AGL has Australia's largest retail energy and dual fuel customer base, retailing natural gas, electricity and energy-related products and services to 3.2 million customer accounts across New South Wales, Victoria, South Australia and Queensland.

Retail Energy is responsible for growing AGL's position in downstream gas and electricity markets. Its key business priorities include achieving operational excellence and continuing to improve customer services.

As an energy company committed to energy efficiency across the community, we place a special emphasis on assisting vulnerable Australians to reduce their energy costs.

Retail sources its energy from AGL's Merchant Energy business. In the case of mass market customers, the transfer price for this energy is the cost implicit in regulators' tariff decisions. For AGL's industrial and commercial customers, the transfer price reflects the market price at the time of contracting.

Ken Hodgson joined AGL as Group General Manager Retail Energy in December 2008. Mr Hodgson had previously worked at Westpac, where he was General Manager Consumer Financial Services.

Customer focus

During 2008/2009, AGL completed the third and final rollout of Project Phoenix, the four-year change program designed to deliver world-class competitive capability at industry-leading cost to serve. Project Phoenix transferred more than three million customer accounts onto one integrated strategic platform (SAP) and will rationalise AGL's customer products.

The new SAP platform will give AGL access to more and improved proprietary customer data which, together with an improved analytics capability, will enable us to better tailor product and service offerings to our customers.

It will also help AGL provide improved customer service and deliver a range of significant and ongoing benefits to the business.

Retail Energy's strategy is to deliver a consistently excellent customer experience that generates long-term value.

Project Phoenix will help AGL better understand and meet the needs of its customers.

Financial result

Retail Energy contributed Operating EBIT of $266.8 million for the year ended 30 June 2009, down slightly on the prior corresponding period.

Gross margin (excluding fees and charges) was $48.5 million higher than the previous year, driven by increased tariffs and a focus on acquiring and retaining higher margin customers in both mass markets and commercial and industrial customer segments. This was achieved despite a decrease in margins in Queensland as a result of the tariff determination of the Queensland Competition Authority (QCA). AGL successfully appealed the QCA determination the benefit of which will be realised from 2009/2010. Depreciation expense increased by $12.9 million as a result of depreciating Project Phoenix assets for a full year.

Following the transfer of customer accounts to SAP, there were process and billing issues that resulted in service levels for a number of customers not meeting AGL's required performance standards.

The additional resources required to resolve the process and billing issues, and other consequential impacts, increased Retail Energy's operating expenditure by $38.2 million during the year. The process and billing issues have now been resolved. However, they have resulted in a six month delay in AGL realising the full benefits from the new customer service and billing platform.

Connecting us with the community – Energy for Life

We continued to provide support to the community through AGL's Energy for Life community investment program that connects our business and employees with the community in ways that make a genuine contribution, engage our people and strengthen our business.

Homelessness is AGL's core social issue and this focus is reflected across the four initiatives of Energy for Life – Warmth In Winter, Employee Giving, Volunteering and Energy Matters.

Retail Energy	09	08
Operating EBIT	**$266.8m**	$271.7m
Operating EBITDA	**$303.0m**	$295.0m
Operating cost/gross margin	52.4%	46.9%
Electricity volume (GWh)	33,966	36,555
Gas volume (PJ)	223.3	232.1
Mass market gross margin	$493.8m	$470.0m
Average mass market customers ('000s)	3,197.6	3,171.3
Average mass market gross margin per customer	$154.40	$148.20

3.2 million

At 30 June 2009, AGL had 3.2 million customer accounts, unchanged from 2008. Dual fuel accounts increased by 60,000 over the year.

52.4%

Operating costs were 52.4% of gross margin for the year. AGL's target is to reduce this to between 40%–45% over the next three years.

As an energy company committed to encouraging a focus on energy efficiency across the community, we also place a special emphasis on assisting vulnerable Australians to reduce their energy costs.

During the year, AGL continued to offer assistance in the form of special payment arrangements for customers facing hard times as a result of the global financial crisis or other hardship situations.

Connecting us with the community – retail sponsorships

During the year, AGL launched two sponsorship programs for AGL in Victoria and Queensland, both of which demonstrate AGL's 'Energy in Action'.

Skipping Girl

The Skipping Girl Vinegar sign has been a Melbourne icon since the 1930s. Nicknamed Little Audrey, the animated neon sign had not operated since 2001 and was in urgent need of restoration when AGL stepped in.

As a principal sponsor of the National Trust of Australia (Victoria) restoration appeal, AGL helped to raise funds to restore Little Audrey, by undertaking needed structural frame repairs and a major overhaul of electronics and neon tubing.

As well as a sizeable donation, AGL pledged to power Little Audrey with AGL Green Energy (AGL's 100% GreenPower accredited product) for the next five years.

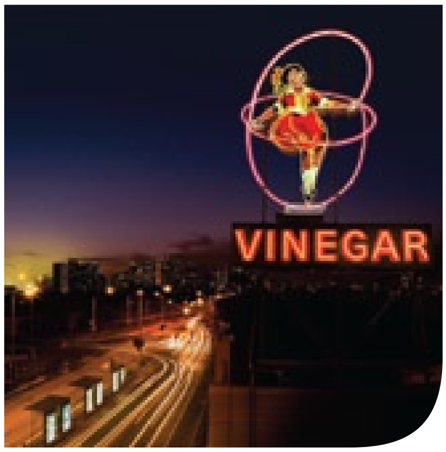
AGL Action Rescue Helicopter

AGL announced its sponsorship of the Sunshine Coast Helicopter Rescue Service in April, securing ongoing operations to undertake vital rescue, medical and search missions throughout south-east Queensland.

The three-year sponsorship saw the 30-year-old rescue service undergo a major facelift to become the AGL Action Rescue Helicopter.

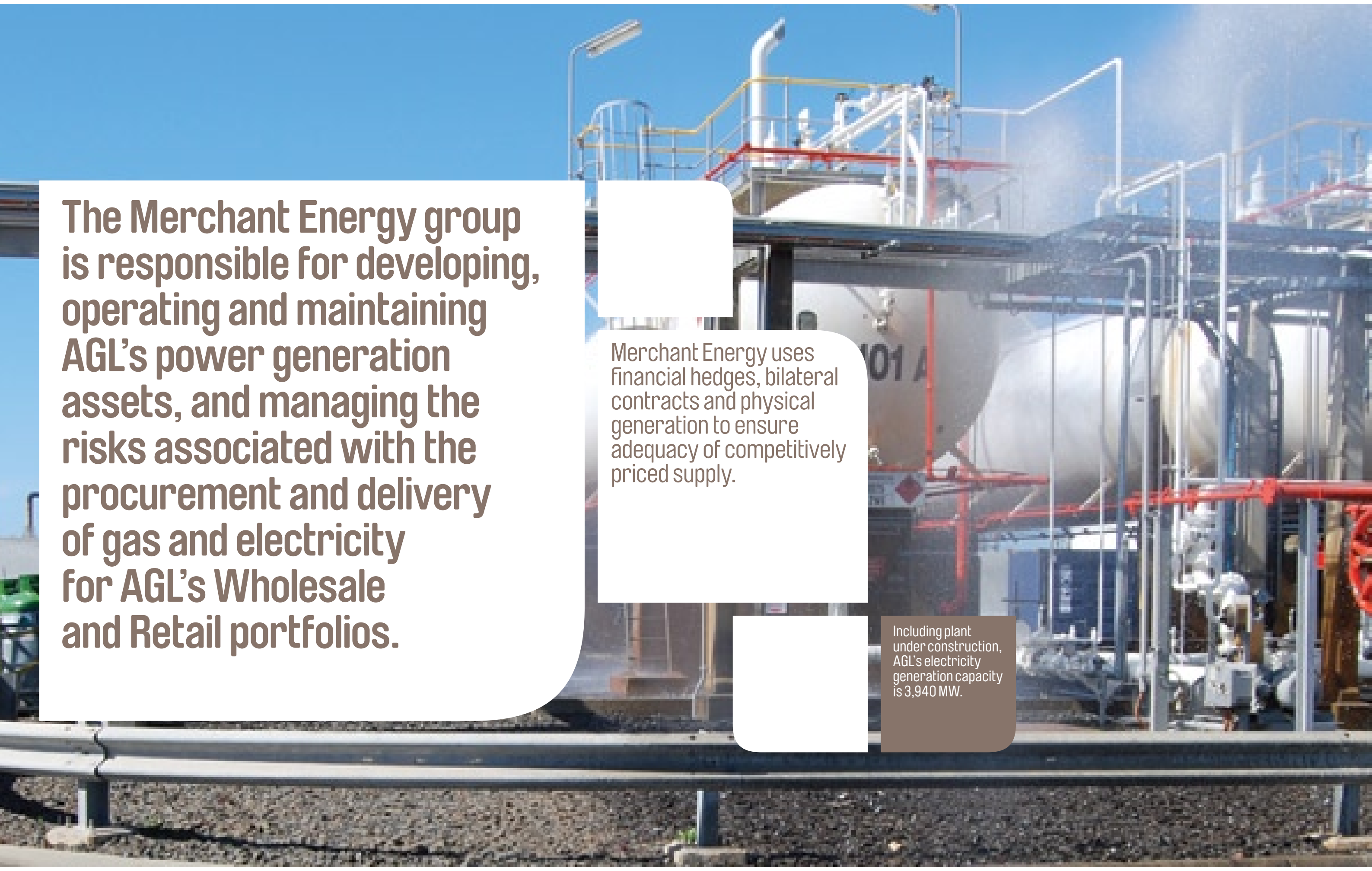
The AGL Action Rescue Helicopter will continue to service communities throughout south-east Queensland, including the Gold Coast and communities as far north as Bundaberg and west to Chinchilla. The rescue service transports or rescues more than 1,000 people every year and operates 24 hours a day.

Under the sponsorship, AGL provides funding and offers AGL customers the opportunity to donate by nominating contributions to be added to their AGL bills.



$266.8 million

Retail Energy contributed $266.8 million to Operating EBIT for the year ended 30 June 2009.



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

Merchant Energy uses financial hedges, bilateral contracts and physical generation to ensure adequacy of competitively priced supply.

Including plant under construction, AGL's electricity generation capacity is 3,940 MW.

Financial result

The Merchant Energy businesses continued to be a strong growth engine for AGL.

Merchant Energy delivered an operating EBIT result of $447.3 million, up 32.5% on the prior corresponding period. This result reflects the growing diversity of AGL's generation portfolio and the depth of the development portfolio the Company is bringing to market.

During 2008/2009, AGL's Power Development business was separated from the Upstream Gas business and integrated into Merchant Energy. The other Merchant businesses are Energy Portfolio Management, Merchant Operations and Energy Services.

All business units performed well during the year. The main reasons for the increase in Operating EBIT were:

- effective portfolio management to achieve a lower cost of procuring electricity, gas and renewable energy certificates;
- higher revenue, mainly from increases in regulated tariffs;
- higher energy sales volumes;
- a contribution of $27.0 million as a result of the sale of excess gas capacity in November 2008;
- an increased contribution from AGL's investment in Loy Yang A Power Station; and
- an increase of $14.6 million in fees from the development of wind farm projects.

Energy Portfolio Management

Energy Portfolio Management is responsible for managing the risks associated with procuring gas and electricity. The integrated nature of the portfolio allows AGL to manage and balance the relative price differentials between the gas and electricity markets as well as the costs of different fuels. This gives AGL the ability to run gas fired generation when electricity price is greater than gas cost, or to switch stations to the alternate distillate fuel when gas price is high.

With the easing of drought conditions and the installation of new generation capacity in Queensland and New South Wales in 2008/2009, pool prices returned to more typical patterns with low underlying prices prevailing, accompanied by occasional periods of volatility.

The flexibility of AGL's electricity portfolio was demonstrated when temperatures exceeded 45 degrees in Adelaide and Melbourne in late January/early February, causing load shedding and extreme pool prices before price administration was invoked under the National Electricity Rules. AGL responded to these conditions as the peaking hydro and gas fired generation assets were deployed in response to the volatility.

In more typical conditions, AGL's integrated portfolio benefited from periods of very low underlying pool prices as the efficient gas fired generators, backed by AGL's flexible gas portfolio, were run for extended periods as required.

The flexibility of the gas portfolio provides the option of transporting low cost gas to high value markets. The value of this flexibility was highlighted in November 2008 when the Victorian spot gas market reached $800/GJ as a result of unseasonable cold weather coinciding with supply constraints. AGL was able to benefit by selling some of its excess gas capacity into the Victorian market.

Merchant Energy	09 $m	08 $m
Operating EBITDA	**502.0**	388.8
Operating EBIT		
Energy Portfolio Management	447.9	356.3
Merchant Operations (excluding Loy Yang)	(97.0)	(88.3)
Loy Yang	30.8	12.4
Energy Services	22.4	28.6
Power Development	51.1	36.8
Sundry	(7.9)	(8.2)
Total Operating EBIT	**447.3**	337.6

2,090 MW

AGL has identified renewable energy development opportunities totalling 2,090 MW.

$447.3 million

Merchant Energy contributed $447.3 million to Operating EBIT for the year ended 30 June 2009.

The completion of the QSN gas pipeline link (which connects Queensland with South Australia and New South Wales) and the Berwyndale to Wallumbilla gas pipeline (BWP) provides AGL with further options to bring Queensland gas to the southern states. The first AGL gas flowed from Queensland to Moomba in May 2009, allowing AGL to benefit from competitively priced Queensland gas in time for the peak winter period in the southern markets.

Power Development

AGL's Power Development group is responsible for delivering all upstream electricity generation development projects and for creating a pipeline of development opportunities. Power Development takes projects through the planning and construction stages before delivering the completed asset to Merchant Operations.

AGL continued to develop its suite of renewable energy generation assets with a number of key projects nearing completion at the end of 2008/2009.

The 140 MW Bogong Hydro-Electric Power Station in the Victorian Alps was on track for completion and commissioning on time and on budget in November 2009. During the year, construction of the 6km main headrace tunnel was completed, which will return the Pretty Valley branch of the East Kiewa River to natural water flows. The head pond drop shaft from the McKay Creek Power Station to the Bogong tunnel was also built.

The AGL Hallett 2 Wind Farm in South Australia proceeded on budget and ahead of schedule, with full commissioning expected before the end of the 2009 calendar year. Construction also began on AGL Hallett 4 Wind Farm.

AGL acquired wind farm development opportunities from the portfolios of Allco, Investec and Transfield Services. These acquisitions provide further strategic depth and optionality to AGL's wind energy growth pipeline, with development sites across South Australia, Queensland, Victoria and New South Wales.

Bogong Hydro-Electric Power Station

The 140 MW Bogong Hydro-Electric Power Station was on track for completion and commissioning in November 2009.

Merchant Operations

Merchant Operations is responsible for the physical operation and maintenance of AGL's growing portfolio of wind, water and gas fired electricity generation plants. Merchant Operations also includes the results of AGL's 32.5% investment in the Loy Yang A Power Station.

Ensuring that AGL's generation assets are available when required is the key objective of the business unit.

This was highlighted during the heatwave in Victoria and South Australia when excellent results were achieved despite record demand and with bushfires threatening availability of the hydro assets and water resources.

To increase the flexibility of its workforce, Merchant Operations provided various trades and administrative personnel with the opportunity to work at different sites in support of outages and other works during the year. A major recruitment program has commenced at Torrens Island Power Station (TIPS) to recruit approximately 40 new employees over the next few months as a part of a long-term succession plan.

The 150 MW Somerton gas fired peaking plant achieved 99% commercial start reliability, an outstanding level of performance that exceeds international benchmarks for similar plant. AGL's hydro assets continued to provide reliable fast-start generating capacity with 99% start reliability. The second year of a four-year generator refurbishment program for the West Kiewa Power Station (61.6 MW and commissioned in 1956) saw the renovation of Generator 4 completed, and work starting on Generator 1.

Despite drought conditions, the Kiewa scheme, which has the highest generation capacity and full water release discretion, was not significantly affected with storage levels (65% full at year end) higher than in the previous year. Dartmouth and Eildon experienced a slight increase in storage levels and were 22% and 14% full at year end.

AGL Hallett 1 Wind Farm was handed over to Merchant Operations from Power Development and AGL Hallett 2 Wind Farm produced its first energy in May, while Wattle Point Wind Farm met its production and availability targets.

The Board approved a $40 million upgrade of control systems at TIPS which will result in a single point of control for both A and B stations.

TIPS achieved its ninth year without a Lost Time Injury (LTI). Overall, Merchant Operations recorded two LTIs for the year as a result of soft tissue injuries. Over the year the Lost Time Injury Frequency Rate (LTIFR) reduced from 3.4 to 2.0.

Loy Yang A Power Station

Operating EBIT from AGL's Loy Yang A investment increased to $30.8 million from $12.4 million. Revenue grew by 9% largely as a result of an improvement in the sold contract position offset by lower generation and a reduction in the pool price achieved from $46.79/MWh in 2008 to $41.82/MWh. Other revenue grew 46.0%, mainly driven by an insurance claim resulting from a dredger breakdown. Loy Yang's operating costs and depreciation expense both increased by 7%, offset by a 5% reduction in interest expenses.

Energy Services

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

Investments	09 $m	08 $m
ActewAGL	27.9	26.0
Elgas	10.6	15.6
Gas Valpo	–	13.5
AlintaAGL	–	13.6
Investments other	5.5	5.0
Total Operating EBIT	**44.0**	73.7

$221 million

AGL sold its 50% investment in Elgas to the Linde Group for $221 million.

$44.0 million

Energy Investments contributed $44.0 million to Operating EBIT for the year ended 30 June 2009.

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

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

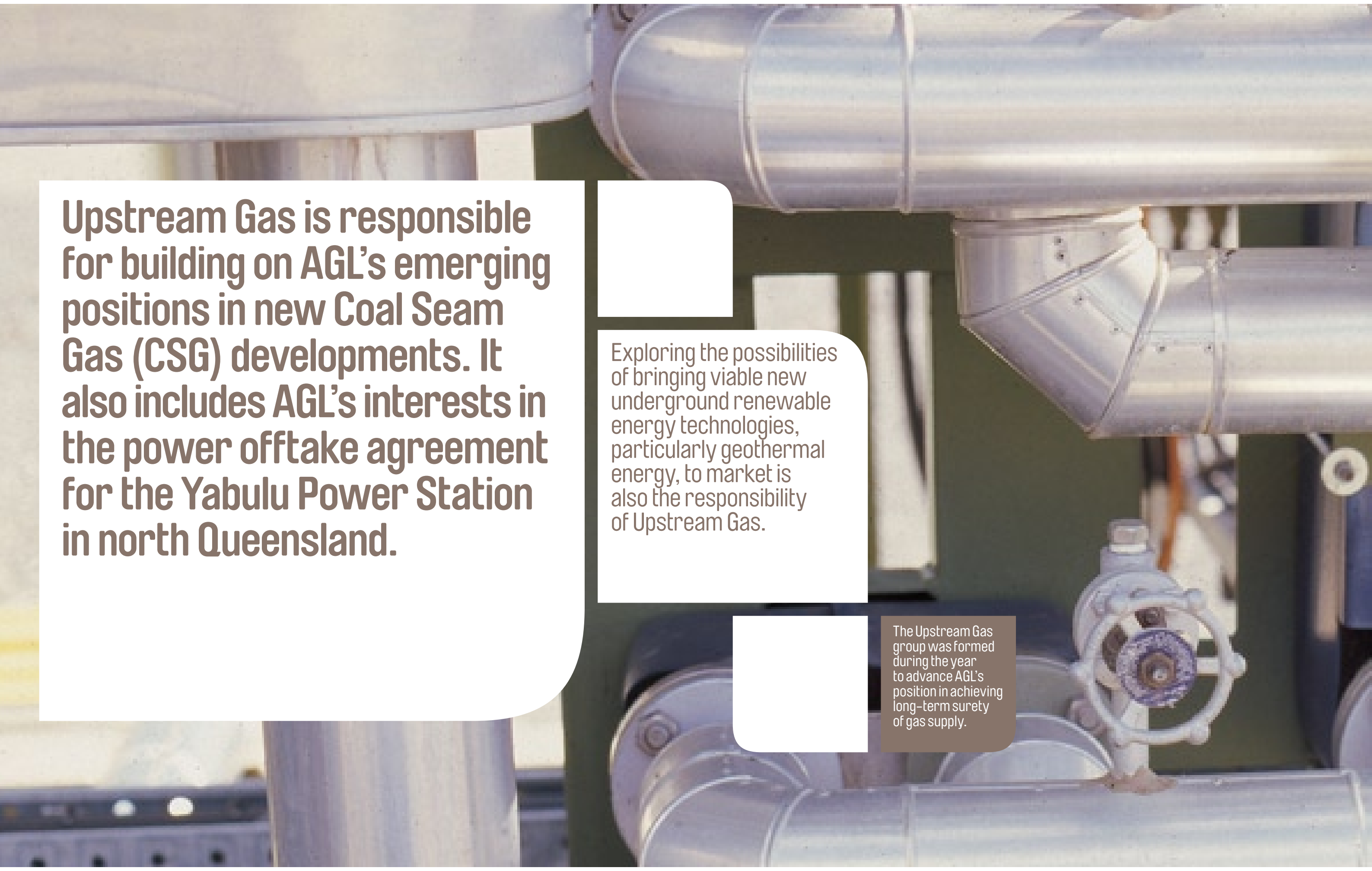
Late in the financial year, AGL signed a variation to the existing contract with Melbourne Water for the installation of an additional two x 1 MW gas engines, bringing the total generation capacity to 10 MW. It is expected to be fully operational by the end of June 2010.

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

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

ActewAGL contributed an equity share of profits of $27.9 million for the year ended 30 June 2009, up 7.3% on the previous corresponding period. The improved outcome was due mainly to modest increases in retail gas and electricity margins. The improvement in gas margins was driven by colder weather patterns and a growth in gas customers resulting in increased demand. Improved electricity margins resulted from regulator-approved tariff increases and growth in customer numbers.

AGL disposed of its 50% ownership interest in Auscom Holdings Pty Ltd (Elgas) on 2 October 2008. The sale of Elgas resulted in a pre tax profit of $149.9 million (after tax $119.9 million) which has been classified as a significant item. There was no equity share of profits for the year as AGL had classified Elgas as an investment held for sale. AGL received a dividend of $10.6 million prior to the sale of Elgas that has been recognised as income this year.



Upstream Gas is responsible for building on AGL's emerging positions in new Coal Seam Gas (CSG) developments. It also includes AGL's interests in the power offtake agreement for the Yabulu Power Station in north Queensland.

Exploring the possibilities of bringing viable new underground renewable energy technologies, particularly geothermal energy, to market is also the responsibility of Upstream Gas.

The Upstream Gas group was formed during the year to advance AGL's position in achieving long-term surety of gas supply.

Financial result

Upstream Gas delivered an Operating EBIT of $16.3 million, down $92 million on the prior corresponding period.

The main reasons for the fall in Operating EBIT were:

- the sale of Papua New Guinea oil and gas interests on 18 December 2008 with the consequence that AGL only received income from these operations for less than six months of the year; and
- a reduction of $30.2 million in contributions from the North Queensland Energy business due mainly to significantly lower electricity pool prices and a six week scheduled maintenance outage of the Yabulu Power Station

Key transactions

AGL disposed of its 21.5% shareholding in Queensland Gas Company Limited on 5 November 2008 realising a net profit of $506.3 million. This has been classified as a significant item.

The sale of Papua New Guinea oil and gas interests resulted in a net profit of $813.6 million which has been classified as a significant item.

In December 2008, AGL expanded its equity gas footprint in the core New South Wales market by acquiring 100% of the interests in PEL 285 in the Gloucester Basin for $370 million from AJ Lucas Group Limited and Molopo Australia Limited.

In March 2009, AGL successfully completed the takeover of Sydney Gas Limited. The takeover delivered highly prospective exploration acreage in close proximity to the core New South Wales gas market and consolidated permit ownership across the Sydney/Hunter and Gloucester basins.

Following the Gloucester Basin acquisition and the takeover of Sydney Gas, AGL has acquired 100% ownership, control and operation of valuable gas assets surrounding the Sydney Basin in close proximity to our core Newcastle and Sydney markets.

Combining the takeover of Sydney Gas with the purchase of the Gloucester Basin acreage gives AGL the opportunity to further increase its ownership of gas reserves in New South Wales. The concurrent development of the Camden, Hunter and Gloucester gas projects provides AGL with strategic benefits, optionality and a substantial source of long-term wholesale gas supplies.

Growing gas reserves through targeted exploration and acquisitions

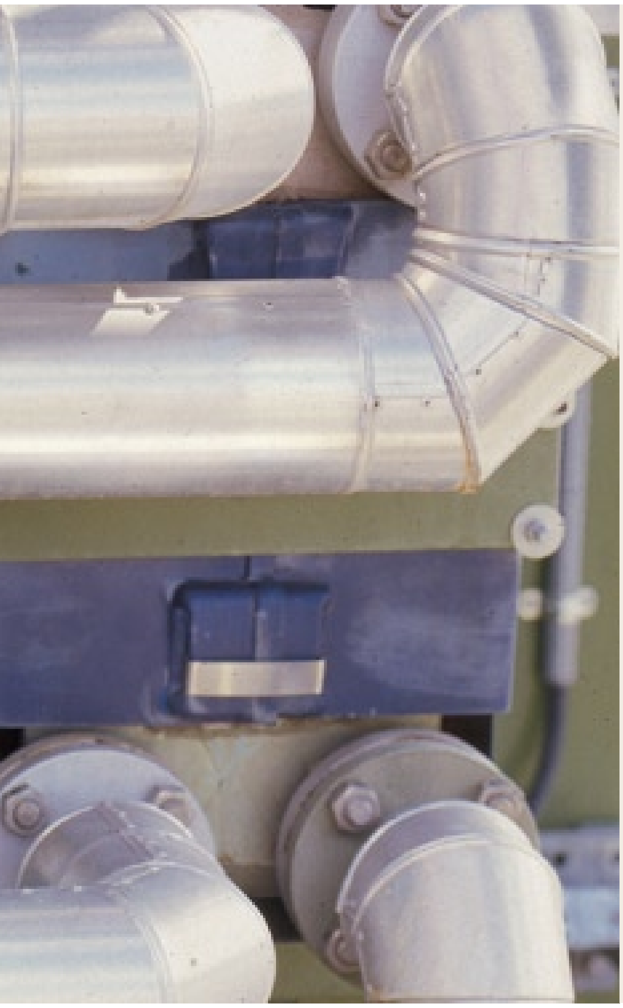
During the year, AGL also completed other transactions to obtain gas prospecting rights and reserves in strategically important permit areas.

AGL announced an investment in a CSG production pilot and exploration and appraisal program with Galilee Energy Limited in Queensland's Galilee Basin. The deal involves AGL investing up to $37 million over two stages to acquire a 50% interest in exploration tenement ATP 529P.

AGL acquired a 400 TJ gas bank and 50% of Tri-Star Petroleum Company's current joint venture working interests and related assets in the Spring Gully Project for $15.75 million.

AGL also acquired permit interests from Innamincka Petroleum Limited in PEL 101 and PEL 103 in the Cooper Basin under a farm-in involving a cash payment of $15 million and funding a $10 million work program. AGL and Innamincka entered into a 10-year Gas Marketing Agreement under which AGL will have the exclusive rights to market all gas accumulated within the permit areas.

AGL's interests in certified coal seam gas reserves at 30 June 2009 have been upgraded. AGL's share of proved plus probable (2P) reserves now totals 1,056 PJ.



AGL's share of coal seam gas reserves (PJ) (2P)	30 June 2009	31 December 2008
Moranbah Gas Project (50%)	497	416
Gloucester Basin (100%)	423	175
Camden Gas Project (100%)	129	82
Spring Gully Project (various)	7	6
Total	**1,056**	679

$1.127 billion

In December 2008, AGL completed the sale of its oil and gas exploration and production interests in Papua New Guinea for approximately $1.127 billion.

1,056 PJ

AGL's interest in certified 2P reserves of coal seam gas at 30 June 2009 have been upgraded. Proved plus probable (2P) reserves are 1,056 PJ.

Geothermal

AGL will have significant long-term obligations under the Federal Government's expanded Renewable Energy Target (RET) which will require 20% of the nation's energy to be generated from renewable sources by 2020.

Wind energy development will be the key to meeting the expanded RET in the first half of the next decade. However, with suitable and viable wind sites becoming harder to acquire, new renewable sources will be required after 2015 if the target of 20% renewable energy by 2020 is to be met.

Geothermal is among the most likely base load options to reach the market in this timeframe. The Upstream Gas group is responsible for 'sub-surface', or 'down hole', renewable energy including geothermal energy development.

AGL acquired a 9.99% cornerstone investment in Torrens Energy Limited and entered into a Geothermal Alliance Agreement to commercialise base load geothermal projects close to the National Electricity Market (NEM). The alliance combines Torrens Energy's geothermal exploration capabilities with AGL's energy market development experience. Torrens Energy is responsible for carrying out the exploration activities and providing AGL with the option to farm-in to Torrens Energy's Geothermal Exploration Licences at permit and project level.

2009/2010

The year ahead will see Upstream Gas focus on proving up CSG reserves, especially in the Gloucester Basin and the Hunter Valley.

AGL is making steady progress in resolving various environmental issues in these areas. There is a strong focus on building relationships in these communities to ensure AGL's activities are clearly understood. These activities can be conducted with minimal impact on the environment and can co-exist with other land uses, including residential, tourism and agriculture.

2,000 PJ

The medium-term target of the Upstream Gas group is to grow our direct ownership of gas to 2,000 PJ. Over the past year, AGL acquired interests in the Gloucester Basin and successfully completed the takeover of Sydney Gas Limited, expanding our equity gas footprint in New South Wales.