balance at beginning of the year	Deposited (deducted) during the year[(a)]	Nationally granted during the year	Vested during the year	Forfeited during the year	Balance at end of the year
2011						
TSR share bank account	–	162,840	–	(65,784)	(11,121)	85,935
EBIT/Funds Employed share bank account	–	59,093	–	(23,872)	(4,037)	31,184
Notional grant 20/6/11	–	–	298,265	–	–	298,265
Notional grant 26/2/10	262,655	(262,655)	–	–	–	–
Old LTIP grant 27/10/08	240,733	–	–	(2,667)	(37,426)	200,640
Old LTIP grant 25/2/08	103,915	–	–	(103,915)	–	–
Old LTIP grant 11/1/08	99,521	–	–	(99,521)	–	–
	706,824	(40,722)	298,265	(295,759)	(52,584)	616,024

(a) After testing the SPRs notionally granted on 26 February 2010 against the relevant performance hurdle, the SPRs are deposited into (or deducted from) the relevant share bank account for each participant.

There were nil SPRs vested but not exercisable at 30 June 2011.

The fair value of services received in return for SPRs granted are measured by reference to the fair value of SPRs granted. The estimate of the fair value of services received is measured based on the Black-Scholes and Monte Carlo simulation methods. The contractual life of the SPRs is used as an input into this model. Expectations of early vesting are incorporated into the Monte Carlo simulation method. Expected volatility is based on the historical share price volatility over the past two years.

SPRs grant	2012 22 Jun 12	2011 20 Jun 11
Weighted average fair value at grant date	**$14.53**	$7.08
Share price at grant date	**$14.75**	$14.24
Expected volatility	**20.0%**	15.0%
SPR life	**0.2–4.2 years**	0.2–4.2 years
Expected dividend yield	**5.6%**	4.1%
Risk free interest rate (based on government bonds)	**2.4%–2.9%**	4.7%

The total expense recognised in the income statement as part of employee benefits expense during the year in relation to SPRs granted to the Managing Director and executives under the AGL Long-Term Incentive Plan was:

	2012 $m	2011 $m
Employee benefits expense	**5.3**	0.5

Note 50 – Related party disclosures

Parent entity

AGL Energy Limited is the parent entity of the consolidated entity.

Balances and transactions between the Parent Entity and its subsidiaries, which are related parties of the Parent Entity, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the consolidated entity and other related parties are disclosed below.

Equity interests in subsidiaries

Details of interests in subsidiaries are disclosed in Note 42.

Equity interests in associates and jointly controlled entities

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

Key management personnel

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

Loans to associates

On 29 June 2012, the consolidated entity completed the acquisition of Great Energy Alliance Corporation Pty Limited (GEAC), increasing its ownership from 32.54% to 100%. At the date of acquisition, the loan principal of $122.0 million and accrued interest of $4.5 million owing by GEAC to the Parent Entity have been eliminated on consolidation. During the financial year, interest of $11.7 million (2011: $10.7 million) was accrued of which $11.4 million (2011: $10.2 million) was capitalised as loan principal.

Loans to jointly controlled entities

On 6 October 2011, the consolidated entity and its joint venture partner, APA Group, entered into a loan facility agreement with Diamantina Holding Company Pty Limited (DPS Holdco) to provide interim funding in equal proportions for the construction of the 242 MW gas-fired power station in Mt Isa, Queensland. At the end of the reporting period, the consolidated entity has provided a loan of $89.7 million (2011: $nil) including capitalised interest of $2.3 million (2011: $nil) to DPS Holdco. The loan is unsecured, at market interest rates and is repayable on completion of the external financing arrangements for DPS Holdco.

The Parent Entity has provided a loan to Central Queensland Pipeline Pty Ltd of $1.5 million (2011: $1.5 million) for operational expenditure purposes. The loan is unsecured, interest free and has no fixed repayment terms.

During the financial year, the interest free loan provided to Energy Infrastructure Management Pty Ltd of $0.4 million (2011: $0.4 million) was repaid.

	2012 $m	2011 $m
Amounts owing by associates and jointly controlled entities		
ActewAGL Retail Partnership	**51.7**	54.8
Great Energy Alliance Corporation Pty Limited	**–**	4.1
	51.7	58.9
Amounts owing by joint venture operations		
Macarthur Wind Farm Joint Venture	**0.6**	–
Galilee Gas Project Joint Venture	**0.2**	–
	0.8	–

The amounts outstanding are unsecured, interest free and will be settled in cash. No expense has been recognised in the current or the prior period for bad or doubtful debts in respect of the amounts owed by associates, jointly controlled entities and joint ventures.

	2012 $m	2011 $m
Amounts owing to jointly controlled entities		
ActewAGL Retail Partnership	**1.2**	–
Trading transactions with associates and jointly controlled entities		
ActewAGL Retail Partnership		
The consolidated entity provided management and retail services to the ActewAGL Retail Partnership on normal commercial terms and conditions.	**8.4**	8.6
The consolidated entity sold gas and electricity to the ActewAGL Retail Partnership on normal commercial terms and conditions.	**228.5**	284.3
Great Energy Alliance Corporation Pty Limited		
On 29 June 2012, the consolidated entity completed the acquisition of Great Energy Alliance Corporation Pty Limited, increasing its ownership from 32.54% to 100%. Up until the date of acquisition, there were the following transactions between the consolidated entity and GEAC.		
The consolidated entity paid difference receipts from the settlement of electricity hedges on normal commercial terms and conditions.	**(77.8)**	(89.2)
Diamantina Power Station Pty Limited		
On 6 October 2011, the consolidated entity entered into a gas supply agreement with Diamantina Power Station Pty Limited (DPS), a wholly-owned subsidiary of Diamantina Holding Company Pty Limited, to supply DPS with 138 petajoules of natural gas from May 2013 through to 2023 on normal terms and conditions.	**–**	–

Note 51 – Cash flow information

	2012 $m	2011 $m
(a) Reconciliation of profit for the period to net cash flows from operating activities		
Profit for the year	**114.9**	558.7
Share of profits of associates and jointly controlled entities	**(16.8)**	(33.6)
Dividends received from jointly controlled entities	**26.7**	24.3
Depreciation and amortisation	**173.9**	148.0
Impairment of exploration and evaluation assets	**35.8**	–
Impairment of available-for-sale equity investments	**–**	0.2
Loss on remeasurement to fair value of pre-existing equity interest in an acquired entity	**120.7**	–
Cumulative loss reclassified from equity of pre-existing equity interest in an acquired entity	**36.3**	–
Share-based payments expense	**6.4**	2.0
Net loss/(gain) in fair value of derivatives	**304.6**	(218.8)
Net loss on disposal of exploration and evaluation assets	**1.1**	–
Net loss on disposal of oil and gas assets	**0.1**	–
Net loss on disposal of property, plant and equipment	**0.3**	3.5
Non-cash finance costs	**9.3**	11.5
Capitalised finance costs	**(26.8)**	(15.4)
Deferred borrowing costs	**(22.7)**	(1.9)
Changes in assets and liabilities		
(Increase)/decrease in trade and other receivables	**(207.2)**	(41.8)
(Increase)/decrease in inventories	**(21.5)**	(30.4)
(Increase)/decrease in derivative financial instruments	**0.2**	(23.4)
(Increase)/decrease in other financial assets	**29.8**	30.0
(Increase)/decrease in other assets	**(46.5)**	(100.4)
Increase/(decrease) in trade and other payables	**123.0**	25.2
Increase/(decrease) in provisions	**(39.2)**	(7.8)
Increase/(decrease) in other liabilities	**(3.1)**	5.3
Increase/(decrease) in tax assets and liabilities	**(132.8)**	234.1
Net cash provided by operating activities	**466.5**	569.3
(b) Subsidiaries and businesses acquired		
Net cash inflow/(outflow) on acquisition of subsidiaries and businesses (Note 43)	**217.5**	(5.1)
(c) Subsidiaries disposed		
Net cash inflow on disposal of subsidiaries (Note 44)	**–**	163.9
(d) Reconciliation of cash and cash equivalents		
Cash and cash equivalents at the end of the reporting period as shown in the statement of cash flows is reconciled to the related items in the statement of financial position as follows:		
Cash at bank and on hand	**540.1**	201.4
Short-term deposits	**1,272.8**	551.7
	1,812.9	753.1
(e) Non-cash financing and investing activities		
Dividends satisfied by the issue of shares under the AGL Dividend Reinvestment Plan (Note 34)	**92.4**	61.9
Shares issued as consideration for acquisition of subsidiary (Note 34)	**–**	116.0
	92.4	177.9

Note 52 – Economic dependency

(a) The consolidated entity is dependent to a significant extent upon various consortia of producers for the supply of natural gas from the Cooper Basin in South Australia, the Gippsland Field in Bass Strait and the Surat/Bowen Basin in Queensland. Long-term contracts protect the continuity of supply from these producers.

The consolidated entity has an obligation to pay the consortia of producers for a specified minimum quantity of gas each contract year, irrespective of the quantity actually supplied by the producers. The consolidated entity has the right to receive, without additional payment to the producers, a future delivery of gas equivalent to the quantity paid for but not taken in any contract year.

(b) The consolidated entity is dependent to a significant extent on the acquisition of electricity from generating entities and the use of transmission systems. Ongoing contracts are in place both for the purchase of electricity and the use of the transmission systems.

Note 53 – Financial instruments

(a) Capital risk management

The consolidated entity's objectives when managing capital are to safeguard its ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an appropriate capital structure of debt and equity.

In order to maintain or adjust the capital structure, the consolidated entity may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. The consolidated entity's overall capital management strategy remains unchanged from 2011.

The capital structure of the consolidated entity consists of net debt (borrowings as detailed in Notes 26 and 30 offset by cash and cash equivalents as detailed in Note 12) and total equity of the consolidated entity (comprising issued capital, reserves and retained earnings as detailed in Notes 34, 35 and 36).

The consolidated entity monitors capital on the basis of the gearing ratio and funds from operations (FFO) to interest expense cover.

The gearing ratio is calculated as net debt divided by adjusted total capital. Net debt is calculated as total borrowings, adjusted for cross currency swap hedges and deferred borrowing costs, less cash and cash equivalents. Adjusted total capital is calculated as total equity less the hedging reserve plus net debt. The gearing ratio at the reporting date was as follows:

	2012 $m	2011 $m
Current borrowings	**616.0**	886.7
Non-current borrowings	**3,696.0**	284.5
Total borrowings	**4,312.0**	1,171.2
Adjustment for cross currency swap hedges and deferred borrowing costs	**42.1**	65.2
Adjusted total borrowings	**4,354.1**	1,236.4
Cash and cash equivalents	**(1,812.9)**	(753.1)
Net debt	**2,541.2**	483.3
Total equity	**7,132.9**	6,341.5
Less: hedging reserve	**19.4**	(97.3)
Adjusted equity	**7,113.5**	6,438.8
Net debt	**2,541.2**	483.3
Adjusted total capital	**9,654.7**	6,922.1
Gearing ratio	**26.3%**	7.0%

FFO to interest expense cover is calculated as FFO divided by net interest expense. FFO is calculated as earnings before interest, tax, depreciation and amortisation (EBITDA), less significant items, changes in fair value of derivative financial instruments, share of profits of associates and jointly controlled entities using the equity method, plus dividends received and less income tax paid. Net interest expense includes finance costs capitalised and excludes unwinding of discount on provisions. FFO to net interest expense cover at the reporting date was as follows:

	2012 $m	2011 $m
Profit before net financing costs	**201.4**	819.1
Depreciation and amortisation	**173.9**	148.0
Finance income included in EBITDA	**12.7**	11.9
EBITDA	**388.0**	979.0
Significant expense items	**211.7**	44.3
Changes in fair value of financial instruments	**304.6**	(218.8)
Operating EBITDA	**904.3**	804.5
Share of profits of associates and jointly controlled entities	**(16.8)**	(30.3)
Dividends from equity accounted investments	**26.7**	24.3
Income tax paid	**(180.8)**	(0.7)
Funds from operations (FFO)	**733.4**	797.8
Net financing costs	**38.5**	25.5
Finance income included in EBITDA	**12.7**	11.9
Finance costs capitalised	**26.8**	15.4
Unwinding of discounts on provisions	**(10.7)**	(11.4)
Unwinding of discount on contingent consideration	**(0.2)**	–
Net interest expense	**67.1**	41.4
FFO to interest expense cover (times)	**10.9**	19.3

(b) Categories of financial assets and financial liabilities

The following table details the carrying amounts and fair values of the consolidated entity's financial assets and financial liabilities:

	2012		2011	
	Carrying amount $m	Fair value $m	Carrying amount $m	Fair value $m
Financial assets – current				
Cash and cash equivalents	**1,812.9**	**1,812.9**	753.1	753.1
Trade and other receivables	**1,531.4**	**1,531.4**	1,272.1	1,272.1
Loans to jointly controlled entities	**89.7**	**89.7**	–	–
Futures deposits and margin calls	**26.5**	**26.5**	56.3	56.3
Derivative financial instruments – at fair value				
– Energy derivatives – cash flow hedges	**120.6**	**120.6**	22.7	22.7
– Energy derivatives – economic hedges	**58.8**	**58.8**	222.2	222.2
	3,639.9	**3,639.9**	2,326.4	2,326.4
Financial assets – non-current				
Trade and other receivables	**–**	**–**	0.5	0.5
Available-for-sale financial assets – at fair value	**0.3**	**0.3**	0.3	0.3
Loans to associates and jointly controlled entities	**1.5**	**1.5**	112.5	112.5
Derivative financial instruments – at fair value				
– Interest rate swap contracts – cash flow hedges	**0.1**	**0.1**	0.5	0.5
– Energy derivatives – cash flow hedges	**429.7**	**429.7**	51.2	51.2
	431.6	**431.6**	165.0	165.0
Total financial assets	**4,071.5**	**4,071.5**	2,491.4	2,491.4
Financial liabilities – current				
Trade and other payables	**1,158.4**	**1,158.4**	853.1	853.1
Bank loans	**614.5**	**614.5**	886.7	886.7
Finance lease liabilities	**1.5**	**1.5**	–	–
Derivative financial instruments – at fair value				
– Interest rate swap contracts – cash flow hedges	**3.0**	**3.0**	1.3	1.3
– Forward foreign exchange contracts – cash flow hedges	**10.6**	**10.6**	56.7	56.7
– Energy derivatives – cash flow hedges	**27.0**	**27.0**	123.2	123.2
– Energy derivatives – economic hedges	**368.1**	**368.1**	259.5	259.5
Deferred consideration	**30.0**	**30.0**	–	–
Contingent consideration	**3.1**	**3.1**	–	–
	2,216.2	**2,216.2**	2,180.5	2,180.5
Financial liabilities – non-current				
USD senior notes	**337.5**	**337.5**	274.4	274.4
Subordinated notes	**650.0**	**650.0**	–	–
Bank loans	**2,585.8**	**2,585.8**	–	–
Other loans	**150.0**	**150.0**	–	–
Finance lease liabilities	**14.5**	**14.5**	11.9	11.9
Derivative financial instruments – at fair value				
– Cross currency swap contracts – cash flow and fair value hedges	**20.4**	**20.4**	85.9	85.9
– Interest rate swap contracts – cash flow hedges	**191.0**	**191.0**	3.1	3.1
– Forward foreign exchange contracts – cash flow hedges	**–**	**–**	2.0	2.0
– Energy derivatives – cash flow hedges	**5.3**	**5.3**	3.1	3.1
Deferred consideration	**218.2**	**218.2**	–	–
Contingent consideration	**1.4**	**1.4**	–	–
	4,174.1	**4,174.1**	380.4	380.4
Total financial liabilities	**6,390.3**	**6,390.3**	2,560.9	2,560.9

Note 53 – Financial instruments (continued)

(c) Financial risk management

The consolidated entity's activities expose it to a variety of financial risks, including market risk (interest rate risk, foreign currency risk and energy price risk), credit risk and liquidity risk. The consolidated entity's overall risk management program focuses on the unpredictability of markets and seeks to manage the impact of these risks on the consolidated entity's financial performance. The consolidated entity uses a range of derivative financial instruments to hedge these risk exposures.

The Board of Directors has overall responsibility for the establishment and oversight of the risk management policy and framework. The Board has established the Audit and Risk Management Committee, which is responsible for approving the consolidated entity's risk management policy and framework for identifying, assessing and managing risk. The Committee is also responsible for reviewing and updating the risk profile, monitoring the effectiveness of the risk management framework and reviewing at least annually the implementation of the risk management policy and framework. The Committee reports regularly to the Board of Directors on its activities.

Financial risk management is carried out by Corporate Treasury for interest rate risk, foreign currency risk and liquidity risk in accordance with the Board-approved Treasury Policy. Risk management activities in respect of energy price risk associated with the purchase and/or sale of electricity, gas and environmental products are undertaken by Merchant Energy in accordance with the Board-approved Wholesale Energy Risk Management Policy. Finance, Corporate Treasury and Merchant Energy identify, evaluate and hedge the financial risks in close cooperation with the consolidated entity's business units.

The consolidated entity has written policies covering specific areas, such as interest rate risk, foreign currency risk, energy price risk, credit risk, liquidity risk, and the use of derivative and non-derivative financial instruments. Compliance with policies and exposure limits is reviewed on a continuous basis.

(d) Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset and financial liability are disclosed in Note 1 to the financial statements.

(e) Interest rate risk management

The consolidated entity is exposed to interest rate risk as it borrows funds at both fixed and floating interest rates. The risk is managed by maintaining an appropriate mix between fixed and floating rate borrowings, and by the use of interest rate swap contracts or other hedging instruments.

The consolidated entity regularly analyses its interest rate exposure, by taking into consideration forecast debt positions, refinancing, renewals of existing positions, alternative financing, hedging positions and the mix of fixed and floating interest rates.

At the end of the reporting period, the consolidated entity had the following financial assets and liabilities exposed to floating interest rate risk:

Floating rate instruments	2012 $m	2011 $m
Financial assets		
Cash and cash equivalents	**1,812.9**	753.1
Loans to jointly controlled entities	**89.7**	–
	1,902.6	753.1
Financial liabilities		
USD senior notes (after effect of cross currency swaps)	**337.8**	337.8
Subordinated notes	**650.0**	–
Bank loans	**3,200.3**	886.7
Other loans	**150.0**	–
Interest rate swap contracts	**(2,759.0)**	(510.0)
	1,579.1	714.5

Interest rate swap contracts – cash flow hedges

Under interest rate swap contracts, the consolidated entity agrees with other parties to exchange, at specified intervals, the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the consolidated entity to mitigate the risk of changing interest rates on the cash flow exposures on the variable rate debt held.

The fair value of interest rate swaps at the end of the reporting period is determined by discounting the future cash flows using the yield curves at the end of the reporting period and the credit risk inherent in the contract, and is disclosed below. The average interest rate is based on the outstanding balances at the end of the reporting period.

The following table details the notional principal amounts and remaining terms of interest rate swap contracts outstanding at the end of the reporting period:

	Average contracted fixed interest rate		Notional principal amount		Fair value	
Outstanding receive floating pay fixed contracts	2012 %	2011 %	2012 $m	2011 $m	2012 $m	2011 $m
Less than 1 year	**5.52**	6.32	**399.0**	325.0	**(3.0)**	(1.3)
1 to 2 years	**5.63**	5.50	**255.0**	30.0	**(8.4)**	(0.2)
2 to 3 years	**5.53**	5.51	**410.0**	130.0	**(20.3)**	(1.3)
3 to 4 years	**5.96**	5.46	**1,805.0**	260.0	**(146.5)**	(1.6)
4 to 5 years	**5.56**	5.47	**60.0**	55.0	**(4.3)**	–
5 years or more	**5.41**	5.63	**230.0**	80.0	**(11.4)**	0.5
			3,159.0	880.0	**(193.9)**	(3.9)

The aggregate notional principal amount of the outstanding interest rate swap contracts at 30 June 2012 was $3,159.0 million (2011: $880.0 million). Included in this amount are $400.0 million (2011: $370.0 million) of forward interest rate swap contracts, of which $235.0 million commenced in the 2013 financial year, $145.0 million commences in the 2015 financial year and $20.0 million commences in the 2016 financial year.

The interest rate swaps settle on a quarterly basis. The floating rate on the interest rate swaps is the Australian BBSW. The consolidated entity will settle the difference between the fixed and floating interest rate on a net basis.

All interest rate swap contracts exchanging floating rate interest amounts for fixed rate interest amounts are designated as cash flow hedges in order to reduce the consolidated entity's cash flow exposure resulting from variable interest rates on borrowings. Interest rate swap settlement dates coincide with the dates on which interest is payable on the underlying borrowings.

The gain or loss from remeasuring the hedging instruments at fair value is recognised in other comprehensive income, to the extent that the hedge is effective. The gain or loss relating to the ineffective portion of the hedge is recognised immediately in profit or loss as part of finance costs. Amounts previously recognised in other comprehensive income and accumulated in equity in the hedging reserve are reclassified to profit or loss and included in finance costs when the hedged interest expense is recognised.

When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately to profit or loss. During the year, no hedges were de-designated and all underlying forecast transactions remain highly probable to occur as per original forecast.

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

Hedging reserve	2012 $m	2011 $m
Balance at beginning of financial year	**(2.7)**	(4.5)
Loss in fair value of cash flow hedges	**(39.4)**	(2.7)
Reclassified to finance costs	**5.2**	5.2
Income tax on items taken directly to or reclassified from equity	**10.2**	(0.7)
Balance at end of financial year	**(26.7)**	(2.7)
Cash flow ineffectiveness recognised immediately in profit or loss	**–**	–

Interest rate sensitivity

The following sensitivity analysis has been determined based on the exposure to interest rates for both derivative and non-derivative instruments at the end of the reporting period and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period.

At the end of the reporting period, if interest rates had been 50 basis points higher or lower and all other variables were held constant, the consolidated entity's profit after tax and other comprehensive income would have been affected as follows:

	Profit after tax Increase/(decrease)		Other comprehensive income Increase/(decrease)	
	2012 $m	2011 $m	2012 $m	2011 $m
Interest rates +0.5% (50 basis points)	**1.1**	0.1	**28.3**	5.6
Interest rates –0.5% (50 basis points)	**(1.1)**	(0.1)	**(28.9)**	(5.7)

The sensitivity to a 50 basis point increase or decrease in interest rates is considered reasonable, given the market forecasts available at the reporting date and under the current economic environment in which the consolidated entity operates.

The movements in profit after tax are mainly attributable to an increase/decrease in interest expense from floating rate borrowings and an increase/decrease in interest income from cash and cash equivalents. The movement in other comprehensive income is due to an increase/decrease in the fair value of interest rate swaps designated as cash flow hedges.

Note 53 – Financial instruments (continued)

(f) Foreign currency risk management

The consolidated entity undertakes certain transactions denominated in foreign currencies; consequently, exposures to exchange rate fluctuations arise. Foreign currency risk arises primarily from overseas term borrowings and firm commitments for the purchase of plant and equipment which are denominated in foreign currencies. Exchange rate exposures are managed within approved policy parameters utilising forward foreign exchange contracts and cross currency swap contracts.

Forward foreign exchange contracts – cash flow hedges

The consolidated entity's Corporate Treasury policy requires the hedging of foreign currency risk using forward foreign exchange contracts. The Corporate Treasury's policy is to hedge currency exposures of anticipated cash flows in excess of $0.5 million and to not enter into forward foreign exchange contracts until a firm commitment is in place.

The consolidated entity has entered into contracts to purchase plant and equipment denominated in United States dollars and Euros. The consolidated entity has entered into forward foreign exchange contracts to hedge the exchange rate risk arising from these anticipated future purchases, which are designated as cash flow hedges.

These anticipated purchases are expected to occur at various dates between one month and one year from the reporting date. The contracts are timed to mature when payments for the purchases are scheduled to be made. When necessary, forward foreign exchange contracts are rolled over at maturity.

The gain or loss from remeasuring the hedging instruments at fair value is recognised in other comprehensive income, to the extent that the hedge is effective. The gain or loss relating to the ineffective portion of the hedge is recognised immediately in profit or loss as part of other income or other expenses. When the anticipated purchase occurs, amounts previously recognised in other comprehensive income and accumulated in equity in the hedging reserve are transferred and included in the initial measurement of the cost of plant and equipment.

When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately to profit or loss. During the year, no hedges were de-designated and all underlying forecast transactions remain highly probable to occur as per original forecast.

The following table details the forward foreign exchange contracts outstanding at the end of the reporting period:

	Average exchange rate		Foreign currency		Contract value		Fair value	
Outstanding contracts	2012	2011	2012 FCm	2011 FCm	2012 $m	2011 $m	2012 $m	2011 $m
Cash flow hedges								
Buy US dollars								
Less than 6 months	**0.993**	1.034	**43.5**	21.0	**43.8**	20.4	**(2.3)**	(0.3)
6 to 12 months	**0.978**	0.874	**18.0**	51.2	**18.4**	58.5	**(0.4)**	(8.6)
1 to 2 years	–	0.960	–	28.9	–	30.1	–	(1.3)
Buy Euro								
Less than 6 months	**0.635**	0.654	**23.7**	153.0	**37.3**	234.0	**(7.9)**	(23.8)
6 to 12 months	–	0.643	–	147.9	–	230.0	–	(24.0)
1 to 2 years	–	0.635	–	4.0	–	6.4	–	(0.7)
							(10.6)	(58.7)

Cross currency swap contracts

Under cross currency swap contracts, the consolidated entity has agreed to exchange specified foreign currency loan principal and interest amounts at agreed future dates at fixed exchange rates. Such contracts enable the consolidated entity to eliminate the risk of movements in foreign exchange rates related to foreign currency denominated borrowings.

The fair value of cross currency swaps at 30 June 2012 was a liability of $20.4 million (2011: $85.9 million), of which $20.1 million (2011: $22.4 million) is in a cash flow hedge relationship and $0.3 million (2011: $63.5 million) is in a fair value hedge relationship.

The following table details the cross currency swap contracts outstanding at the end of the reporting period:

	Average interest rate		Average exchange rate		Contract value		Fair value	
Outstanding contracts	2012 %	2011 %	2012	2011	2012 $m	2011 $m	2012 $m	2011 $m
Buy US dollars								
5 years or more	**7.67**	7.67	**0.888**	0.888	**337.8**	337.8	**(20.4)**	(85.9)

The following table details the movements in the hedging reserve from forward foreign exchange contracts and cross currency swap contracts:

Hedging reserve	2012 $m	2011 $m
Balance at beginning of financial year	**(56.8)**	(0.5)
Loss in fair value of cash flow hedges	**3.5**	(88.3)
Reclassified to finance costs	**6.6**	3.3
Transferred to plant and equipment	**40.3**	4.6
Income tax on items taken directly to or transferred from equity	**(15.1)**	24.1
Balance at end of financial year	**(21.5)**	(56.8)
Cash flow ineffectiveness recognised immediately in profit or loss	–	–

Foreign currency sensitivity

The following table details the sensitivity to a 10% increase or decrease in the Australian dollar against the relevant foreign currencies. A sensitivity of 10% has been used as this is considered reasonable given the current level of exchange rates and the volatility observed both on a historical basis and market expectations for future movements.

The sensitivity analysis includes only outstanding foreign currency denominated financial instruments and adjusts their translation at the end of the reporting period for a 10% change in foreign currency rates.

At the end of the reporting period, if the Australian dollar had been 10% higher or lower and all other variables were held constant, the consolidated entity's profit after tax and other comprehensive income would have been affected as follows:

	Profit after tax Increase/(decrease)		Other comprehensive income Increase/(decrease)	
	2012 $m	2011 $m	2012 $m	2011 $m
US dollar +10%	**–**	–	**(3.8)**	(6.0)
US dollar –10%	**–**	–	**4.6**	7.4
Euro +10%	**–**	–	**(1.9)**	(25.8)
Euro –10%	**–**	–	**2.3**	31.5

The movement in other comprehensive income is due to an increase/decrease in the fair value of forward foreign exchange contracts designated as cash flow hedges.

(g) Energy price risk management

The consolidated entity is exposed to energy price risk associated with the purchase and/or sale of electricity, gas and environmental products.

The consolidated entity manages energy risk through an established risk management framework consisting of policies to place appropriate risk limits on overall energy market exposures and transaction limits for approved energy commodities, requirements for delegations of authority on trading, regular reporting of exposures and segregation of duties.

It is the policy of the consolidated entity to actively manage the electricity price exposure arising from both forecast electricity generation and retail customer electricity load. The consolidated entity's risk management policy for electricity price risk is to hedge forecast future transactions for up to five years into the future.

Exposures to fluctuations in the wholesale market electricity prices are managed through the use of various types of derivative financial instruments.

Note 53 – Financial instruments (continued)

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

	2012 $m	2011 $m
Energy derivative financial assets – current		
Electricity derivatives – cash flow hedges	**120.6**	22.7
Electricity derivatives – economic hedges	**58.8**	222.2
	179.4	244.9
Energy derivative financial assets – non-current		
Electricity derivatives – cash flow hedges	**429.7**	51.2
	429.7	51.2
Energy derivative financial liabilities – current		
Electricity derivatives – cash flow hedges	**27.0**	123.2
Electricity derivatives – economic hedges	**368.1**	259.5
	395.1	382.7
Energy derivative financial liabilities – non-current		
Electricity derivatives – cash flow hedges	**5.3**	3.1
	5.3	3.1

Electricity derivatives – cash flow hedges

Derivative financial instruments are used by the consolidated entity in the normal course of business in order to hedge exposure to fluctuations in electricity prices. The aggregate notional volumes of the outstanding electricity derivatives at 30 June 2012 were 43.8 million MWh (2011: 101.3 million MWh). Electricity derivatives are either designated in cash flow hedge relationships or remain non-designated.

The hedged anticipated electricity purchase and sale transactions are expected to occur continuously over the next five years from the end of the reporting period consistent with the forecast demand from customers over this period.

The effective portion of changes in the fair value of electricity derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion of the hedge is recognised immediately in profit or loss as part of gain/(loss) in fair value of electricity derivatives. Amounts previously recognised in other comprehensive income and accumulated in equity in the hedging reserve are reclassified to profit or loss and included in cost of sales in each period in which the underlying purchase or sale transactions are recognised.

When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately to profit or loss. During the year, no hedges were de-designated and all underlying forecast transactions remain highly probable to occur as originally forecast.

Electricity derivatives – economic hedges

The consolidated entity has entered into certain derivative instruments for economic hedging purposes under the Board-approved risk management policies, which do not satisfy the requirements for hedge accounting under AASB 139 *Financial Instruments: Recognition and Measurement*. These derivatives are therefore required to be categorised as held for trading and are classified in the statement of financial position as economic hedges. Changes in the fair value of derivative instruments that do not qualify for hedge accounting are recognised immediately in profit or loss as part of gain/(loss) in fair value of electricity derivatives.

During the year a net fair value loss of $304.6 million (2011: gain of $219.1 million) was recognised in profit or loss by the consolidated entity.

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

Hedging reserve	2012 $m	2011 $m
Balance at beginning of financial year	**(40.3)**	(138.3)
Loss in fair value of cash flow hedges	**50.0**	(27.4)
Reclassified to cost of sales	**104.1**	169.9
Income tax on items taken directly to or transferred from equity	**(46.2)**	(44.5)
Balance at end of financial year	**67.6**	(40.3)
Cash flow ineffectiveness loss recognised immediately in profit or loss	**–**	0.3

Energy price sensitivity

The following table details the sensitivity to a 10% increase or decrease in the forward prices for electricity. A sensitivity of 10% has been used as this is considered reasonably possible, based on historical data relating to the level of volatility in electricity prices.

At the end of the reporting period, if the forward prices for electricity had been 10% higher or lower and all other variables were held constant, the consolidated entity's profit after tax and other comprehensive income equity would have been affected as follows:

	Profit after tax Increase/(decrease)		Other comprehensive income Increase/(decrease)	
	2012 $m	2011 $m	2012 $m	2011 $m
Electricity forward price +10%	**6.6**	100.9	**80.4**	73.2
Electricity forward price –10%	**(10.7)**	(100.8)	**(78.4)**	(73.2)

The movement in profit after tax is mainly attributable to an increase/decrease in the fair value of certain energy derivative instruments which are economic hedges but do not satisfy the requirements for hedge accounting. The movement in other comprehensive income is due to an increase/decrease in the fair value of energy hedging instruments designated as cash flow hedges.

(h) Other price risks

The consolidated entity's exposure to equity price risk is minimal. Equity price risk arises from an equity investment in an ASX listed entity and which is classified in the statement of financial position as available-for-sale financial assets. The investment is held for strategic rather than trading purposes.

The price risk for the listed investment is immaterial in terms of the possible impact on profit or loss or other comprehensive income and as such a sensitivity analysis has not been completed.

(i) Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the consolidated entity. Credit risk arises from the consolidated entity's financial assets, which comprise cash and cash equivalents, trade and other receivables, loans to associates and derivative financial instruments.

The consolidated entity manages its exposure to credit risk using credit risk management policies which provide credit exposure limits and contract maturity limits based on the credit-worthiness of counterparties. The consolidated entity's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread among approved counterparties.

Trade and other receivables consist of over 3.4 million residential, small business and large commercial and industrial customers, in New South Wales, Victoria, South Australia and Queensland. Ongoing credit evaluation is performed on the financial condition of customers and, where appropriate, an allowance for doubtful debts is raised. The consolidated entity does not have any significant credit risk exposure to any single customer or any group of customers. For further details regarding trade and other receivables, refer to Note 13.

Credit risk arising from transactions in money market instruments, foreign exchange derivative contracts and interest rate derivatives contracts with financial institutions is managed by Corporate Treasury in accordance with the Board-approved Treasury Policy. The consolidated entity limits its exposure to credit risk by investing surplus funds and entering into derivative financial instruments only with approved financial institutions that have a credit rating of at least A from Standard & Poor's and within credit limits assigned to each financial institution.

Credit risk arising from the use of derivative financial instruments to manage energy price risk is managed by Merchant Energy in accordance with the Board-approved Wholesale Energy Risk Management Policy. Derivative counterparties are limited to high creditworthy financial institutions and other organisations in the energy industry. Derivative counterparties are assigned approved credit limits and contract maturity limits based on independent credit ratings from Standard & Poor's, Fitch or Moody's where available, or otherwise by internal assessment and credit scoring based on published financial statements and market information for each counterparty.

As there are a limited number of energy organisations to enable management of energy price risk, there is limited scope for managing credit risk through diversification of counterparties. Any request for credit exposure limits or contract maturity limits above those assigned for a counterparty must be referred to the Board for approval. The credit worthiness of counterparties is closely monitored over the life of the transaction. Credit exposure and maturity exposure by individual counterparty are continuously monitored and reported on regularly.

The consolidated entity also utilises International Swaps and Derivative Association (ISDA) agreements with derivative counterparties in order to limit exposure to credit risk through the netting of amounts receivable from and amounts payable to individual counterparties.

At the end of the reporting period, there was a significant concentration of credit risk with certain counterparties in relation to electricity derivatives undertaken in accordance with the consolidated entity's hedging and risk management activities.

The carrying amount of the financial assets recognised in the financial statements, which is net of impairment losses, represents the maximum exposure to credit risk.

The consolidated entity does not hold any collateral or other credit enhancements to cover this credit risk.

Note 53 – Financial instruments (continued)

(j) Liquidity risk management

Liquidity risk is the risk that the consolidated entity will not be able to meet its financial obligations as they fall due. Ultimate responsibility for liquidity risk management rests with the Board of Directors, who have established an appropriate liquidity risk management framework for the management of the consolidated entity's short-, medium- and long-term funding and liquidity management requirements.

The consolidated entity manages liquidity risk by maintaining adequate cash reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Note 30 sets out details of undrawn financing facilities that the consolidated entity has access to at the end of the reporting period.

The following table details the consolidated entity's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the consolidated entity can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are at floating rate, the undiscounted amount is derived from interest rate curves at the end of the reporting period. The contractual maturity is based on the earliest date on which the consolidated entity may be required to pay.

	Less than 6 months $m	6–12 months $m	1–2 years $m	2–5 years $m	More than 5 years $m	Total $m
2012						
Non-derivative financial liabilities						
Trade and other payables	**1,158.4**	**–**	**–**	**–**	**–**	**1,158.4**
USD senior notes	**7.6**	**7.6**	**15.1**	**45.4**	**439.9**	**515.6**
Subordinated notes	**26.7**	**29.4**	**59.4**	**191.5**	**2,061.3**	**2,368.3**
Bank loans	**834.5**	**125.7**	**249.0**	**2,249.1**	**527.3**	**3,985.6**
Finance lease liabilities	**0.8**	**0.8**	**–**	**14.5**	**178.4**	**194.5**
Other loans	**5.7**	**7.3**	**25.7**	**75.7**	**249.0**	**363.4**
Deferred consideration	**–**	**30.0**	**30.7**	**96.8**	**386.3**	**543.8**
Contingent consideration	**3.1**	**–**	**1.6**	**–**	**–**	**4.7**
	2,036.8	**200.8**	**381.5**	**2,673.0**	**3,842.2**	**9,134.3**
2011						
Non-derivative financial liabilities						
Trade and other payables	853.1	–	–	–	–	853.1
USD senior notes	7.2	7.2	14.5	43.4	447.5	519.8
Bank loans	910.7	–	–	–	–	910.7
Finance lease liabilities	–	–	0.1	0.2	178.4	178.7
	1,771.0	7.2	14.6	43.6	625.9	2,462.3

The following table details the consolidated entity's expected maturity for its non-derivative financial assets. The table has been drawn up based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets. The inclusion of information on non-derivative financial assets is necessary in order to understand the consolidated entity's liquidity risk management, as the liquidity is managed on a net asset and liability basis.

	Less than 6 months $m	6–12 months $m	1–2 years $m	2–5 years $m	More than 5 years $m	Total $m
2012						
Non-derivative financial assets						
Cash and cash equivalents	**1,824.3**	**–**	**–**	**–**	**–**	**1,824.3**
Trade and other receivables	**1,531.4**	**–**	**–**	**–**	**–**	**1,531.4**
Futures deposits and margin calls	**26.5**	**–**	**–**	**–**	**–**	**26.5**
Loans to associates and jointly controlled entities	**89.7**	**–**	**1.5**	**–**	**–**	**91.2**
	3,471.9	**–**	**1.5**	**–**	**–**	**3,473.4**
2011						
Non-derivative financial assets						
Cash and cash equivalents	758.1	–	–	–	–	758.1
Trade and other receivables	1,272.1	–	0.5	–	–	1,272.6
Futures deposits and margin calls	56.3	–	–	–	–	56.3
Loans to associates and jointly controlled entities	5.5	5.6	11.1	33.2	196.4	251.8
	2,092.0	5.6	11.6	33.2	196.4	2,338.8

The following table details the consolidated entity's liquidity analysis for its derivative financial instruments. The table has been drawn up based on the undiscounted net cash inflows and outflows on those derivatives instruments that settle on a net basis, and the undiscounted gross inflows and outflows on those derivatives that require gross settlement. For interest rate swaps, the amount disclosed has been determined by reference to the projected interest rates as illustrated by the yield curves at the end of the reporting period.

	Less than 6 months $m	6–12 months $m	1–2 years $m	2–5 years $m	More than 5 years $m	Total $m
2012						
Derivative financial instruments						
Gross settled						
– Cross currency swap contracts – pay leg	**(10.5)**	**(10.4)**	**(19.1)**	**(66.5)**	**(497.9)**	**(604.4)**
– Cross currency swap contracts – receive leg	**7.6**	**7.6**	**15.1**	**45.4**	**397.2**	**472.9**
Net pay	**(2.9)**	**(2.8)**	**(4.0)**	**(21.1)**	**(100.7)**	**(131.5)**
Net settled						
– Interest rate swap contracts	**(30.1)**	**(35.5)**	**(65.0)**	**(78.5)**	**(2.8)**	**(211.9)**
– Forward foreign exchange contracts	**(10.1)**	**(0.4)**	**–**	**–**	**–**	**(10.5)**
– Electricity derivatives	**(201.9)**	**(68.3)**	**(53.6)**	**(9.6)**	**–**	**(333.4)**
	(245.0)	**(107.0)**	**(122.6)**	**(109.2)**	**(103.5)**	**(687.3)**
2011						
Derivative financial instruments						
Gross settled						
– Cross currency swap contracts – pay leg	(13.0)	(12.8)	(26.5)	(85.5)	(568.0)	(705.8)
– Cross currency swap contracts – receive leg	7.2	7.2	14.5	43.4	447.5	519.8
Net pay	(5.8)	(5.6)	(12.0)	(42.1)	(120.5)	(186.0)
Net settled						
– Interest rate swap contracts	(2.9)	(1.5)	(1.9)	1.5	1.3	(3.5)
– Forward foreign exchange contracts	(24.1)	(32.6)	(2.0)	–	–	(58.7)
– Electricity derivatives	(217.9)	(58.6)	(103.5)	(16.9)	–	(396.9)
	(250.7)	(98.3)	(119.4)	(57.5)	(119.2)	(645.1)

Note 53 – Financial instruments (continued)

(k) Fair value measurements

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

> Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.

> Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices).

> Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
2012				
Financial assets				
Available-for-sale financial assets				
– Shares in listed entities	**0.3**	**–**	**–**	**0.3**
Derivative financial instruments				
– Interest rate swap contracts – cash flow hedges	**–**	**0.1**	**–**	**0.1**
– Energy derivatives – cash flow hedges	**–**	**130.5**	**419.8**	**550.3**
– Energy derivatives – economic hedges	**8.2**	**50.5**	**–**	**58.7**
	8.5	**181.1**	**419.8**	**609.4**
Financial liabilities				
Derivative financial instruments				
– Cross currency swap contracts – cash flow and fair value hedges	**–**	**(20.4)**	**–**	**(20.4)**
– Interest rate swap contracts – cash flow hedges	**–**	**(194.0)**	**–**	**(194.0)**
– Forward foreign exchange contracts – cash flow hedges	**–**	**(10.6)**	**–**	**(10.6)**
– Energy derivatives – cash flow hedges	**–**	**(32.3)**	**–**	**(32.3)**
– Energy derivatives – economic hedges	**(18.3)**	**(276.9)**	**(72.9)**	**(368.1)**
	(18.3)	**(534.2)**	**(72.9)**	**(625.4)**
2011				
Financial assets				
Available-for-sale financial assets				
– Shares in listed entities	0.3	–	–	0.3
Derivative financial instruments				
– Forward foreign exchange contracts – cash flow hedges	–	0.5	–	0.5
– Energy derivatives – cash flow hedges	–	67.9	6.0	73.9
– Energy derivatives – economic hedges	9.1	106.0	107.1	222.2
	9.4	174.4	113.1	296.9
Financial liabilities				
Derivative financial instruments				
– Cross currency swap contracts – cash flow and fair value hedges	–	(85.9)	–	(85.9)
– Interest rate swap contracts – cash flow hedges	–	(4.4)	–	(4.4)
– Forward foreign exchange contracts – cash flow hedges	–	(58.7)	–	(58.7)
– Energy derivatives – cash flow hedges	–	(124.6)	(1.7)	(126.3)
– Energy derivatives – economic hedges	(29.4)	(136.9)	(93.2)	(259.5)
	(29.4)	(410.5)	(94.9)	(534.8)

There were no material transfers between Level 1 and Level 2 during the year.

The fair value of financial instruments with standard terms and conditions and traded in active liquid markets (such as publicly traded derivatives and listed equity investments) is determined with reference to quoted market prices at the end of the reporting period. These instruments are included in Level 1.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using appropriate valuation techniques and making assumptions that are based on market conditions existing at the end of each reporting period. The fair value of forward foreign exchange contracts is calculated as the present value of expected future cash flows relating to the difference between the contract rates and the market forward rates at the end of the reporting period. Interest rate and cross currency swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates. These derivative financial instruments are included in Level 2.

In the circumstances where a valuation technique for derivative financial instruments is based on significant unobservable inputs, such instruments are included in Level 3.

The following table provides a reconciliation of fair value movements in Level 3 financial instruments.

	Energy derivatives	
	2012 $m	2011 $m
Opening balance	**18.2**	38.8
Total gains and losses recognised in profit or loss	**(158.1)**	(10.5)
Purchases	**–**	2.7
Settlements	**94.1**	(11.0)
Transfers in from Level 2	**(27.1)**	(1.8)
Acquisition through business combination	**419.8**	–
Closing balance	**346.9**	18.2

The total gains or losses for the year included a loss of $75.9 million relating to electricity derivative contracts held at the end of the reporting period (2011: a loss of $37.8 million). Fair value gains or losses on electricity derivatives are included in the line item 'cost of sales – (gain)/loss in fair value of electricity derivatives' in Note 7.

Note 54 – Subsequent events

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

Repayment of Loy Yang A debt

On 13 August 2012, AGL repaid $978.1 million of Loy Yang A secured debt assumed at the date of acquisition of Great Energy Alliance Corporation Pty Limited.

Final dividend

On 22 August 2012, the Directors of AGL resolved to pay a fully franked final dividend of 32.0 cents per share, amounting to $174.7 million. The record date for the final dividend is 5 September 2012 with payment to be made on 27 September 2012. Shares will commence trading ex-dividend on 30 August 2012.

The AGL Dividend Reinvestment Plan (DRP) will be in operation and shares will be allotted at a 1.5% discount to the simple average of the daily weighted average market price at which AGL's ordinary shares are traded on ASX during each of the 10 trading days commencing on 7 September 2012.

Note 55 – Parent Entity information

The accounting policies of the Parent Entity, which have been applied in determining the financial information shown below, are the same as those applied in the consolidated financial statements. Refer to Note 1 for a summary of the significant accounting policies relating to the consolidated entity.

	2012 $m	2011 $m
Financial position		
Assets		
Current assets	**1,373.5**	738.7
Non-current assets	**9,641.0**	8,305.7
Total assets	**11,014.5**	9,044.4
Liabilities		
Current liabilities	**274.7**	1,278.6
Non-current liabilities	**4,841.8**	2,429.0
Total liabilities	**5,116.5**	3,707.6
Equity		
Issued capital	**5,227.3**	4,244.6
Reserves		
Employee equity benefits	**2.6**	0.6
Hedging	**(41.3)**	(18.6)
Retained earnings	**709.4**	1,110.2
Total equity	**5,898.0**	5,336.8
Financial performance		
Loss for the year	**(111.9)**	(101.8)
Other comprehensive income	**(33.4)**	(12.0)
Total comprehensive income for the year	**(145.3)**	(113.8)

Guarantees entered into by the parent entity in relation to the debts of its subsidiaries

The Parent Entity has entered into a Deed of Cross Guarantee with the effect that it guarantees the debts in respect of its wholly-owned subsidiaries.

Further details of the Deed of Cross Guarantee and the subsidiaries subject to the deed, are disclosed in Notes 42 and 46 respectively.

Contingent liabilities

The Directors are of the opinion that provisions are not required in respect of the following matters, as it is either not probable that a future sacrifice of economic benefits will be required or the amount is not capable of reliable measurement.

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

The Parent Entity is a party to various other legal actions and claims which have arisen in the ordinary course of business. Any liabilities arising from such legal actions and claims are not expected to have a material adverse effect on the Parent Entity.

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

Capital expenditure commitments

Plant and equipment

No longer than one year	**–**	–
Longer than one year and not longer than five years	**–**	–
Longer than five years	**–**	–
	–	–

Note 56 – Net tangible asset backing

Net tangible asset backing per ordinary share	**$7.26**	$6.95

Net tangible assets are defined as net assets of the consolidated entity less intangible assets. The number of AGL shares on issue at the end of the reporting period was 545.9 million (2011: 461.3 million).

Directors' Declaration

For the year ended 30 June 2012

The Directors of AGL Energy Limited declare that:

(a) in their opinion, there are reasonable grounds to believe that the Parent Entity will be able to pay its debts as and when they become due and payable;

(b) in their opinion, the financial statements and notes thereto are in compliance with International Financial Reporting Standards, as stated in Note 1(a) to the financial statements;

(c) in their opinion, the attached financial statements and notes thereto are in accordance with the *Corporations Act 2001*, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the consolidated entity;

(d) in their opinion, there are reasonable grounds to believe that the Parent Entity and the subsidiaries identified in Note 42 will be able to meet any obligations or liabilities to which they are or may become subject, by virtue of the Deed of Cross Guarantee between the Parent Entity and those subsidiaries pursuant to ASIC Class Order 98/1418; and

(e) the Directors have been given the declarations required by s.295A of the *Corporations Act 2001*.

Signed in accordance with a resolution of the Directors.

Jeremy Maycock
Chairman

Sydney, 22 August 2012

Independent Auditor's Report

to the Members of AGL Energy Limited

Deloitte.

Deloitte Touche Tohmatsu
A.B.N. 74 490 121 060
Grosvenor Place
225 George Street
Sydney NSW 2000
PO Box N250 Grosvenor Place
Sydney NSW 1220 Australia
DX 10307SSE
Tel: +61 (0) 2 9322 7000
Fax: +61 (0) 2 9322 7001
www.deloitte.com.au

Report on the Financial Report

We have audited the accompanying financial report of AGL Energy Limited, which comprises the Consolidated Statement of Financial Position as at 30 June 2012, the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Cash Flows and the Consolidated Statement of Changes in Equity for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the Directors' Declaration of the consolidated entity, comprising the company and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 64 to 141 of the AGL Financial Report 2012.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the consolidated financial statements comply with International Financial Reporting Standards.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control, relevant to the entity's preparation of the financial report that gives a true and fair view, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Auditor's Independence Declaration

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of AGL Energy Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

Opinion

In our opinion, the financial report of AGL Energy Limited is in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the consolidated entity's financial position as at 30 June 2012 and of its performance for the year ended on that date; and

(b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 48 to 63 of the Directors' Report for the year ended 30 June 2012. The Directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion the Remuneration Report of AGL Energy Limited for the year ended 30 June 2012, complies with section 300A of the *Corporations Act 2001*.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

BJ Pollock

BJ Pollock
Partner
Chartered Accountants
Sydney, 22 August 2012

Auditor's Independence Declaration

to the Directors of AGL Energy Limited

Deloitte.

Deloitte Touche Tohmatsu
A.B.N. 74 490 121 060
Grosvenor Place
225 George Street
Sydney NSW 2000
PO Box N250 Grosvenor Place
Sydney NSW 1220 Australia
DX 10307SSE
Tel: +61 (0) 2 9322 7000
Fax: +61 (0) 2 9322 7001
www.deloitte.com.au

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

22 August 2012

Dear Board Members

AGL Energy Limited

In accordance with section 307C of the *Corporations Act 2001*, I am pleased to provide the following declaration of independence to the directors of AGL Energy Limited.

As lead audit partner for the audit of the financial statements of AGL Energy Limited for the financial year ended 30 June 2012, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

(ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

BJ Pollock
Partner
Chartered Accountants
Sydney, 22 August 2012

The following information is provided regarding the Issued Capital of AGL as at 15 August 2012:

1. The Issued Capital consisted of 545,861,083 fully-paid ordinary shares.
2. There were 113,635 holders of these ordinary shares.
3. There were 2,466 holders of less than a marketable parcel of 33 shares.
4. The distribution of holders was:

DISTRIBUTION	NO. OF HOLDERS	%
1–1,000	55,037	48.43
1,001–5,000	48,773	42.92
5,001–10,000	6,473	5.70
10,001–100,000	3,244	2.85
100,001 and over	108	0.10
	113,635	**100**

5. The location of holders was:

LOCATION	NO. OF HOLDERS	%	NO. OF SHARES	%
Australia	109,935	96.74	536,113,140	98.22
Hong Kong	50	0.04	132,246	0.02
New Zealand	2,670	2.35	8,607,154	1.58
United Kingdom	338	0.30	393,644	0.07
USA and Canada	475	0.42	399,088	0.07
Others	167	0.15	215,811	0.04
	113,635	**100**	**545,861,083**	**100**

6. The class of holders was:

CLASS OF HOLDER	NO. OF HOLDERS	%	NO. OF SHARES	%
Individuals	84,654	74.50	157,129,245	28.79
Companies and other	28,981	25.50	388,731,838	71.21
	113,635	**100**	**545,861,083**	**100**

7. The twenty largest holders held 53.50% of the Issued Capital:

TWENTY LARGEST HOLDERS AS AT 15 AUGUST 2012	FULLY-PAID ORDINARY SHARES	% OF TOTAL ISSUED SHARES
HSBC Custody Nominees (Australia) Limited	80,032,127	14.66
J P Morgan Nominees Australia Limited	67,167,157	12.31
National Nominees Limited	62,789,100	11.50
Citicorp Nominees Pty Limited	24,069,817	4.41
Cogent Nominees Pty Limited	15,363,646	2.82
Australian Foundation Investment Company Limited	5,083,157	0.93
Bond Street Custodians Limited	4,894,766	0.90
RBC Dexia Investor Services Australia Nominees Pty Limited	3,943,332	0.72
AMP Life Limited	3,176,225	0.58
Argo Investments Limited	3,159,316	0.58
BT Portfolio Services Limited (WA)	2,942,949	0.54
UBS Wealth Management Australia Nominees Pty Ltd	2,836,819	0.52
Questor Financial Services Limited	2,800,113	0.51
Custodial Services Limited	2,783,102	0.51
Perpetual Trustee Company Limited	2,769,469	0.51
Milton Corporation Limited	2,306,876	0.42
Avanteos Investments Limited	1,716,552	0.32
Navigator Australia Limited	1,577,159	0.29
CS Third Nominees Pty Ltd	1,334,488	0.24
Gwynvill Investments Pty Limited	1,263,150	0.23
	292,009,320	**53.50**

Subordinated Note Holding Information

The following information is provided regarding the Subordinated Notes of AGL as at 15 August 2012:

1. There were 6,500,000 Subordinated Notes.
2. There were 7,935 holders of these Subordinated Notes.
3. There were no holders of less than a marketable parcel of 5 Subordinated Notes.
4. The distribution of holders was:

DISTRIBUTION	NO. OF HOLDERS	%
1–1,000	7,418	50.69
1,001–5,000	452	41.67
5,001–10,000	35	5.13
10,001–100,000	24	2.42
100,001 and over	6	0.09
	7,935	**100**

5. The location of holders was:

LOCATION	NO. OF HOLDERS	%	NO. OF NOTES	%
Australia	7,902	99.58	6,376,732	98.10
Hong Kong	4	0.05	5,250	0.08
Papua New Guinea	1	0.01	10,000	0.16
Taiwan	2	0.03	93,000	1.43
United Kingdom	7	0.09	5,330	0.08
Others	19	0.24	9,688	0.15
	7,935	**100**	**6,500,000**	**100**

6. The class of holders was:

CLASS OF HOLDER	NO. OF HOLDERS	%	NO. OF NOTES	%
Individuals	3,486	43.93	1,338,758	20.60
Companies and other	4,449	56.07	5,161,242	79.40
	7,935	**100**	**6,500,000**	**100**

7. The twenty largest holders held 45.80% of the Subordinated Notes

TWENTY LARGEST HOLDERS AS AT 15 AUGUST 2012	SUBORDINATED NOTES	% OF TOTAL NOTES
National Nominees Limited	896,994	13.80
J P Morgan Nominees Australia Limited	540,535	8.32
Share Direct Nominees Pty Limited	276,723	4.26
DNU Nominees Pty Limited	182,917	2.81
HSBC Custody Nominees (Australia) Limited	181,986	2.80
Questor Financial Services Limited	101,008	1.55
Mr Ting-Tzu Kuo	90,000	1.39
Cogent Nominees Pty Limited	88,000	1.35
Navigator Australia Limited	87,178	1.34
Netwealth Investments Limited	84,419	1.30
RBC Dexia Investor Services Australia Nominees Pty Limited	84,233	1.30
Bond Street Custodians Limited	80,559	1.24
Nulis Nominees (Australia)	60,545	0.93
UBS Nominees Pty Ltd	50,000	0.77
Citicorp Nominees Pty Limited	38,427	0.59
BT Portfolio Services Limited (WA)	32,430	0.50
M F Custodians Ltd	29,200	0.45
UBS Wealth Management Australia Nominees Pty Ltd	26,600	0.41
VSI Pty Ltd	24,720	0.38
Edsgear Pty Limited	20,400	0.31
	2,976,874	**45.80**

Website access

By visiting www.agl.com.au and selecting 'Investor Centre' from the 'About AGL' menu you can access AGL's online Investor Centre.

The Investor Centre provides you with easy access to important information about Company performance, including Annual Reports, investor presentations, share price graphs and general Security holder information.

The Shareholder Services section within the Investor Centre also enables you to access and update your share and note holding information online including:

> Checking your holding balance;

> Viewing, saving or printing interest payment summaries, transaction summaries and dividend statements for Shareholders;

> Updating or amending your bank account or DRP Instructions for Shareholders;

> Electing to receive communications electronically; and

> Downloading a variety of forms

Our Share Registry, Link Market Services, also offers Share and Note holders the ability to register and create a portfolio view of their holdings. Registration is free and enables Share and Note holders to view and update multiple holdings in AGL (or other clients Link act as registry for) using a single login. To create a portfolio, please go to https://investorcentre.linkmarketservices.com.au

Share Registry

Share and Note holders with enquiries about their share and note holdings can also contact AGL's Share Registry as follows:

AGL Share Registry
Link Market Services Limited
Level 12, 680 George Street
Sydney NSW 2000

(Postal Address: Locked Bag A14, Sydney South NSW 1235)

Telephone:	1800 824 513 (within Australia) +61 2 8280 7115 (International)
Facsimile:	02 9287 0303 (within Australia) +61 2 9287 0303 (International)
Email:	aglenergy@linkmarketservices.com.au
Website:	www.linkmarketservices.com.au

When communicating with the Share Registry, it will assist if you can quote your current address together with your Security Reference Number (SRN) or Holder Identification Number (HIN) as shown on your Issuer Sponsored/CHESS statements.

Final Share Dividend

The final dividend of 32 cents per share 100% franked, will be paid on 27 September 2012. As the final dividend will only be paid via direct credit, Australian and New Zealand Shareholders need to nominate a bank, building society or credit union account within these jurisdictions. Payments are electronically credited on the dividend payment date and confirmed by a mailed or electronic payment advice. Payment instructions can either be lodged online or an appropriate form can be downloaded from the Share Registry's website.

Dividend Reinvestment Plan

AGL offers Shareholders the opportunity to participate in the Dividend Reinvestment Plan. Shares are allotted under the Plan at a discount of up to 5% of a weighted average market price, free of transaction costs. The actual rate of discount, if any, will be determined by the Directors at the time each dividend is declared. A discount of 1.5% was applied to the 2012 interim dividend and the 2012 final dividend.

Subordinated Note Interest Payments

AGL makes interest payments quarterly in arrears in respect of the Subordinated Notes on or about the 8th of September, December, March and June of each year. Dates and payment rates are available at AGL's online Investor Centre.

Reporting to Shareholders

Changes to the Corporations Act mean that AGL need only provide Shareholders with access to this Annual Report on AGL's website, unless they have specifically requested to be sent a printed or electronic copy. Shareholders seeking a copy of the Annual Report should subscribe online or contact the Share Registry. The Annual Report is also available on the AGL website.

Change of name, address or banking details

Shareholders who are Issuer Sponsored should advise the Share Registry immediately of a change of name, address or banking details for dividends electronically credited to a bank account. All such changes must be advised online or in writing and cannot be accepted by telephone. For a change of name, supporting documentation must accompany your written advice. Appropriate forms can also be downloaded from the Share Registry's website.

Shareholders who are CHESS Sponsored should instruct their sponsoring broker in writing to notify the Share Registry of any change.

Tax File Number (TFN)/Australian Business Number (ABN)

It is not compulsory to provide a TFN or ABN. However AGL will be required to deduct tax at the top marginal rate from the unfranked portion of any dividend paid to Shareholders who have not provided either a TFN/ABN or details of a relevant TFN exemption. TFN/ABN notification forms can be obtained by contacting the Share Registry, by lodging your details online or by downloading the appropriate form from the Share Registry's website.

Consolidation of shareholdings

Shareholders who wish to consolidate multiple shareholdings into a single shareholding should advise the Share Registry or their sponsoring broker, whichever is applicable, in writing.

Registered Office

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

Telephone	02 9921 2999 (within Australia) +61 2 9921 2999 (international)

Company Secretary

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

This page has been left blank intentionally.

This page has been left blank intentionally.

Directory

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

Locked Bag 1837
St Leonards NSW 2065

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

About this report
The cover and editorial pages (pages 1–32) of this report are printed on Impress. The financial section (pages 33–148) of this report is printed on Precision which is PEFC Certified and made from elemental chlorine free bleached pulp sourced from sustainably managed forests and non-controversial sources. It is manufactured by an ISO 14001 certified mill using renewable energy sources.

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

It was designed by Precinct and printed by CaxtonWeb.

www.agl.com.au