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Appendix 4E

AGL Energy Limited

ABN 74 115 061 375

Preliminary Final Report

Results for announcement to the market for the year ended 30 June 2011

Extracts from this report for announcement to the market *$A million*

Revenue	**Up**	**7.0%**	To	**7,072.5**
Profit after tax attributable to shareholders (Statutory)	**Up**	**56.9%**	To	**558.7**
Underlying Profit after tax attributable to shareholders	**Up**	**0.5%**	To	**431.1**

Dividends	Amount per ordinary share	Franked amount per ordinary share
Final dividend	31.0¢	31.0¢
Interim dividend	29.0¢	0¢

Record date for determining entitlements to the final dividend:

8 September 2011 and payable on 29 September 2011.

Brief explanation of Underlying Profit:

Statutory Profit after tax of $558.7 million included costs of $27.3 million after tax treated as significant items and a gain of $154.9 million after tax from the changes in the fair value of financial instruments. Excluding these items, the Underlying Profit was $431.1 million, up 0.5% on the prior corresponding period.

Underlying Profit is reported to give information to shareholders that provides a greater understanding of the performance of AGL's operations.

AGL Energy Limited previously provided guidance that Underlying Profit for the year ended 30 June 2011 would be between $415 million and $440 million.

An analysis of these results is in the Directors' Report attached to this announcement. The Directors' Report includes condensed notes to the financial statements. The notes to the full financial statements will be published on or before 19 September 2011 as part of the Annual Report.

AGL Energy Limited and Subsidiaries
Preliminary Final Report
For the year ended 30 June 2011

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Directors' Report for the year ended 30 June 2011 (incorporating the commentary by Directors and dividend announcement made to the Australian Securities Exchange Limited on 25 August 2011)

The Directors report on the AGL Energy Limited (AGL) consolidated entity for the year ended 30 June 2011 in accordance with the Corporations Act 2001.

1. Results

The following tables reconcile Statutory Profit to Underlying Profit.

	Year ended 30 June 2011 $m	Year ended 30 June 2010 $m
Profit after tax attributable to shareholders (Statutory)	**558.7**	356.1
Adjust for the following after tax items:		
Significant items[(1)]	**27.3**	(49.9)
Changes in fair value of financial instruments[(2)]	**(154.9)**	122.7
Underlying Profit	**431.1**	428.9

(1) Section 1.1
(2) Section 1.2

	Year ended 30 June 2011 $m	Year ended 30 June 2010 $m
Statutory EBIT	**819.1**	413.4
Operating EBIT	**656.5**	652.1
Net finance costs	**(37.4)**	(47.5)
Underlying Profit before tax	**619.1**	604.6
Income tax expense	**(188.0)**	(175.7)
Underlying Profit	**431.1**	428.9

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

Underlying Profit has been prepared with reference to the guidance issued by the Australian Institute of Company Directors and the Financial Services Institute of Australasia. AGL's policy for reporting Underlying Profit is consistent with this guidance and the Directors have had the presentation of the Company's Underlying Profit in accordance with this policy independently assessed.

1.1 Significant Items

	Year ended 30 June 2011		Year ended 30 June 2010	
	Pre-tax	**PAT**	Pre-tax	PAT
	$m	**$m**	$m	$m
Merger and acquisition related costs	**(17.3)**	**(13.1)**	(5.1)	(4.4)
Redundancy, termination and restructuring costs	**(27.0)**	**(19.7)**	(11.1)	(7.8)
Impairment of non-current assets	**-**	**-**	(21.7)	(15.2)
Phoenix change program costs	**-**	**-**	(11.7)	(8.2)
Tax consolidation adjustment	**-**	**5.5**	-	85.5
Total significant items	**(44.3)**	**(27.3)**	(49.6)	49.9

1.1.1 Merger and acquisition related costs

Current Year
Acquisition related costs of $17.3 million before tax and $13.1 million after tax were incurred on activities associated with submitting a bid for the privatisation of energy assets in New South Wales (NSW) and the acquisition of Mosaic Oil NL.

Prior Year
Acquisition related costs of $5.1 million before tax and $4.4 million after tax were incurred on activities including privatisation of energy assets in NSW, AGL's proposal to acquire Mosaic Oil NL. pursuant to a Scheme of Arrangement, and the acquisition of the Barn Hill wind farm development site.

1.1.2 Redundancy, termination and restructuring costs

Current Year
AGL undertook two major restructuring initiatives during the year.

Firstly, and largely completed before 31 December 2010, was the transitioning of substantial retail back office processes (mainly non-customer facing billing and sales fulfilment) to offshore service providers. This involved redundancy and restructuring costs of $8.0 million before tax of which $6.5 million was recognised and disclosed in the interim results.

Secondly, as part of the annual budget cycle which commenced in March 2011, AGL identified a number of opportunities to improve operating efficiencies and organisational reporting lines. As a result, a number of employment positions became redundant. The one-off cost of implementing the restructure was $19.0 million before tax.

The combined effect of the two initiatives for the period was $27.0 million before tax and $19.7 million after tax.

Prior Year
Redundancy, termination and restructuring costs of $11.1 million before tax and $7.8 million after tax related mainly to costs associated with transitioning IT services from IBM to Tata Consultancy Services.

1.1.3 Impairment of non-current assets

Current Year
Nil

Prior Year
AGL terminated an IT service contract with IBM in March 2010. This resulted in asset write-offs totalling $7.8 million before tax and $5.5 million after tax.

Exploration and evaluation results in the Cooper Basin (Innamincka) joint venture were not supportive of commercial development of the coal seam gas potential. This resulted in asset write-offs totalling $13.9 million before tax and $9.7 million after tax.

1.1.4 Phoenix change program costs

Current Year
Nil

Prior Year
One-off costs totalling $11.7 million before tax and $8.2 million after tax were incurred in relation to Project Phoenix, which rationalised and redesigned core Retail Energy operating processes and systems.

1.1.5 Tax consolidation adjustment

As a result of retrospective changes to the tax consolidation legislation enacted in June 2010, AGL has recognised a further tax benefit of $5.5 million (2010: $85.5 million) relating to tax deductions which are available for the tax value allocated to certain derivative assets in place at the time of the merger/demerger transaction with Alinta Limited in October 2006. AGL received tax refunds of $72.4 million during the 2011 financial year and expects to receive further tax refunds of $22.1 million in future periods.

1.2 Changes in Fair Value of Derivative Financial Instruments

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

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

All other economic hedges are deemed to be "ineffective" hedges. Fluctuations in the prices of these derivatives can create substantial volatility in AGL's statutory earnings. Consequently, AGL calculates Underlying Profit excluding changes in fair value to present a more useful measure of financial performance.

The change in fair value of financial instruments recognised in profit and loss for the year was a gain of $218.8 million before tax and $154.9 million after tax.

A reconciliation of the Statement of Financial Position movement in the derivative balances to the amount included in the Income Statement is presented in the following table:

	Net Assets (Liabilities)		
	30 June 2011	30 June 2010	Change
	$m	$m	$m
Electricity derivative contracts	**(89.7)**	(474.3)	384.6
Interest rate swap and foreign currency derivative contracts	**(148.5)**	(7.2)	(141.3)
Total net liabilities for derivative contracts	**(238.2)**	(481.5)	243.3
Change in derivative net liability	**243.3**		
Premiums paid	**(175.0)**		
Equity accounted Loy Yang fair value	**5.8**		
Premium roll off	**145.9**		
Total change in fair value	**220.0**		
Recognised in equity hedge reserve	**64.7**		
Recognised in borrowings	**(63.5)**		
Recognised in profit and loss	**218.8**		
Total change in fair value	**220.0**		

2. Earnings per Share

Earnings per share calculated on the profit after tax attributable to shareholders (Statutory) were 122.4 cents compared with 79.3 cents in the prior corresponding period.

Earnings per share calculated on the Underlying Profit attributable to shareholders were 94.4 cents compared with 95.6 cents in the prior corresponding period.

3. Dividend

The Directors have declared a final dividend of 31.0 cents per share for the year, a 3.3% increase on the prior corresponding period's final dividend of 30.0 cents per share. The final dividend will be paid on 29 September 2011. The record date to determine shareholders' entitlements to the final dividend is 8 September 2011 and shares will commence trading ex-dividend on 1 September 2011.

Before declaring the dividend the Directors satisfied themselves that:

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

The final dividend will be fully franked.

This will bring the annual dividend to 60.0 cents per share compared with 59.0 cents per share in the prior corresponding period, an increase of 1.7%.

The AGL Dividend Reinvestment Plan (DRP) will be in operation. Shares will be allotted at a 1.5% discount to the simple average of the daily weighted average market price at which AGL's ordinary shares are traded on the ASX during each of the 10 trading days commencing on 12 September 2011.

4. Review of Operations

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

Operating EBIT for the year ended 30 June 2011 was $656.5 million compared with $652.1 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 2011 $m	Year ended 30 June 2010 $m	**Year ended 30 June 2011 $m**	Year ended 30 June 2010 $m
Retail Energy [(1)]	**367.2**	304.7	**373.0**	318.7
Merchant Energy [(2)]	**585.5**	203.7	**378.2**	386.1
Upstream Gas [(3)]	**13.6**	(8.5)	**13.6**	5.5
Energy Investments [(4)]	**35.6**	76.6	**40.5**	81.7
Centrally managed expenses [(5)]	**(182.8)**	(163.1)	**(148.8)**	(139.9)
Total	**819.1**	413.4	**656.5**	652.1
Depreciation and amortisation			**148.0**	137.5
Operating EBITDA			**804.5**	789.6
Average funds employed			**7,403.0**	6,953.8
EBIT / Average funds employed			**8.9%**	9.4%

EBIT/Average funds employed fell 0.5 percentage points (ppts) due to a modest $4.4 million increase in Operating EBIT combined with an increase in average funds employed of $449.2 million or 6.5%. The factors affecting Operating EBIT are explained in detail in Section 4. Average funds employed increased due largely to investment in assets whereby the contribution to EBIT will not commence until the assets reach practical completion or gas production.

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

[(1)] Section 4.1
[(2)] Section 4.2
[(3)] Section 4.3
[(4)] Section 4.4
[(5)] Section 4.5

4.1 Retail Energy Operating EBIT: Increased 17.0% to $373.0 million from $318.7 million

	Year ended 30 June 2011 $m	Year ended 30 June 2010 $m
Statutory EBIT	**367.2**	304.7
Significant items	**4.6**	12.4
Finance income included in EBIT	**1.2**	1.6
Operating EBIT	**373.0**	318.7
Add back:		
Depreciation and amortisation	**43.8**	41.5
Operating EBITDA	**416.8**	360.2
Average funds employed	**3,238.3**	3,139.2
EBIT/Average funds employed	**11.5%**	10.2%

Retail Energy is responsible for servicing customers and growing AGL's position in downstream gas and electricity markets. Retail Energy currently services 3.3 million residential and small business customer accounts, as well as commercial and industrial (C&I) customers, in New South Wales, Victoria, South Australia and Queensland.

The ongoing business priorities for Retail Energy are to profitably build AGL's retail capability, achieve operational excellence and continue improving customer service. During the current year Retail Energy commenced a project to grow AGL's total NSW electricity customer base to between 800,000 and 900,000 over the next three years.

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

4.1.1 Analysis of Operating EBIT

Retail Energy contributed $373.0 million to Operating EBIT for the year, up 17.0% on the prior corresponding period. The main factors contributing to the increase in Operating EBIT are summarised in the table below.

	$m
Operating EBIT for the year ended 30 June 2010	**318.7**
Increase in gas and electricity gross margin	65.8
Increase in depreciation and amortisation	(2.3)
Increase in net operating costs	(9.2)
Operating EBIT for the year ended 30 June 2011	**373.0**

4.1.1.1 Gross Margin

Gross margin, excluding fees and charges, increased by $65.8 million, or 10.4% compared with the prior corresponding period. Of this increase, $62.6 million related to mass market gross margin and $3.2 million to C&I gross margin.

Mass market gross margin increases were driven by a combination of tariff increases in all states, as well as targeted acquisition of high value customers. Higher electricity customer numbers (up by 52,000) also contributed to increased margins.

The following table shows a further gross margin breakdown by fuel and customer type:

	Year ended 30 June 2011 $m	Year ended 30 June 2010 $m	Movement %
Mass market electricity	**388.1**	345.0	12.5
Mass market gas	**207.7**	188.3	10.3
C&I electricity	**61.0**	49.6	23.0
C&I gas	**40.6**	48.7	(16.6)
Fees and charges	**76.0**	63.7	19.3
Total gross margin	**773.4**	695.3	11.2
Gross margin excluding fees and charges	**697.4**	631.6	10.4

4.1.1.2 Depreciation and Amortisation

Depreciation and amortisation (D&A) increased by $2.3 million, or 5.6% compared with the prior corresponding period. The main contributor to the increase in D&A was AGL's three year project to materially grow its customer base in NSW, where it is a non-incumbent electricity provider. For the life of the project the direct cash costs incurred to acquire NSW customers will be capitalised and amortised over the expected benefit period.

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

	Year ended 30 June 2011 $m
Direct cash outlay for customer acquisitions in NSW	**15.6**
Amortised to the income statement	**(2.1)**
Net capitalised customer acquisition costs	**13.5**
Amortisation for the year ending 30 June 2012	**7.8**
Amortisation for the year ending 30 June 2013	**5.7**
Total future amortisation	**13.5**

AGL achieved significantly increased lead sales in NSW as a result of the direct cash outlay of $15.6 million. The following table provides analysis of the cost to acquire NSW customers.

	Year ended 30 June 2011
Direct cash outlay for customer acquisitions in NSW	**$15.6m**
Number of lead sales	**95,959**
Cost per lead sale	**$162.93**

In addition to the above capitalised costs, AGL will also incur operating expenses to, amongst other activity, load the customers onto AGL's system. AGL estimates the cost of these activities is $8.00 per customer, bringing the total cost of acquiring an electricity customer in NSW to $170.93.

4.1.1.3 Net Operating Costs excluding Depreciation & Amortisation

Retail Energy's net operating costs excluding D&A increased by $9.2 million, or 3.3%, during the year compared with the prior corresponding period. The following table includes the breakdown of the material increases in net operating costs excluding D&A:

	Year ended 30 June 2011 $m	Year ended 30 June 2010 $m	Movement %
Labour and contractor services	**(148.4)**	(142.7)	4.0
Bad and doubtful debts	**(62.6)**	(49.4)	26.7
Campaigns and advertising	**(61.9)**	(65.0)	(4.8)
Other expenditure	**(83.7)**	(78.0)	7.3
Fees and charges	**76.0**	63.7	19.3
Net operating costs excluding D&A	**(280.6)**	(271.4)	3.3
Depreciation and amortisation	**(43.8)**	(41.5)	5.6
Net operating costs	**(324.4)**	(312.9)	3.7

Labour and contractor services costs increased by $5.7 million, or 4.0%, to $148.4 million.

Labour and contractor services costs increased as a result of new customer connections and transfers, and the actions taken to further reduce the level of unbilled customers. Unbilled accounts continue to be at record lows. As at 30 June 2011 there were 8,561 mass market unbilled accounts. Of these, only 354 accounts were aged greater than 30 days, representing a 95.6% improvement compared with 30 June 2010.

Call centre labour costs were higher than expected, with additional staff required to deal with queries as a result of higher customer numbers, and increased credit management. Labour rates increased in line with inflation.

The increase in bad and doubtful debt expense ($13.2 million) was offset by an increase in bad debts recovered ($7.9 million). The net cost increase of $5.3 million is consistent with increases in mass market revenue. Total revenue (mass market and C&I) increased $493.5 million, or 8.9%, compared with the prior corresponding period.

Campaign and advertising expenditure decreased due to improved sales conversion rates and customer processing efficiencies. This has mainly been focussed on retention and acquisition activities, allowing AGL to maintain its market share in the gas market and increase electricity customer numbers.

Industry market churn increased by 1.5 ppts, from 18.5% to 20.0%. AGL churn across all markets remained well below the industry at 16.2% (14.7% in the prior corresponding period).

The increase in AGL churn compared with the prior corresponding period was driven by higher competition in all AGL markets, with new energy retailers and an increasing number of alternative energy offers. While there was an overall increase in AGL's churn rate, AGL's NSW churn rate for the year was 17.0%, compared with 19.5% for the prior corresponding period, a 2.5 ppts reduction.

4.1.2 Dual Fuel Strategy

Retail Energy continued to pursue its dual fuel strategy. AGL now services 1.47 million dual fuel customer accounts, compared with 1.36 million as at 30 June 2010, an 8.1% increase.

4.1.3 Customer Profitability

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

4.1.3.1 Mass Market Gross Margin per Mass Market Customer

	Year ended 30 June 2011	Year ended 30 June 2010	Movement %
Mass market gross margin	**$595.8m**	$533.3m	11.7
Average customer numbers	**3,254,200**	3,205,600	1.5
Mass market gross margin per customer	**$183.08**	$166.35	10.1

The increase in gross margin per mass market customer was due mainly to tariff increases and the results of efforts to attract more high value customers.

4.1.3.2 EBIT / Sales Analysis

	Year ended 30 June 2011 $m	Year ended 30 June 2010 $m	Movement %
Electricity revenue	**4,349.4**	4,010.0	8.5
Gas revenue	**1,665.7**	1,511.9	10.2
Other fees and charges	**76.0**	63.7	19.3
Total revenue	**6,091.1**	5,585.6	9.1
Cost of sales	**(5,317.7)**	(4,890.3)	8.7
Gross margin	**773.4**	695.3	11.2
Operating costs (excl D&A)	**(356.6)**	(335.1)	6.4
EBITDA	**416.8**	360.2	15.7
Depreciation and amortisation	**(43.8)**	(41.5)	5.6
EBIT	**373.0**	318.7	17.0
EBIT / Sales %	**6.1%**	5.7%	0.4ppts

EBIT / Sales rose due to increased mass market gross margin notwithstanding an increase in operating costs.

4.1.4 Operating Efficiency

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

4.1.4.1 Net Operating Costs as a Percentage of Gross Margin

	Year ended 30 June 2011 $m	Year ended 30 June 2010 $m	Movement %
Net operating costs	**(324.4)**	(312.9)	3.7
Gross margin	**773.4**	695.3	11.2
Fees and charges	**(76.0)**	(63.7)	19.3
Gross margin less fees and charges	**697.4**	631.6	10.4
Net operating costs as percentage of gross margin (less fees and charges)	**46.5%**	49.5%	3.0 ppts

Net operating costs as a percentage of gross margin improved by 3.0 ppts. Gross margin (less fees and charges) increased by 10.4% primarily as a result of stronger pricing outcomes in mass market and higher electricity customer numbers. Net operating costs increased by 3.7% mainly due to higher bad debts, labour and contractor services charges explained in more detail in section 4.1.1.3.

4.1.4.2 Cost to Serve Analysis

	Year ended 30 June 2011 $	Year ended 30 June 2010 $	Movement %
Net operating costs	**(324.4)m**	(312.9)m	3.7
Net operating cost per customer account	**(99.12)**	(97.11)	2.1
Cost to grow/retain	**(75.9)m**	(77.5)m	(2.1)
Cost to grow per account acquired/retained	**(84.08)**	(86.84)	(3.2)
Cost to serve	**(248.5)m**	(235.4)m	5.6
Cost to serve per customer account	**(75.93)**	(73.06)	3.9

Net operating cost per customer account for the year was $99.12, a 2.1% increase on the prior corresponding period.

The cost to grow/retain decreased by 2.1% for the year. Highly competitive market conditions and the requirement to increase both acquisition and retention spend to grow market share have been more than offset by more efficient customer processing and customer retention capabilities.

The cost to serve was $248.5 million compared with the prior corresponding period cost to serve of $235.4 million. This 5.6% increase is part of an overall 3.7% increase in net operating costs explained in more detail in section 4.1.1.3.

4.1.5 Customer numbers

The following table provides a breakdown of customer numbers by state.

	30 June 2011 ('000)	30 June 2010 ('000)	Movement ('000)	Movement %
Electricity				
Victoria	**639**	643	(4)	(0.6)
South Australia	**468**	478	(10)	(2.1)
New South Wales	**468**	381	87	22.8
Queensland	**350**	371	(21)	(5.7)
	1,925	1,873	52	2.8
Gas				
Victoria	**473**	468	5	1.1
South Australia	**104**	97	7	7.2
New South Wales	**718**	727	(9)	(1.2)
Queensland	**74**	77	(3)	(3.9)
	1,369	1,369	0	0
Total	**3,294**	3,242	52	1.6

4.2 Merchant Energy Operating EBIT: Decreased 2.0% to $378.2 million from $386.1 million

	Year ended 30 June 2011 $m	Year ended 30 June 2010 $m
Statutory EBIT	**585.5**	203.7
Significant items	**5.7**	-
Change in fair value of financial instruments	**(213.0)**	182.4
Operating EBIT	**378.2**	386.1
Add back:		
Depreciation and amortisation	**69.1**	63.7
Operating EBITDA	**447.3**	449.8
Average funds employed	**2,734.5**	2,518.7
EBIT/Average funds employed	**13.8%**	15.3%

Merchant Energy is responsible for developing, operating and maintaining AGL's power generation assets, and for managing the risks associated with the procurement and delivery of gas and electricity for AGL's Wholesale and Retail portfolios. Merchant Energy also manages the business relationship with AGL's largest 700 energy customers, providing them with beyond the meter services such as energy efficiency advice and broader carbon management services. The business uses financial hedges, bilateral contracts and physical generation to ensure adequacy of competitively priced supply. Generation assets include Australia's largest privately owned and operated renewable portfolio and a pipeline of development opportunities that positions AGL to benefit from Australia's Mandatory Renewable Energy Target.

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

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

	Operating EBIT		**Operating EBITDA**	
	Year ended 30 June 2011 $m	Year ended 30 June 2010 $m	**Year ended 30 June 2011 $m**	Year ended 30 June 2010 $m
Energy Portfolio Management	**430.1**	426.1	**440.5**	437.3
Merchant Operations	**(114.7)**	(103.8)	**(65.5)**	(60.2)
Energy Services	**17.8**	17.3	**27.1**	26.2
Power Development	**56.3**	56.9	**56.3**	56.9
Sundry Expenses	**(11.3)**	(10.4)	**(11.1)**	(10.4)
Total Merchant Energy	**378.2**	386.1	**447.3**	449.8

4.2.1 Energy Portfolio Management Operating EBIT: Increased 0.9% to $430.1 million from $426.1 million

	Year ended 30 June 2011	Year ended 30 June 2010	Movement
	$m	$m	%
Wholesale Electricity	**304.3**	313.7	(3.0)
Wholesale Gas	**104.3**	102.3	2.0
Eco-Markets	**44.4**	35.9	23.7
Gross margin	**453.0**	451.9	0.3
Operating costs	**(12.5)**	(14.7)	15.0
Operating EBITDA	**440.5**	437.2	0.8
Depreciation and amortisation	**(10.4)**	(11.1)	6.3
Operating EBIT	**430.1**	426.1	0.9

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

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

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

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

4.2.1.1 Wholesale Electricity Gross Margin: Decreased 3.0% to $304.3 million from $313.7 million

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

In January and February 2011 the National Electricity Market experienced several severe weather events including:

- Co-incident very high temperatures in South Australia, Victoria and NSW;
- A record heat wave in Sydney;
- Cyclone Yasi; and
- Major flooding in Queensland.

These events resulted in:

- Several days of record electricity demand in NSW and the highest recorded electricity demand in South Australia, coupled with extended periods of high and volatile electricity prices;
- The shut down, ahead of Cyclone Yasi, of the Yabulu power station (242 MW) over which AGL has dispatch rights; and
- Disruption of gas supplies and transmission constraints to the Oakey power station (282 MW) over which AGL has dispatch rights.

AGL was exposed to increased customer demand for electricity during a period of higher underlying pool prices of up to $12,500 per MWh (compared with normal wholesale electricity pool prices of around $40 per MWh). This resulted in an increase in the net procurement cost of electricity of $43.7 million.

Wholesale Electricity had hedged, in prior periods, a portion of its anticipated electricity spot price exposure in compliance with AGL's risk management policy, including some electricity hedging contracts purchased on the Australian Securities Exchange. These contracts were standardised and, when entered into, implicitly included the then anticipated impact of the cost of carbon on electricity costs. The delay in the introduction of a carbon price meant that when these contracts matured, during the current period, the increased cost was not offset by an increase in revenue from sales to customers.

Despite the impact of the severe weather events described above, AGL recorded a better second half result compared with the prior corresponding period due to increased generation from hydro assets and additional generation from new wind assets. Furthermore, effective portfolio management enabled AGL to benefit from overall lower electricity pool prices.

4.2.1.2 Wholesale Gas Gross Margin: Increased 2.0% to $104.3 million from $102.3 million

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

AGL benefited from a number of favourable conditions which improved gross margin, particularly in the first six months of the financial year.

Weather conditions in July, August and September were colder than the prior corresponding period resulting in increased demand, particularly from the residential customer segment.

Active management of the gas portfolio resulted in a better mix of supply contracts which reduced overall portfolio supply costs and also delivered increased gross margin.

The reduction in the gross margin in the second half of the year compared with the prior corresponding period was due to additional gas haulage costs, lower C&I margins resulting from lower market prices, increased supply costs and costs associated with the gas short term trading market.

4.2.1.3 Eco-Markets Gross Margin: Increased 23.7% to $44.4 million from $35.9 million

Eco-Markets is responsible for managing the liabilities for both voluntary and mandatory green schemes. The largest of these schemes is the Mandatory Renewable Energy Target. Other schemes include the NSW Gas Abatement Scheme (NGACs), QLD Gas Scheme (GECs), NSW Energy Efficiency Target (ESCs), Victorian Energy Efficiency Target (VEECs) and GreenPower.

The increase in gross margin compared with the prior corresponding period was due to improved portfolio management and increased renewable generation partly offset by costs associated with discontinued schemes and unfavourable tariff outcomes in New South Wales and Queensland. AGL benefited from lower costs in the second half of the year resulting in a lower net purchase cost for the year.

4.2.2 Merchant Operations Operating Expense: Increased 10.5% to $114.7 million from $103.8 million

Merchant Operations is responsible for managing and maintaining both AGL's and third party generation assets. AGL's thermal and renewable generation portfolio includes the 1,280 MW gas fired Torrens Island power station, the 150 MW gas fired Somerton power station and 796 MW of hydro generation. AGL also operates and receives the generation revenues from Wattle Point, Hallett 1, Hallett 2 and Hallett 4 wind farms (389 MW of capacity).

Merchant Operations is largely a cost centre with all generation revenues and variable fuel costs included in the Energy Portfolio Management results.

The increase in Merchant Operations operating expense for the period was due to increased labour costs, the impact of new plant coming on line and an increase in maintenance costs following the expiration of warranty periods. Higher depreciation costs were recognised as a result of the completion of some key capital projects at the West Kiewa hydro scheme and the Torrens Island power station and increased generation from hydro assets to manage dam levels.

During the year Victoria experienced significant rainfall resulting in dam levels at Eildon and Dartmouth increasing from 27% and 33% respectively, as at 1 July 2010, to 86% and 64% respectively as at 30 June 2011.

4.2.3 Energy Services Operating EBIT: Increased 2.9% to $17.8 million from $17.3 million

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

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

The increase in earnings compared with the prior corresponding period was due to further realisation of operating efficiencies in the management of energy efficient projects for customers. Improved earnings from new sites reaching full commercial operation was partially offset by volume reductions at HC Extractions driven by lower feedstock compared with the prior corresponding period.

On 9 March 2011, AGL announced plans to construct a co-generation facility for Qenos Pty Limited (Qenos) at its Altona plant in Victoria with generation capacity of 20.6 MW and a high pressure steam capability up to 88 tonnes/hour. Once complete, the facility will reduce CO_2 emissions by approximately 100,000 tonnes per annum.

4.2.4 Power Development Operating EBIT: Decreased 1.1% to $56.3 million from $56.9 million

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

Development profits of $61.0 million were recognised in the year compared with $57.0 million in the prior corresponding period.

The following table shows the development fees recognised for the various projects:

	Year ended 30 June 2011 $m	Year ended 30 June 2010 $m
Hallett 2	**2.0**	3.0
Hallett 4	**29.0**	54.0
Oaklands Hill	**30.0**	-
Total	**61.0**	57.0

Operating expenses were $4.7 million compared with $1.8 million for the prior corresponding period. During the year $2.7 million of expenses associated with the unsuccessful Solar Flagships bid were written off.

Hallett 4 wind farm was commissioned and became operational in May 2011. Construction of Oaklands Hill and Hallett 5 wind farm projects continued. Development of the Macarthur wind farm in a joint venture with Meridian Energy commenced.

On 27 June 2011, AGL announced the sale of Oaklands Hill wind farm, which will generate $38.0 million in development fees, of which $30.0 million was recognised during the current year. While the transaction involved the sale of the physical assets of the wind farm, AGL will continue to construct, operate and maintain the facility, and will take the electricity output and renewable energy certificates through offtake arrangements.

4.3 Upstream Gas Operating EBIT: Increased by 147.3% to $13.6 million from $5.5 million

	Year ended 30 June 2011 $m	Year ended 30 June 2010 $m
Statutory EBIT	**13.6**	(8.5)
Significant items	**-**	14.0
Operating EBIT	**13.6**	5.5
Add back:		
Depreciation and amortisation	**21.5**	21.1
Operating EBITDA	**35.1**	26.6

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

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

	Operating EBIT		**Operating EBITDA**	
	Year ended 30 June 2011 $m	Year ended 30 June 2010 $m	**Year ended 30 June 2011 $m**	Year ended 30 June 2010 $m
Queensland / South Australia	**16.2**	4.7	**27.8**	16.2
New South Wales	**4.2**	4.3	**13.6**	13.7
Equity investments	**(0.4)**	(2.2)	**(0.4)**	(2.2)
Sundry	**(6.4)**	(1.3)	**(5.9)**	(1.1)
Total Upstream Gas	**13.6**	5.5	**35.1**	26.6

4.3.1 Queensland / South Australia Operating EBIT: Increased by 244.7% to $16.2 million from $4.7 million

The Queensland / South Australia portfolio includes the Moranbah Gas Project (MGP) joint venture, the upstream elements of the North Queensland Energy (NQE) joint venture, the Galilee Basin, Cooper Basin (Innamincka) joint venture, Spring Gully joint venture and geothermal exploration activities and, until March 2010, the gas market development services agreement with Queensland Gas Company Limited (QGC) (part of BG Group). Following the acquisition of Mosaic Oil NL (Mosaic) on 20 October 2010, the Queensland / South Australia portfolio includes additional conventional oil and gas interests in the Surat and Cooper/Eromanga Basins together with the Silver Springs gas storage project.

Operations at Silver Springs acquired from Mosaic in October 2010 contributed storage fee income of $16.7 million during the year from the development of the depleted Silver Springs and Renlim gas fields as gas storage reservoirs. Income from the development and injection phase of the project is expected to be approximately $8.0 million to $10.0 million per annum over the next three years.

Operating EBIT contribution from the combined MGP and NQE joint ventures was $0.1 million compared with $0.3 million in the prior corresponding with gas sales decreasing by 15% from 8.0 PJ to 6.8 PJ as production in the current period was adversely affected by wet weather.

Operating EBIT contribution from AGL's interests in the Cooper Basin (Innamincka) joint venture was a loss of $0.3 million compared with a loss of $1.2 million in the prior corresponding period.

Geothermal activities contributed a loss of $0.9 million during the period (Nil in the prior corresponding period) owing to the write-off of exploration costs in relation to the Barossa geothermal project in South Australia.

Operating EBIT contribution from AGL's 50% interest in Energy Infrastructure Management was $0.7 million compared with $0.5 million in the prior corresponding period.

The gas market development services agreement with QGC expired in March 2010 and therefore did not contribute to earnings during the year. The agreement generated Operating EBIT of $5.6 million in the prior corresponding period.

4.3.2 New South Wales Operating EBIT: Decreased by 2.3% to $4.2 million from $4.3 million

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

Operating EBIT contribution from the Camden Gas Project was $4.2 million compared with $4.3 million in the prior corresponding period. Gas sales remained in line with the prior corresponding period at 5.7 PJ.

4.3.3 Equity Investments Operating EBIT: Increased to ($0.4 million) from ($2.2 million)

Equity Investments include AGL's share investments in CSM Energy Limited (CSME) and Torrens Energy Limited (TEY).

AGL has a 35% shareholding in CSME, an unlisted public company. The Operating EBIT contribution from this investment was a loss of $0.2 million which was in line with the prior corresponding period.

AGL has a 10% shareholding in TEY, a listed public company. This investment was written-down to current market value at 30 June 2011, resulting in a loss of $0.2 million. In the prior corresponding period an impairment loss of $2.0 million was recognised on this investment.

4.3.4 Sundry Operating EBIT: Decreased to ($6.4 million) from ($1.3 million)

The Sundry category includes the Upstream Gas division's overhead expenses. The prior corresponding period included a $4.1 million profit from the disposal of AGL Pipelines Investments Pty Limited, the subsidiary that owned the Berwyndale to Wallumbilla Pipeline.

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4.3.5 Gas Sales and Reserves Position

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

AGL share of operations	**Year ended 30 June 2011**	Year ended 30 June 2010	Movement %
Gas sales volume (PJ)			
Queensland / South Australia	**6.8**	8.0	(15.0)
New South Wales	**5.7**	5.7	-
Total gas sales	**12.5**	13.7	(8.8)
Sales revenue ($m)			
Queensland / South Australia	**15.3**	18.7	(18.2)
New South Wales	**20.6**	20.1	2.5
Total sales revenue	**35.9**	38.8	(7.5)
Average gas price ($/GJ)	**2.87**	2.83	1.4

Gas volumes and sales revenue decreased by 15% and 18.2% respectively in Queensland / South Australia as production was adversely affected by wet weather.

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

AGL share of gas reserves (PJ)	**30 June 2011**		30 June 2010	
	2P	**3P**	2P	3P
Gloucester (100%)	**669**	**832**	669	832
Moranbah (50%)	**370**	**700**	501	1,022
Camden (100%)	**148**	**195**	154	201
Hunter (100%)	**142**	**271**	-	-
Silver Springs (various)	**65**	**137**	-	-
Spring Gully (various)	**8**	**10**	8	10
Sub-Total	**1,402**	**2,145**	1,332	2,065
ATP 1103 back-in rights (50%) [1]	**687**	**1,495**	246	1,307
Total	**2,089**	**3,640**	1,578	3,372

[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.

During the year, gas reserves for the Moranbah Gas Project and ATP 1103 were reassessed by independent reserves auditor Netherland Sewell & Associates, Inc (NSAI). AGL's entitlement of 2P reserves within the ATP was increased by 441 PJ (179.3%) as a result of exploration and appraisal activities. AGL's share of 2P reserves within the MGP area was reduced by 131 PJ (26.1%) over the year, net of production, following a review based on the latest production data. NSAI revised the calculation of recovery factors taking into account coal permeability based on production results from deeper areas. Therefore, AGL's combined 2P gas reserves entitlement, net of production over the year, increased by 310 PJ (41.5%) to 1,057 PJ.

As a result of exploration activities, initial gas reserves estimates for the Hunter Gas Project were announced during the year. The fall in gas reserves at Camden over the year ended 30 June 2011 was due solely to gas production during the period. The above table also reflects the initial booking of Silver Springs gas reserves acquired as part of the Mosaic acquisition in October 2010.

4.4 Energy Investments Operating EBIT: Decreased 50.4% to $40.5 million from $81.7 million

	Year ended 30 June 2011 $m	Year ended 30 June 2010 $m
Statutory EBIT	**35.6**	76.6
Finance income from Loy Yang investment	**10.7**	10.1
Change in fair value of financial instruments (Loy Yang)	**(5.8)**	(5.0)
Operating EBIT	**40.5**	81.7
Add back:		
Depreciation and amortisation	**-**	-
Operating EBITDA	**40.5**	81.7

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

	Year ended 30 June 2011 $m	Year ended 30 June 2010 $m
ActewAGL	**29.8**	30.4
Loy Yang	**10.7**	45.1
Other	**-**	6.2
Operating EBIT	**40.5**	81.7

4.4.1 ActewAGL (50% AGL Ownership) Operating EBIT: Decreased 2.0% to $29.8 million from $30.4 million

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

ActewAGL Retail partnership contributed an equity share of profits of $29.8 million for the year compared with $30.4 million for the prior corresponding period. ActewAGL achieved volume growth in both gas and electricity, with particularly strong growth in gas. The results were down slightly compared with the prior corresponding period due to timing differences associated with green certificate costs which will be recouped in future periods, and a small profit on an asset disposal in the previous year. This was partially offset by a change in the unbilled sales calculation relating to prior periods.

4.4.2 Loy Yang Investment Operating EBIT: Decreased 76.3% to $10.7 million from $45.1 million

Operating EBIT of $10.7 million comprised an equity share of profit of $0.0 million compared with $35.0 million for the prior corresponding period and interest income of $10.7 million compared with $10.1 million for the prior corresponding period.

Loy Yang's reduced operating result was largely driven by a significant reduction in the pool price together with lower generation volumes, as shown in the following table.

Average Victorian Reference Pool Price and Loy Yang Generation

	1st six months $/MWh	2nd six months $/MWh	Full year $/Mwh	Generation Volumes GWh
FY10	25.83	44.48	35.14	15,518
FY11	21.97	32.32	27.09	15,174

Loy Yang also experienced a 2.4% increase in labour, general operations and maintenance costs plus an increase of 5.5% in interest expense.

In September 2010, Loy Yang successfully refinanced a $455 million tranche of senior bank debt and a $35 million working capital facility which were due to expire in November 2010. Both new facilities were refinanced for five-year terms and mature in November 2015. All other debt facilities remain unchanged.

The successful refinancing followed the signing in March 2010 of a long term Electricity Hedge Agreement with Alcoa and its partners for approximately 820 MW of load (commencing partially in 2014 and fully from 2016, with possible further extensions of load).

4.5 Centrally Managed Expenses: Increased 6.4% to $148.8 million from $139.9 million

	Year ended 30 June 2011 $m	Year ended 30 June 2010 $m
Statutory EBIT	**(182.8)**	(163.1)
Significant items	**34.0**	23.2
Operating EBIT	**(148.8)**	(139.9)
Add back:		
Depreciation and amortisation	**13.6**	11.2
Operating EBITDA	**(135.2)**	(128.7)

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

	Year ended 30 June 2011 $m	Year ended 30 June 2010 $m
Labour	**(43.8)**	(39.4)
Office leases	**(16.4)**	(16.5)
Hardware and software costs	**(36.5)**	(40.7)
Consultants and contractor fees	**(10.1)**	(8.0)
Insurance premiums	**(9.6)**	(5.6)
Depreciation and amortisation	**(13.6)**	(11.2)
Other	**(18.8)**	(18.5)
Total	**(148.8)**	(139.9)

Labour costs increased by $4.4 million or 11.2%. Cash labour costs increased by $2.0 million with the remaining $2.4 million increase related to movements in provisions associated with long service leave and employee incentives.

Insurance premiums increased largely due to the transfer from Merchant Energy of insurance costs associated with Torrens Island power station.

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

However, although not formally reallocated for the purposes of reporting Operating EBIT, a substantial proportion of the expenses can be attributed to the business units. The following tables provide further analysis of the centrally managed expenses incurred on behalf of business units during the years ended 30 June 2011 and 30 June 2010.

30 June 2011	Centrally Managed Expenses $m	Reallocate Retail Energy $m	Reallocate Merchant Energy $m	Reallocate Upstream Gas $m	Unallocated $m
Labour	(43.8)	-	-	-	(43.8)
Office leases	(16.4)	10.1	3.8	0.9	(1.6)
Hardware and software costs	(36.5)	25.5	7.3	0.0	(3.7)
Consultants and contractor fees	(10.1)	1.2	1.9	0.1	(6.9)
Insurance premiums	(9.6)	3.3	4.6	1.7	(0.0)
Depreciation and amortisation	(13.6)	9.5	2.7	0.0	(1.4)
Other	(18.8)	3.1	1.6	0.0	(14.1)
Total	(148.8)	52.7	21.9	2.7	(71.5)

30 June 2010	Centrally Managed Expenses $m	Reallocate Retail Energy $m	Reallocate Merchant Energy $m	Reallocate Upstream Gas $m	Unallocated $m
Labour	(39.4)	-	-	-	(39.4)
Office leases	(16.5)	10.3	3.9	0.6	(1.7)
Hardware and software costs	(40.7)	24.4	12.0	0.2	(4.1)
Consultants and contractor fees	(8.0)	0.6	0.3	-	(7.1)
Insurance premiums	(5.6)	0.6	4.5	0.3	(0.2)
Depreciation and amortisation	(11.2)	6.7	3.3	0.1	(1.1)
Other	(18.5)	3.1	1.6	-	(13.8)
Total	(139.9)	45.7	25.6	1.2	(67.4)

5. Net Finance Costs
Decreased 21.3% to $37.4 million from $47.5 million

	Year ended 30 June 2011 $m	Year ended 30 June 2010 $m
Statutory finance costs	**(73.4)**	(73.9)
Statutory finance income	**47.9**	38.1
Remove finance income included in EBITDA	**(11.9)**	(11.7)
Net financing costs	**(37.4)**	(47.5)

Net financing costs were $37.4 million compared with $47.5 million for the prior corresponding period. This $10.1 million decrease in net financing costs was mainly due to reduced commitment fees following the cancellation of revolving credit facilities and interest associated with the tax refund from consolidation adjustments (see Section 1.1.5). Average net debt for the year was $667.0 million compared with $462.5 million for the prior corresponding period.

6. Underlying Tax Expense
Increased 7.0% to $188.0 million from $175.7 million

	Year ended 30 June 2011 $m	Year ended 30 June 2010 $m
Statutory income tax expense	**(234.9)**	(21.5)
Income tax benefit from significant items	**(17.0)**	(99.5)
Income tax (benefit) / expense from fair value movements	**63.9**	(54.7)
Underlying tax expense	**(188.0)**	(175.7)

The underlying effective tax rate was 30.4% compared with 29.1% for the prior corresponding period. The effective tax rate increased due primarily to a lower contribution from Loy Yang, which was equity accounted on an after tax basis.

7. Operating Cash Flow

7.1 Reconciliation of Operating EBITDA to Statutory Cash Flow:

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

		Year ended 30 June 2011 $m		Year ended 30 June 2010 $m
Operating EBITDA		**804.5**		789.6
Equity accounted income (net of dividend received)		**(6.0)**		(39.1)
Accounting for onerous gas contract		**(20.9)**		(20.9)
Working capital movements				
(Increase) / decrease in receivables	**(42.3)**		(25.4)	
Net movement in green assets / liabilities	**(94.1)**		(17.6)	
(Increase) / decrease in inventories	**(30.4)**		(42.9)	
Increase / (decrease) in creditors	**22.9**		26.5	
(Increase) / decrease in futures margin calls	**30.0**		(5.9)	
Net derivative premiums paid / roll-offs	**(29.2)**		6.7	
Net movement in GST recoverable / payable	**7.5**		(6.4)	
Other	**9.2**	**(126.4)**	(14.0)	(79.0)
Operating cash flow before interest, tax & significant items		**651.2**		650.6
Net finance costs paid		**(39.3)**		(43.8)
Income tax paid		**(0.7)**		(189.0)
Cash flow relating to significant items		**(41.9)**		(27.8)
Statutory net cash provided by operating activities		**569.3**		390.0

7.2 Underlying Operating Cash Flow before Tax: Increased 7.3% to $676.0 million from $630.3 million

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

	Year ended 30 June 2011 $m	Year ended 30 June 2010 $m
Statutory net cash provided by operating activities	**569.3**	390.0
Cash flow relating to significant items	**41.9**	27.8
Increase / (decrease) in futures margin calls	**(30.0)**	5.9
Increase / (decrease) in net green position	**94.1**	17.6
Underlying Operating Cash Flow	**675.3**	441.3
Income tax paid	**0.7**	189.0
Underlying Operating Cash Flow before tax	**676.0**	630.3

7.2.1 Significant Items

AGL incurred cash expenses in the year relating to redundancy, termination and restructuring costs as well as merger and acquisition related costs. These costs are explained in detail in Section 1.1.

7.2.2 Futures Margin Calls

AGL posts deposits with the futures exchange at the inception of a futures contract in relation to electricity. Depending on market movements, AGL subsequently pays or receives cash. The net receipt for the year ended 30 June 2011 was $30.0 million compared with a payment of $5.9 million for the prior corresponding period.

7.2.3 Net Green Position

AGL purchases various green products to satisfy its green compliance obligations. As at 30 June 2011, AGL had paid $130.8 million for certificates relating to future obligations compared with $36.7 million in the prior corresponding period, a net increase of $94.1 million.

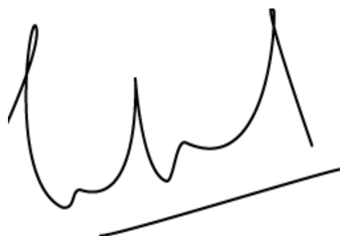
Directors in Office

The Directors of AGL Energy Limited who held office during or since the end of the financial year were:

	First Appointed
Jeremy Charles Roy Maycock - Chairman	9 October 2006 (chairman since 21 October 2010)
Mark Roderick Granger Johnson – Chairman	17 February 2006 (retired 21 October 2010)
Michael Anthony Fraser – Managing Director	22 October 2007
Maxwell Gilbert Ould	17 February 2006
Sandra Veronica McPhee	9 October 2006
Bruce John Phillips	23 August 2007
Leslie Victor Hosking	1 November 2008
John Victor Stanhope	9 March 2009
Belinda Jane Hutchinson	22 December 2010

Rounding of Amounts to Nearest $0.1 Million

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



Jeremy Maycock
Chairman

AGL Energy Limited and Subsidiaries
Consolidated Income Statement
For the year ended 30 June 2011

	Note	**2011** **$m**	2010 $m
Continuing operations			
Revenue	3	**7,072.5**	6,610.7
Other income	4	**-**	6.4
Expenses	5	**(6,139.0)**	(6,136.9)
Share of profits of associates and jointly controlled entities accounted for using the equity method	12	**33.6**	70.7
Profit before net financing costs, depreciation and amortisation		**967.1**	550.9
Depreciation and amortisation	6	**(148.0)**	(137.5)
Profit before net financing costs		**819.1**	413.4
Finance income		**47.9**	38.1
Finance costs		**(73.4)**	(73.9)
Net financing costs	7	**(25.5)**	(35.8)
Profit before tax		**793.6**	377.6
Income tax expense	9	**(234.9)**	(21.5)
Profit for the year attributable to owners of AGL Energy Limited		**558.7**	356.1
Statutory earnings per share			
Basic (cents per share)	15	**122.4**	79.3
Diluted (cents per share)	15	**122.3**	79.2

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

AGL Energy Limited and Subsidiaries
Consolidated Statement of Comprehensive Income
For the year ended 30 June 2011

	2011	2010
	$m	$m
Profit for the year	**558.7**	356.1
Other comprehensive income		
Cash flow hedges		
Loss in fair value of cash flow hedges	**(118.4)**	(252.9)
Reclassification adjustments transferred to profit or loss	**178.4**	30.6
Reclassification adjustments transferred to the initial carrying amounts of hedged items	**4.6**	1.0
Available-for-sale financial assets		
Loss on revaluation of available-for-sale financial assets	**-**	(0.9)
Reclassification adjustments transferred to profit and loss on impairment of available-for-sale financial assets	**-**	2.0
Actuarial gain/(loss) on defined benefit plans	**3.6**	(7.8)
Share of other comprehensive income of an associate	**31.5**	(25.9)
Income tax relating to components of other comprehensive income	**(22.2)**	68.8
Other comprehensive income for the year, net of income tax	**77.5**	(185.1)
Total comprehensive income for the year attributable to owners of AGL Energy Limited	**636.2**	171.0

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

AGL Energy Limited and Subsidiaries
Consolidated Statement of Financial Position
For the year ended 30 June 2011

	Note	2011 $m	2010 $m
Current assets			
Cash and cash equivalents		**753.1**	480.4
Trade and other receivables		**1,272.1**	1,234.5
Inventories		**127.4**	94.2
Other financial assets		**301.2**	225.3
Other assets		**276.6**	174.1
Total current assets		**2,730.4**	2,208.5
Non-current assets			
Trade and other receivables		**0.5**	0.6
Investments accounted for using the equity method		**240.7**	200.8
Exploration and evaluation assets		**658.0**	607.5
Oil and gas assets		**461.4**	333.4
Property, plant and equipment		**2,281.5**	2,056.2
Intangible assets		**3,137.2**	3,149.0
Other financial assets		**164.5**	106.5
Other assets		**21.5**	28.4
Total non-current assets		**6,965.3**	6,482.4
Total assets		**9,695.7**	8,690.9
Current liabilities			
Trade and other payables		**853.1**	859.6
Borrowings	13	**886.7**	-
Provisions		**94.3**	68.7
Current tax liabilities		**167.2**	42.5
Other financial liabilities		**440.7**	582.0
Other liabilities		**15.1**	0.6
Total current liabilities		**2,457.1**	1,553.4
Non-current liabilities			
Borrowings	13	**284.5**	900.8
Provisions		**161.6**	162.5
Deferred tax liabilities		**302.7**	165.6
Other financial liabilities		**94.1**	42.1
Other liabilities		**54.2**	66.6
Total non-current liabilities		**897.1**	1,337.6
Total liabilities		**3,354.2**	2,891.0
Net assets		**6,341.5**	5,799.9
Equity			
Issued capital	14	**4,244.6**	4,066.7
Reserves		**(97.1)**	(159.4)
Retained earnings		**2,194.0**	1,892.6
Total equity attributable to owners of AGL Energy Limited		**6,341.5**	5,799.9

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

AGL Energy Limited and Subsidiaries
Consolidated Statement of Changes in Equity
For the year ended 30 June 2011

	Attributable to owners of AGL Energy Limited						
	Issued capital $m	Investments revaluation reserve $m	Employee equity benefits reserve $m	Hedging reserve $m	Other reserve $m	Retained earnings $m	Total equity $m
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	**177.9**	**-**	**-**	**-**	**-**	**-**	**177.9**
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**
Balance at 1 July 2009	4,030.3	(1.1)	2.0	12.2	(0.1)	1,802.4	5,845.7
Profit for the year	-	-	-	-	-	356.1	356.1
Other comprehensive income for the year, net of income tax	-	1.1	-	(175.8)	(0.4)	(10.0)	(185.1)
Total comprehensive income for the year	-	1.1	-	(175.8)	(0.4)	346.1	171.0
Transactions with owners in their capacity as owners:							
Issue of ordinary shares	36.4	-	-	-	-	-	36.4
Payment of dividends	-	-	-	-	-	(255.9)	(255.9)
Share-based payments	-	-	2.7	-	-	-	2.7
Balance at 30 June 2010	4,066.7	-	4.7	(163.6)	(0.5)	1,892.6	5,799.9

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

	Note	2011 $m	2010 $m
Cash flows from operating activities			
Receipts from customers		**8,205.0**	7,610.7
Payments to suppliers and employees		**(7,620.0)**	(7,014.5)
Dividends received		**24.3**	26.6
Finance income received		**37.9**	37.5
Finance costs paid		**(77.2)**	(81.3)
Income taxes paid		**(0.7)**	(189.0)
Net cash provided by operating activities		**569.3**	390.0
Cash flows from investing activities			
Payments for property, plant and equipment		**(474.3)**	(241.6)
Payments for exploration and evaluation assets		**(38.7)**	(43.1)
Payments for oil and gas assets		**(50.7)**	(46.6)
Payments for investments		**-**	(0.2)
Payments for intangible assets		**(15.6)**	-
Payments for businesses and subsidiaries, net of cash acquired:			
acquisitions in current year	18	**(5.1)**	(7.8)
acquisitions in prior year		**-**	(1.2)
Proceeds from sale of property, plant and equipment		**0.1**	1.5
Proceeds from sale of investments		**0.9**	-
Proceeds from sale of subsidiaries, net of cash disposed:	19	**163.9**	239.0
Loans advanced to related parties		**-**	(1.5)
Proceeds from repayment of related party loans		**0.2**	9.8
Net cash used in investing activities		**(419.3)**	(91.7)
Cash flows from financing activities			
On-market share purchases		**(6.1)**	(2.4)
Proceeds from borrowings		**337.8**	0.9
Repayment of borrowings		**(2.5)**	(220.0)
Dividends paid	10	**(206.5)**	(219.5)
Net cash provided by/(used in) financing activities		**122.7**	(441.0)
Net increase/(decrease) in cash and cash equivalents		**272.7**	(142.7)
Cash and cash equivalents at the beginning of the financial year		**480.4**	623.1
Cash and cash equivalents at the end of the financial year	16	**753.1**	480.4

The statement of cash flows should be read in conjunction with the notes to the financial statements.

Note 1 - Summary of significant accounting policies

AGL Energy Limited (Parent Entity) is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Securities Exchange.

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

(a) Statement of compliance

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

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

The financial report does not include all notes of the type normally included within the annual financial report, upon which this report is based. Accordingly, this report should be read in conjunction with the annual financial report for the year ended 30 June 2010 and any public announcements made by AGL Energy Limited during the financial year ended 30 June 2011.

(b) Basis of preparation

The financial report has been prepared on the basis of historical cost, except for derivative financial instruments and available-for-sale financial assets, which are measured at fair value.

The Parent Entity is a company of the kind referred to in ASIC Class Order 98/0100, dated 10 July 1998, and in accordance with that Class Order, amounts in the financial report are rounded off to the nearest tenth of a million dollars, unless otherwise indicated. The financial report is presented in Australian dollars, unless otherwise noted.

The accounting policies and methods of computations adopted in the preparation of the financial report are consistent with those adopted and disclosed in the annual financial report for the year ended 30 June 2010, except as described 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.

(d) Adoption of new and revised accounting standards

The following new and revised Accounting Standards and Interpretations have been adopted in the current reporting period. Their adoption has not had any significant impact on the amounts reported in these financial statements but may affect the accounting for future transactions and arrangements.

• AASB 2009-5 *Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project* [AASB 5, 8, 101, 107, 117, 118, 136 and 139]

• AASB 2009-8 *Amendments to Australian Accounting Standards - Group Cash-settled Share-based Payment Transactions* [AASB 2]

• AASB 2009-10 *Amendments to Australian Accounting Standards - Classification of Rights Issues* [AASB 132]

• AASB 2010-3 *Amendments to Australian Accounting Standards arising from the Annual Improvements Project* [AASB 3, 7, 121, 128, 131, 132 and 139]

• Interpretation 19 *Extinguishing Financial Liabilities with Equity Instruments* and AASB 2009-13 *Amendments to Australian Accounting Standards arising from Interpretation 19* [AASB 1]

Note 2 - 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. The consolidated entity has four reportable operating segments as follows:

- **Retail Energy** is responsible for selling natural gas, electricity and energy-related products and services to residential, small business and commercial and industrial customers.

- **Merchant Energy** is responsible for developing, operating and maintaining power generation assets and managing the risks associated with the procurement and delivery of gas and electricity for its wholesale portfolio and for the Retail Energy segment. Merchant Energy also provides energy efficiency and carbon management services.

- **Upstream Gas** is responsible for exploration, development and production of coal seam gas, development and operation of gas storage facilities and also exploration and development of geothermal renewable energy sources.

- **Energy Investments** includes equity accounted investments in the ActewAGL Retail Partnership and Greater Energy Alliance Corporation Pty Limited.

No operating segments have been aggregated to form the above reportable operating segments.

In the segment financial results, the 'Other' category consists of the various Corporate activities which includes the head office and central support functions. Corporate is not considered a reportable operating segment.

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 2 - Segment information (cont'd)

	Retail Energy $m	Merchant Energy $m	Upstream Gas $m	Energy Investments $m	Other $m	Total $m
2011						
Total segment revenue	6,087.5	4,183.1	90.0	-	-	10,360.6
Inter-segment revenue	(30.5)	(3,216.8)	(40.8)	-	-	(3,288.1)
External revenue	6,057.0	966.3	49.2	-	-	7,072.5
Earnings before interest, tax, depreciation and amortisation (EBITDA)	416.8	447.3	35.1	40.5	(135.2)	804.5
Depreciation and amortisation	(43.8)	(69.1)	(21.5)	-	(13.6)	(148.0)
Operating EBIT	373.0	378.2	13.6	40.5	(148.8)	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	3,540.6	3,385.5	1,278.9	351.0	90.0	8,646.0
Segment liabilities	284.0	705.0	83.9	-	105.4	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	(62.6)	-	-	-	(2.0)	(64.6)
Gain in fair value of financial instruments	-	213.0	-	5.8	-	218.8
Significant expense items	(4.6)	(5.7)	-	-	(34.0)	(44.3)

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Note 2 - Segment information (cont'd)

	Retail Energy $m	Merchant Energy $m	Upstream Gas $m	Energy Investments $m	Other $m	Total $m
2010						
Total segment revenue	5,580.2	4,081.8	77.5	6.2	-	9,745.7
Inter-segment revenue	(35.5)	(3,050.1)	(49.4)	-	-	(3,135.0)
External revenue	5,544.7	1,031.7	28.1	6.2	-	6,610.7
Earnings before interest, tax, depreciation and amortisation (EBITDA)	360.2	449.8	26.6	81.7	(128.7)	789.6
Depreciation and amortisation	(41.5)	(63.7)	(21.1)	-	(11.2)	(137.5)
Operating EBIT	318.7	386.1	5.5	81.7	(139.9)	652.1
Net financing costs						(47.5)
Underlying profit before income tax						604.6
Income tax expense						(175.7)
Underlying profit						428.9
Segment assets	3,472.8	3,210.7	1,008.3	300.0	76.1	8,067.9
Segment liabilities	322.9	682.5	43.1	0.6	108.9	1,158.0
Other segment information						
Share of profits of associates and jointly controlled entities	-	-	0.3	70.4	-	70.7
Investments in associates and jointly controlled entities	0.9	-	3.9	196.0	-	200.8
Additions to non-current assets	31.8	215.1	123.1	-	29.5	399.5
Impairment losses	-	(0.6)	(15.9)	-	(7.8)	(24.3)
Other non-cash expenses	(59.6)	(9.1)	(2.0)	-	(10.9)	(81.6)
(Loss)/gain in fair value of financial instruments	-	(182.4)	-	5.0	-	(177.4)
Significant expense items	(12.4)	-	(14.0)	-	(23.2)	(49.6)

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Note 2 - Segment information (cont'd)

Segment revenue reconciliation to the income statement

Reconciliation of segment revenue to total revenue is as follows:

	2011 $m	2010 $m
Total segment revenue for reportable segments	**10,360.6**	9,745.7
Elimination of inter-segment revenue	**(3,288.1)**	(3,135.0)
Total revenue	**7,072.5**	6,610.7

Revenue from major products and services

The following is an analysis of the consolidated entity's revenue from its major products and services.

	2011 $m	2010 $m
Electricity	**4,518.1**	4,167.4
Gas	**1,904.4**	1,775.5
Generation sales to pool	**256.5**	361.5
Oil	**3.8**	0.6
Wind farm development fees	**61.0**	57.0
Green commodities scheme certificates	**212.4**	148.7
Management and marketing development fees	**10.9**	15.4
Other goods and services revenue	**104.7**	83.8
Other revenue	**0.7**	0.8
Total revenue	**7,072.5**	6,610.7

Segment Operating EBIT reconciliation to the income statement

Reconciliation of segment Operating EBIT to profit before tax is as follows:

	2011 $m	2010 $m
Operating EBIT for reportable segments	**805.3**	792.0
Other	**(148.8)**	(139.9)
	656.5	652.1
Amounts excluded from underlying results:		
- gain/(loss) in fair value of financial instruments	**218.8**	(177.4)
- significant expense items	**(44.3)**	(49.6)
Finance income included in Operating EBIT	**(11.9)**	(11.7)
Finance income	**47.9**	38.1
Finance costs	**(73.4)**	(73.9)
Profit before tax	**793.6**	377.6

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Note 2 - Segment information (cont'd)

Segment assets reconciliation to the statement of financial position

Reconciliation of segment assets to total assets is as follows:

	2011 $m	2010 $m
Segment assets for reportable segments	**8,556.0**	7,991.8
Other	**90.0**	76.1
	8,646.0	8,067.9
Cash and cash equivalents	**753.1**	480.4
Derivative financial instruments	**296.6**	142.6
Total assets	**9,695.7**	8,690.9

Segment liabilities reconciliation to the statement of financial position

Reconciliation of segment liabilities to total liabilities is as follows:

	2011 $m	2010 $m
Segment liabilities for reportable segments	**1,072.9**	1,049.1
Other	**105.4**	108.9
	1,178.3	1,158.0
Borrowings	**1,171.2**	900.8
Current tax liabilities	**167.2**	42.5
Deferred tax liabilities	**302.7**	165.6
Derivative financial instruments	**534.8**	624.1
Total liabilities	**3,354.2**	2,891.0

Geographical information

The consolidated entity operates in one principal geographical area - Australia.

The total of non-current assets other than financial instruments, deferred tax assets and defined benefit assets located in Australia is $6,912.4 million (2010: $6,375.9 million), and the total of non-current assets located in other countries is $3.1 million (2010: $nil).

The total external revenue is all from customers located in Australia for both 2011 and 2010.

Information about major customers

No single customer amounts to 10% or more of the consolidated entity's total external revenue for both 2011 and 2010.

	2011 $m	2010 $m

Note 3 - Revenue

	2011 $m	2010 $m
Revenue from sale of goods	**6,898.7**	6,466.0
Revenue from rendering of services	**173.1**	143.9
Other revenue		
Royalties	**0.7**	0.8
	7,072.5	6,610.7

Note 4 - Other income

	2011 $m	2010 $m
Gain on disposal of subsidiaries	**-**	5.8
Net foreign exchange gains	**-**	0.6
	-	6.4

Note 5 - Expenses

	2011 $m	2010 $m
Cost of sales	**5,706.4**	5,327.9
(Gain)/loss in fair value of electricity derivatives - economic hedges	**(218.8)**	177.4
	5,487.6	5,505.3
Administration expenses	**148.9**	145.8
Employee benefits expense	**330.6**	318.1
Other expenses		
Impairment of trade receivables (net of bad debts recovered)	**51.0**	44.9
Impairment of property, plant and equipment	**-**	8.4
Impairment of exploration and evaluation assets	**-**	13.9
Impairment of available-for-sale equity investments	**0.2**	2.0
Merger and acquisition related costs	**17.3**	5.1
Redundancy, termination and restructure costs	**27.0**	11.1
Phoenix change program costs	**-**	11.7
Net loss on disposal of property, plant and equipment	**3.5**	2.1
Operating lease rental expenses	**20.9**	20.2
Other	**52.0**	48.3
	6,139.0	6,136.9

Note 6 - Depreciation and amortisation

	2011 $m	2010 $m
Property, plant and equipment	**104.2**	92.6
Oil and gas assets	**17.0**	17.7
Intangible assets	**21.0**	21.4
Other	**5.8**	5.8
	148.0	137.5

	2011 $m	2010 $m
Note 7 - Net financing costs		
Finance income		
Interest income		
Associates	**10.7**	10.1
Other entities	**37.2**	28.0
	47.9	38.1
Finance costs		
Interest expense		
Other entities	**75.1**	67.8
Finance costs capitalised	**(15.4)**	(18.3)
Unwinding of discounts on provisions	**11.4**	11.9
Other finance costs	**2.3**	12.5
	73.4	73.9
Net financing costs	**25.5**	35.8

Note 8 - Significant expense items

	2011 $m	2010 $m
Significant expense items before income tax		
Impairment of exploration and evaluation assets	**-**	(13.9)
Impairment of property, plant and equipment	**-**	(7.8)
Merger and acquisition related costs	**(17.3)**	(5.1)
Redundancy, termination and restructure costs	**(27.0)**	(11.1)
Phoenix change program costs	**-**	(11.7)
	(44.3)	(49.6)
Income tax income applicable:		
Impairment of exploration and evaluation assets	**-**	4.2
Impairment of property, plant and equipment	**-**	2.3
Merger and acquisition related costs	**4.2**	0.7
Redundancy, termination and restructure costs	**7.3**	3.3
Phoenix change program costs	**-**	3.5
	11.5	14.0
Effect of retrospective changes to Tax Consolidation Legislation	**5.5**	85.5
	17.0	99.5
Significant (expense)/income items after income tax	**(27.3)**	49.9

Note 9 - Income tax expense

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:

	2011 $m	2010 $m
Profit before tax	**793.6**	377.6
Income tax expense calculated at the Australian tax rate of 30%	**238.1**	113.3
Non-deductible expenses	**7.5**	9.6
Gain on disposal of businesses and subsidiaries	**1.9**	3.7
Share of profits of associates and jointly controlled entities	**(1.1)**	(12.2)
Previously unrecognised tax losses used to reduce deferred tax expense	**-**	(3.3)
Effect of retrospective changes to Tax Consolidation Legislation	**(5.5)**	(85.5)
Other	**-**	(1.5)
Adjustments in relation to current tax of prior years	**(6.0)**	(2.6)
Income tax recognised in the income statement	**234.9**	21.5

Tax consolidation

As a result of retrospective changes to the tax consolidation legislation enacted in June 2010, AGL has recognised a further tax benefit of $5.5 million (2010: $85.5 million) relating to tax deductions which are available for the tax value allocated to certain derivative assets in place at the time of the merger/demerger transaction with Alinta Limited in October 2006. AGL received tax refunds of $72.4 million during the 2011 financial year and expects to receive further tax refunds of $22.1 million. These amendments also resulted in a change to deferred tax liabilities of $3.5 million.

Note 10 - Dividends

	2011	2010
	$m	$m
Recognised amounts		
Final dividend		
Final dividend for 2010 of 30.0 cents per share, unfranked, paid 30 September 2010 (2009: Final dividend for 2009 of 28.0 cents per share, fully franked at 30%, paid 30 September 2009)	**135.3**	125.5
Interim dividend		
Interim dividend for 2011 of 29.0 cents per share, unfranked, paid 14 April 2011 (2010: Interim dividend for 2010 of 29.0 cents per share, fully franked at 30%, paid 7 April 2010)	**133.1**	130.4
Total dividends	**268.4**	255.9
Dividends satisfied by the issue of shares under the AGL Dividend Reinvestment Plan (Note 14)	**(61.9)**	(36.4)
Dividends paid as per the statement of cash flows	**206.5**	219.5
Unrecognised amounts		
Since the end of the financial year, the Directors have declared a final dividend for 2011 of 31.0 cents per share, fully franked at 30%, (2010: 30.0 cents per share unfranked), payable 29 September 2011	**143.0**	135.0

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 2012 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 12 September 2011.

Note 11 - Net tangible asset backing

	2011	2010
	$	$
Net tangible asset backing per ordinary share	**6.95**	5.89

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Note 12 - Interests in associates, jointly controlled entities and jointly controlled operations and

Name of entity	Ownership interest 2011 %	Ownership interest 2010 %	Contribution to net profit 2011 $m	Contribution to net profit 2010 $m
Associates				
Greater Energy Alliance Corporation Pty Limited	**32.5**	32.5	**3.3**	40.0
Gascor Pty Ltd	**-**	33.3	**-**	-
CSM Energy Limited	**35.0**	35.0	**(0.2)**	(0.2)
Jointly controlled entities				
ActewAGL Retail Partnership	**50.0**	50.0	**29.8**	30.4
Energy Infrastructure Management Pty Ltd	**50.0**	50.0	**0.7**	0.6
Central Queensland Pipeline Pty Ltd	**50.0**	50.0	**-**	(0.1)
			33.6	70.7

Jointly controlled operations and assets	Interest 2011 %	Interest 2010 %
Bowen Basin - Queensland		
Moranbah Gas Project - PL 191, PL 196, PLA 222, PL 223, PL 224 & ATP 1103P	**50.0**	50.0
Spring Gully Project - ATP 592P, PL 195 & PL 203	**0.8**	0.8
Spring Gully Project - PL 204	**0.04**	0.04
Galilee Basin - Queensland		
Galilee Gas Project - ATP 529P	**50.0**	50.0
Cooper / Eromanga Basin - South Australia		
PEL 101	**35.0**	35.0
PEL 103, PEL 103A, PRL 14, PRL 17 & PRL 18	**37.5**	37.5
Surat Basin - Queensland		
ATP 471P (Bainbilla Block)	**75.3**	-
ATP 471P (Spring Grove #2 sole risk)	**52.8**	-
ATP 471P (Weribone)	**28.7**	-
PL 1 (Cabawin)	**15.0**	-
PL 30 (Riverslea)	**10.0**	-
PL 74 (Major)	**16.0**	-
PL 119 (Downlands)	**75.3**	-
Cooper / Eromanga Basin - Queensland		
ATP 934P (under application)	**20.0**	-
ATP 1056P	**40.0**	-
Taranaki Basin - New Zealand		
PEP 51149	**18.6**	-
PEP 51151	**50.0**	-
PEP 52181	**15.0**	-
PEP 53247	**75.0**	-
Others		
North Queensland Energy Joint Venture	**50.0**	50.0
Macarthur Wind Farm Joint Venture	**50.0**	-
Lytton Joint Venture - Crude oil terminal	**33.3**	-

Note 13 - Borrowings

	2011 $m	2010 $m
Current		
Bank loans - unsecured (a)	**886.7**	-
Non-current		
USD senior notes - unsecured (b)	**274.4**	-
Bank loans - unsecured	**-**	886.7
Finance lease liabilities - secured	**11.9**	10.6
Other loans - unsecured	**-**	3.5
Deferred borrowing costs	**(1.8)**	-
	284.5	900.8
Total borrowings	**1,171.2**	900.8

(a) Subsequent to the year end, AGL announced on 20 July 2011 that it has entered into a $1.0 billion Syndicated Loan Facility, comprising of a $600.0 million 3 year term loan tranche and a $400.0 million 5 year revolving tranche. The funds will be partially used to refinance $886.7 million of existing debt, due for repayment in October 2011. Refer Note 20 for further details.

(b) In September 2010, the consolidated entity 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.

Note 14 - Issued capital

	2011		2010	
	Number of shares	**$m**	Number of shares	$m
Movement in fully paid ordinary shares				
Balance at beginning of financial year	**450,076,509**	**4,066.7**	447,536,000	4,030.3
Shares issued under AGL Dividend Reinvestment Plan (a)(b)	**4,251,051**	**61.9**	2,540,509	36.4
Shares issued for acquisition of subsidiary (c)	**6,984,172**	**116.0**	-	-
Balance at end of financial period	**461,311,732**	**4,244.6**	450,076,509	4,066.7

(a) On 30 September 2010, 1,162,779 ordinary shares were issued at $15.95 per share to participating Shareholders under the AGL Dividend Reinvestment Plan.

(b) On 14 April 2011, 3,088,272 ordinary shares were issued at $14.04 per share to participating Shareholders under the AGL Dividend Reinvestment Plan.

(c) On 20 October 2010, 6,984,172 ordinary shares were issued at $16.61 per share for the acquisition of Mosaic Oil. Refer Note 18.

Note 15 - Earnings per share (EPS)

	2011 Cents	2010 Cents
Statutory earnings per share		
Basic earnings per share	**122.4**	79.3
Diluted earnings per share	**122.3**	79.2
Underlying earnings per share		
Basic earnings per share	**94.4**	95.6
Diluted earnings per share	**94.4**	95.4

	2011 $m	2010 $m
Earnings used in calculating basic and diluted earnings per share		
Profit for the year attributable to owners of AGL Energy Limited	**558.7**	356.1
Statutory earnings used to calculate basic and diluted EPS	**558.7**	356.1
Significant expense/(income) items after income tax	**27.3**	(49.9)
(Gain)/loss in fair value of financial instruments after income tax	**(154.9)**	122.7
Underlying earnings used to calculate basic and diluted EPS	**431.1**	428.9

	2011 No. millions	2010 No. millions
Weighted average number of ordinary shares		
Weighted average number of ordinary shares used in the calculation of basic EPS	**456.5**	448.8
Effect of dilution - LTIP share performance rights	**0.4**	0.6
Weighted average number of ordinary shares used in the calculation of diluted EPS	**456.9**	449.4

Note 16 - Cash flow information

Reconciliation of cash and cash equivalents

Cash and cash equivalents at the end of the end of the reporting period as shown in the statement of cash flows can be reconciled to the related items in the statement of financial position as follows:

	2011 $m	2010 $m
Cash at bank and on hand	**201.4**	41.8
Short-term deposits	**551.7**	438.6
	753.1	480.4

Non-cash financing and investing activities

	2011 $m	2010 $m
Dividends satisfied by the issue of shares under the AGL Dividend Reinvestment Plan (Note 14)	**61.9**	36.4
Shares issued as consideration for acquisition of subsidiary (Note 14)	**116.0**	-
	177.9	36.4

Note 17 - 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) The consolidated entity has various contingent liabilities arising in connection with the sale of certain subsidiaries and a jointly controlled entity. Under the various sale agreements the consolidated entity has given warranties and indemnities in relation to tax related matters, environmental and other specific liabilities.

(b) Pursuant to ASIC Class Order 98/1418 (as amended), the Parent Entity and certain wholly-owned Australian subsidiaries have entered in to 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. No liabilities subject to the Deed of Cross Guarantee at 30 June 2011 are expected to arise.

(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.

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Note 18 - Acquisition of subsidiaries and businesses

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 are 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 is currently developing 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 have been excluded from the consideration paid and have been recognised as an expense in the period, within the 'other expenses' line item in the income statement.

From the date of acquisition, Mosaic has contributed $9.3 million to the revenue and a loss of $0.7 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 Mosaic acquisition had been effected at 1 July 2010.

Note 18 - Acquisition of subsidiaries and businesses (cont'd)

The fair value of the identifiable assets acquired and liabilities assumed at the date of acquisition were as follows:

Net assets acquired	Mosaic Oil 2011 $m
Assets	
Cash and cash equivalents	21.5
Trade and other receivables	5.9
Inventories	2.9
Other assets	0.9
Exploration and evaluation assets	19.8
Oil and gas assets	104.5
Property, plant and equipment	8.4
Deferred tax assets	23.9
Liabilities	
Trade and other payables	(2.8)
Borrowings	(0.3)
Provisions	(10.3)
Deferred tax liabilities	(31.4)
Other liabilities	(0.4)
Fair value of identifiable net assets	142.6
Goodwill arising on acquisition	-
	142.6
Consideration transferred	
Fair value of shares issued	116.0
Consideration paid in cash	26.6
	142.6

The accounting for the Mosaic acquisition 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.

Note 18 - Acquisition of subsidiaries and businesses (cont'd)

2010

Acquisition of wind farm development projects

On 17 June 2009, the consolidated entity entered into a sale and purchase agreement with Transfield Services Limited to acquire 100% of the issued capital of Barn Hill Wind Farm Pty Ltd and the business assets of the Crows Nest wind farm development. The acquisition was completed on 14 December 2009, on which date the consolidated entity obtained control of Barn Hill Wind Farm Pty Ltd. The consideration paid comprised cash of $9.0 million.

The assets acquired comprised the rights to the Barn Hill wind farm development project in South Australia and the Crows Nest wind farm development project in Queensland.

Acquisition-related costs amounting to $0.4 million were excluded from the consideration paid and were recognised as an expense in the 2010 year, within the 'other expenses' line item in the income statement.

Acquisition of Boilerland

On 6 April 2010, the consolidated entity acquired the Queensland based boiler and thermal service business, Boilerland, from the privately owned company, Boilerland Pty Ltd. The consideration paid comprised cash of $0.8 million.

Boilerland specialises in programmed maintenance and the manufacture of reconditioned and new steam boilers as well as commercial and industrial hot and warm water systems.

Acquisition-related costs amounting to $0.1 million were excluded from the consideration paid and were recognised as an expense in the 2010 year, within the 'other expenses' line item in the income statement.

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

Net assets acquired	Wind farm development projects 2010 $m	Boilerland 2010 $m	Total 2010 $m
Assets			
Inventories	-	0.2	0.2
Property, plant and equipment	0.1	0.3	0.4
Intangible assets	8.9	-	8.9
Deferred tax assets	-	0.1	0.1
Liabilities			
Provisions	-	(0.2)	(0.2)
Fair value of identifiable net assets	9.0	0.4	9.4
Goodwill arising on acquisition	-	0.4	0.4
	9.0	0.8	9.8
Consideration transferred			
Consideration paid in cash	7.0	0.8	7.8
Consideration paid in cash in prior year	2.0	-	2.0
	9.0	0.8	9.8

The goodwill arising on the acquisition of Boilerland was attributable to the benefit of expected synergies from integrating the business into the Merchant Energy segment, future market development opportunities and the technical skills of the Boilerland workforce. The goodwill was not expected to be deductible for tax purposes.

	2011 $m	2010 $m
Net cash outflow on acquisitions		
Consideration paid in cash	**26.6**	7.8
Cash and cash equivalent balances acquired	**(21.5)**	-
	5.1	7.8

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Note 19 - Disposal of subsidiaries

2011

Disposal of Oaklands Hill Wind Farm Pty Ltd

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.

2010

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

On 30 September 2009, the consolidated entity disposed of its 100% interest in Hallett 4 Pty Ltd and on 1 October 2009, the consolidated entity disposed of its 100% interest in Brown Hill North Pty Ltd, the subsidiary that was constructing the 132.3 MW Hallett 4 Wind Farm in South Australia. The total proceeds on these disposals of $157.1 million was received in cash.

Disposal of AGL Pipelines Investments Pty Limited

On 22 April 2010, the consolidated entity disposed of its 100% interest in AGL Pipelines Investments Pty Limited, the subsidiary that owned the Berwyndale to Wallumbilla Pipeline in Queensland. The proceeds on disposal of $81.9 million were received in cash.

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

	2011	2010
	$m	$m
Assets		
Inventories	**-**	0.1
Property, plant and equipment	**165.9**	236.7
Liabilities		
Deferred tax liabilities	**(2.0)**	(3.6)
Net assets disposed	**163.9**	233.2
Consideration received		
Consideration received in cash	**163.9**	239.7
Costs directly attributable to the disposal paid	**-**	(0.7)
	163.9	239.0
Gain on disposal of subsidiaries		
Consideration received	**163.9**	239.0
Net assets disposed	**(163.9)**	(233.2)
	-	5.8
Net cash inflow on disposal of subsidiaries		
Consideration received in cash	**163.9**	239.7
Costs directly attributable to the disposal paid	**-**	(0.7)
	163.9	239.0

Note 20 - 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 period, 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:

Financing transactions totalling $1.2 billion.

On 20 July 2011, AGL Energy Limited (AGL) announced that it had signed two financing transactions totalling $1.2 billion. The funds will be used to refinance $886.7 million of existing debt, due for repayment in October 2011, and provide additional funding for the group's capital expenditure program.

AGL has signed a $1.0 billion Syndicated Loan Facility, comprising of a $600.0 million 3 year term loan tranche and a $400.0 million 5 year revolving tranche. This new facility was strongly supported by domestic and foreign lenders.

To partially fund its 50% interest in the Macarthur Wind Farm, including the purchase of Vestas turbines, AGL has also signed a $200.0 million loan agreement with EKF, the Danish export credit agency. Amortising over 18-years, the loan matures in 2031.

Final dividend

On 25 August 2011, the Directors of AGL resolved to pay a fully franked final dividend of 31.0 cents per share, amounting to $143.0 million. The record date for the final dividend is 8 September 2011 with payment to be made on 29 September 2011. Shares will commence trading ex-dividend on 1 September 2011.

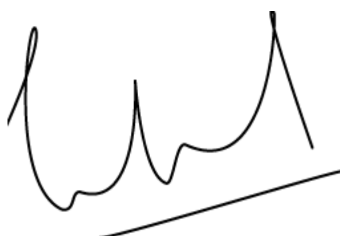
The AGL Dividend Reinvestment Plan (DRP) will be in operation and shares will be allotted at a 1.5% discount to the simple average of the daily weighted average market price at which AGL’s ordinary shares are traded on ASX during each of the 10 trading days commencing on 12 September 2011.

Note 21 - Information on audits or review

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

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

5. The entity has a formally constituted Audit and Risk Management committee.
6. The audit report, which is unqualified, will be made available with the AGL 2011 Annual Report.



Jeremy Maycock
Chairman

25 August 2011