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## 2011 Interim Results

6 Months to 31 December 2010

Michael Fraser, Managing Director and CEO

Stephen Mikkelsen, Chief Financial Officer | 23 February 2011

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- › Is not an offer or recommendation to purchase or subscribe for securities in AGL Energy Limited or to retain any securities currently held.
- › Does not take into account the potential and current individual investment objectives or the financial situation of investors.
- › Was prepared with due care and attention and is current at the date of the presentation.

Actual results may materially vary from any forecasts (where applicable) in this presentation.

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# Agenda

- › **Result Highlights** Michael Fraser
- › **Group Financials** Stephen Mikkelsen
- › **Operational Review / Summary** Michael Fraser
- › **Supplementary Information**

## IMPORTANT NOTE:

This presentation should be read in conjunction with the  
AGL Energy Limited ASX Appendix 4D for the 6 months ended 31 December 2010.

- › **2011 Interim Results** 6 months to 31 December 2010
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# Half Year 2011 Highlights

Loy Yang and Merchant impact first half earnings.

- › Solid result from Retail Energy up 5.6%
- › NSW electricity customer numbers up 42,000
- › Service quality continues to improve
- › AGL customer churn further outperforms market
- › Merchant Energy down 4.6%
- › Contribution from Loy Yang declined \$22.4 million
- › Total 2P gas reserves entitlement increased by 451 PJ



# Interim 2011 Result

Revenue increase primarily due to higher transmission/distribution costs.

FINANCIAL			
OPERATIONAL	<ul style="list-style-type: none"> <li>› Solid performance by Retail Energy underpinned by:               <ul style="list-style-type: none"> <li>» Growth in customer numbers and dual fuel accounts</li> <li>» Improved customer billing /collection and customer service</li> </ul> </li> <li>› Increased hydro generation capacity at Dartmouth (132 MW) and Eildon (30 MW)</li> <li>› Initial contribution from Silver Springs gas storage contract</li> </ul>		
	<ul style="list-style-type: none"> <li>› Revenue: \$3,488.0m <span style="float: right;">↑ 9.0%</span></li> <li>› Underlying Profit: \$226.2m <span style="float: right;">↓ 3.7%</span></li> <li>› Statutory Profit: \$239.6m <span style="float: right;">↑ 30.4%</span></li> <li>› Underlying EPS: 49.9 cps <span style="float: right;">↓ 4.8%</span></li> <li>› DPS: 0% franked (Dec 09: 100% franked) 29.0 cps (Dec 09: 29.0 cps) <span style="float: right;">Maintained</span></li> <li>› EBITDA / Net Interest: 18.8x (Dec 09: 15.9x) <span style="float: right;">↑ 2.9x</span></li> </ul>		

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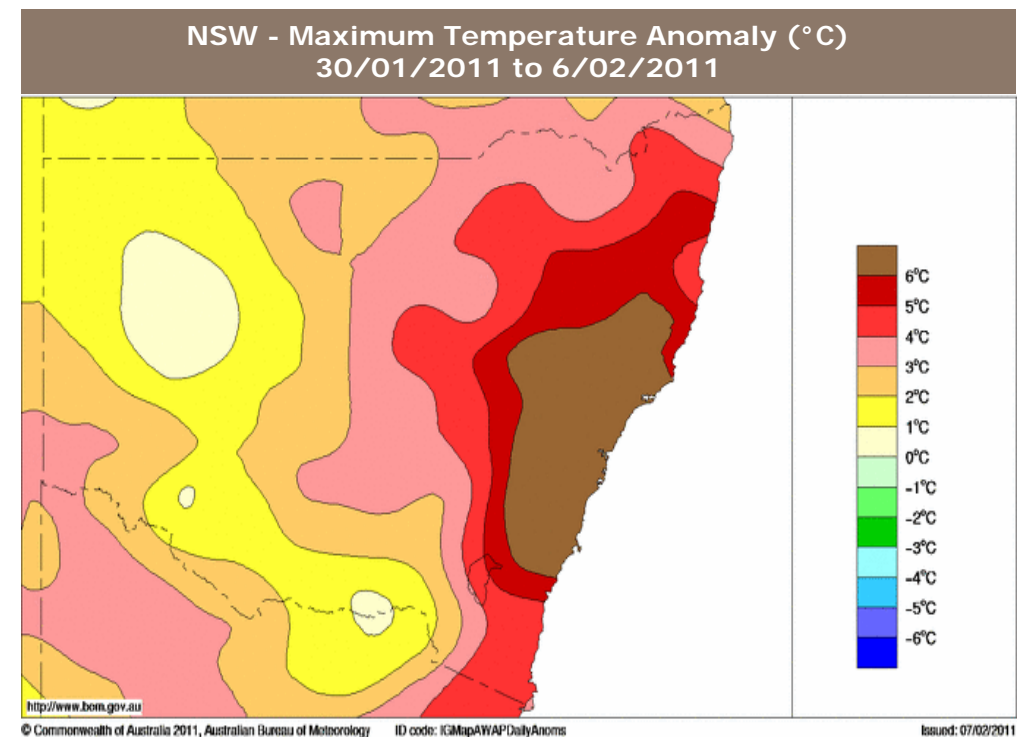


# Extreme weather events

Impact of Jan/Feb weather events - \$30m to \$35m after tax.

## Key events

- > Sydney – Record heat wave
  - » 7 consecutive days over 30°C
  - » 5 consecutive nights above 24°C
  - » Record electricity demand on three consecutive days
- > Cyclone Yasi
  - » Yabulu power station outage during periods of high prices in QLD and NSW
- > South Australia
  - » Record electricity demand of 3,410 MW
- > Queensland flooding
  - » Oakey and other Queensland generation constrained
  - » Steep rise in underlying electricity pool prices



Source: Bureau of Meteorology

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# Group Financials

Stephen Mikkelsen  
Chief Financial Officer



## Profit & Loss (excluding significant items & fair value movements)

Underlying profit declined by 3.7%.

6 months to \$m	31 Dec 2010	31 Dec 2009	Change
Revenue	<b>3,488.0</b>	3,200.8	9.0%
Operating EBITDA	<b>416.0</b>	425.7	(2.3%)
Operating EBIT			
Retail	<b>193.8</b>	183.5	5.6%
Merchant	<b>186.1</b>	195.1	(4.6%)
Upstream Gas	<b>16.9</b>	3.0	463.3%
Energy Investments	<b>20.4</b>	43.4	(53.0%)
Centrally managed expenses	<b>(73.1)</b>	(66.1)	10.6%
Total operating EBIT	<b>344.1</b>	358.9	(4.1%)
Less: Net finance costs	<b>(22.1)</b>	(26.8)	(17.5%)
<b>Profit before tax</b>	<b>322.0</b>	332.1	(3.0%)
Less: Income tax expense	<b>(95.8)</b>	(97.3)	(1.5%)
<b>Underlying Profit</b>	<b>226.2</b>	234.8	(3.7%)

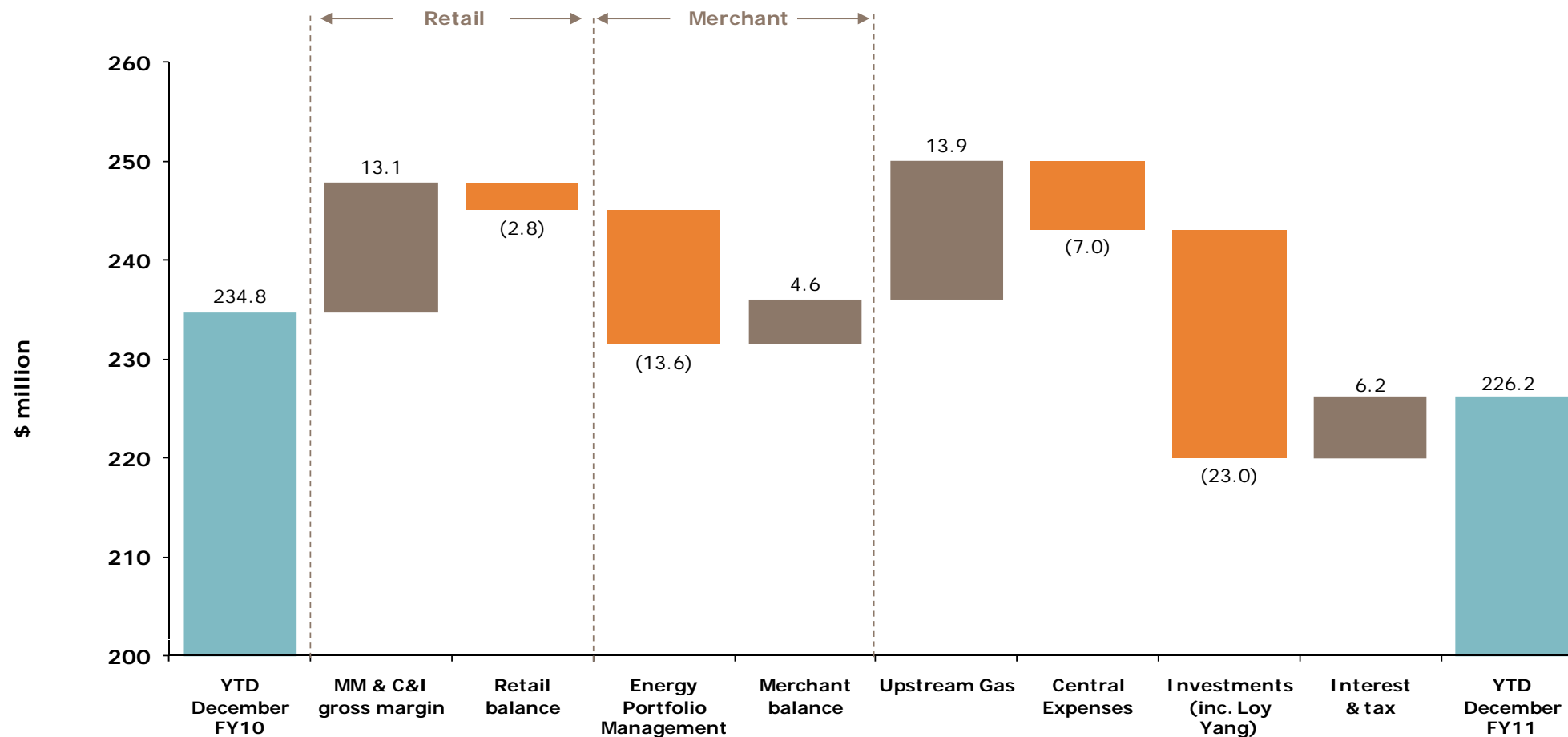
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# Group Underlying Profit

Core Retail/Merchant businesses in line with p.c.p. – Loy Yang down.



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## Retail – Key Financial Metrics

Continued solid growth in Operating EBIT (+5.6%).

6 months to \$m	31 Dec 2010	31 Dec 2009	Change
Electricity Revenue	2,123.2	1,953.1	8.7%
Gas Revenue	864.9	771.9	12.0%
Other Revenue (Fees & Charges)	34.4	31.1	10.6%
Total Revenue	3,022.5	2,756.1	9.7%
Cost of Sales <sup>1</sup>	(2,632.8)	(2,382.8)	10.5%
Gross Margin	389.7	373.3	4.4%
Operating Costs (excl. D&A)	(175.0)	(169.4)	3.3%
<b>Operating EBITDA</b>	<b>214.7</b>	203.9	5.3%
D&A	(20.9)	(20.4)	2.5%
<b>Operating EBIT</b>	<b>193.8</b>	183.5	5.6%

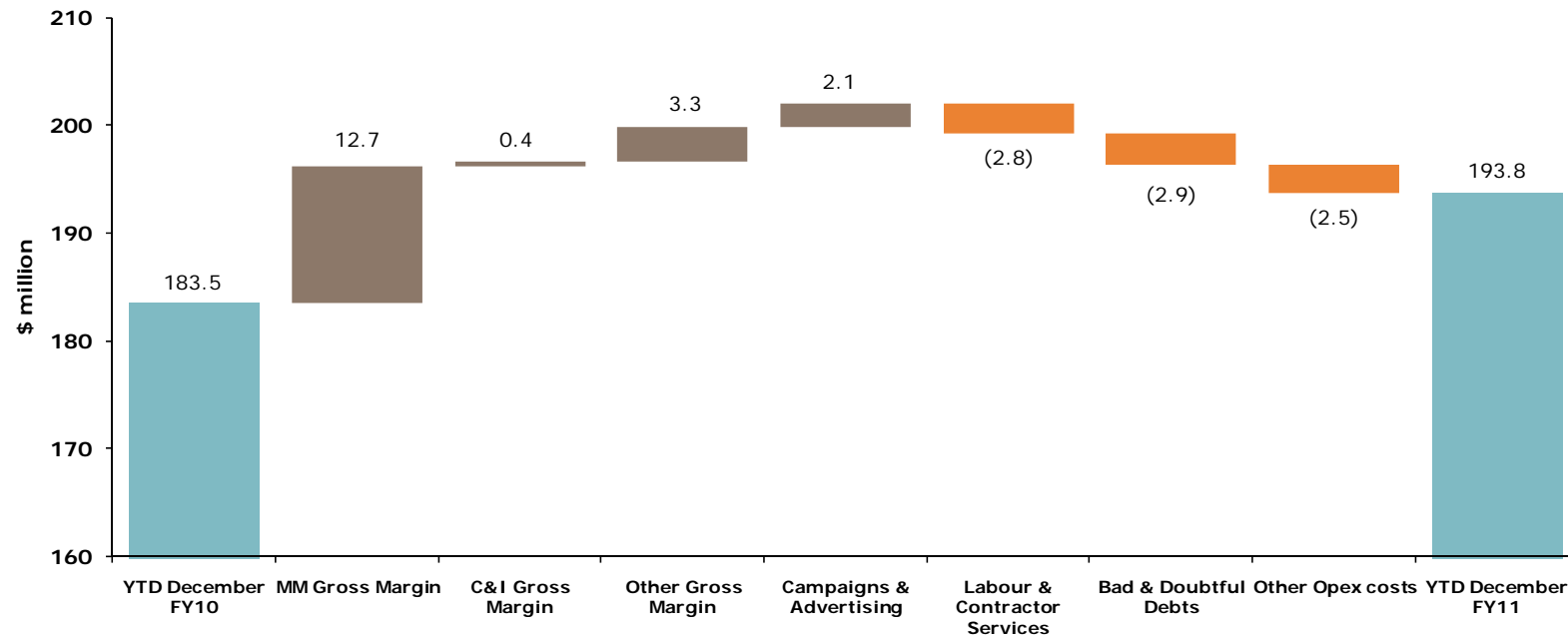
1. Includes \$1,149.0m electricity COGS (\$1,144.1m Dec 09) & \$433.4m gas COGS (\$367.7m Dec 09) transferred from Merchant.

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## Retail – EBIT Drivers

Continued improvement in gross margin.



### Key drivers:

- › Mass market gross margin favourable mainly due to higher current year regulated and contract outcomes
- › Other gross margin was higher than prior year due to favourable bad debt recoveries and fees
- › Campaigns and advertising favourable to last year mainly due to higher sales conversions driven by improved SAP processing
- › Labour and contractor services higher than prior year due to additional resources to manage new connections and reduce unbilled accounts
- › Bad and doubtful debts movement driven by revenue growth, partly offset by bad debt recoveries in Other Gross Margin
- › Other costs higher than prior year consistent with increases in CPI

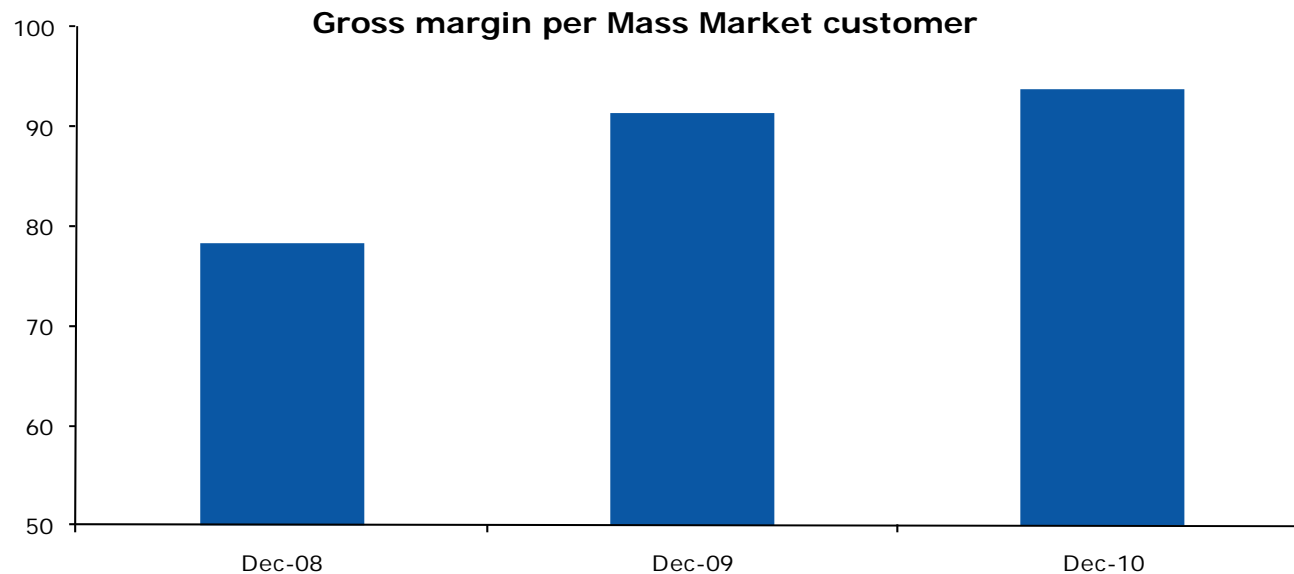
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## Retail – Key Operating Metrics

Improvement in gross margin per customer.

6 months to	31 Dec 2010	31 Dec 2009	Change
Mass Market gross margin (\$m)	304.3	291.6	4.4%
Avg Mass Market customer numbers ('000)	3,245.2	3,190.0	1.7%
<b>Gross margin per Mass Market customer</b>	<b>\$93.77</b>	\$91.41	2.6%

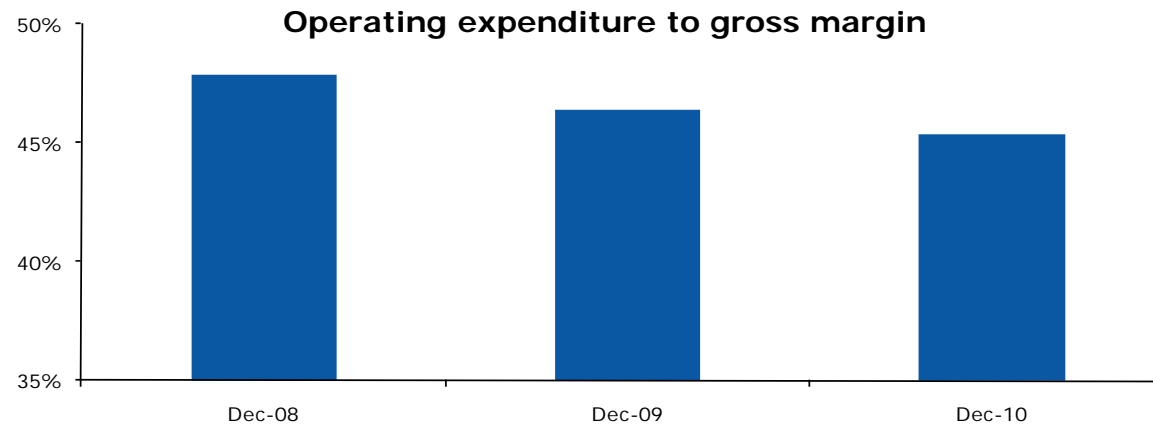


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## Retail – Key Operating Metrics

Operating expenditure to gross margin trending towards low 40s.

6 months to \$m	31 Dec 2010	31 Dec 2009	Change
Operating costs	(175.0)	(169.4)	3.3%
Depreciation and amortisation	(20.9)	(20.4)	2.5%
Less fees and charges	34.4	31.1	10.6%
<b>Net operating expenditure</b>	<b>(161.5)</b>	<b>(158.7)</b>	<b>1.8%</b>
Gross margin	389.7	373.3	4.4%
Less fees and charges	34.4	31.1	10.6%
<b>Gross margin less fees and charges</b>	<b>355.3</b>	<b>342.2</b>	<b>3.8%</b>
<b>Operating expenditure to gross margin ratio</b>	<b>45.4%</b>	<b>46.4%</b>	<b>1.0ppts</b>



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## Merchant – Key Financial Metrics

Operating EBIT down 4.6%.

6 months to \$m	31 Dec 2010	31 Dec 2009	Change
<b>Operating EBITDA</b>	<b>220.3</b>	225.4	(2.3%)
D & A	(34.2)	(30.3)	12.9%
<b>EBIT</b>			
Energy Portfolio Management (EPM)			
Wholesale Electricity Gross Margin	<b>149.9</b>	179.7	(16.6%)
Wholesale Gas Gross Margin	<b>64.0</b>	48.3	32.5%
Eco-markets Gross Margin	<b>13.0</b>	13.8	(5.8%)
EPM Operating Expenses	(11.5)	(12.8)	(10.2%)
Merchant Operations	(57.1)	(50.0)	14.2%
Energy Services	7.7	6.7	14.9%
Power Development <sup>1</sup>	26.1	14.7	77.6%
Sundry	(6.0)	(5.3)	13.2%
<b>Operating EBIT</b>	<b>186.1</b>	195.1	(4.6%)

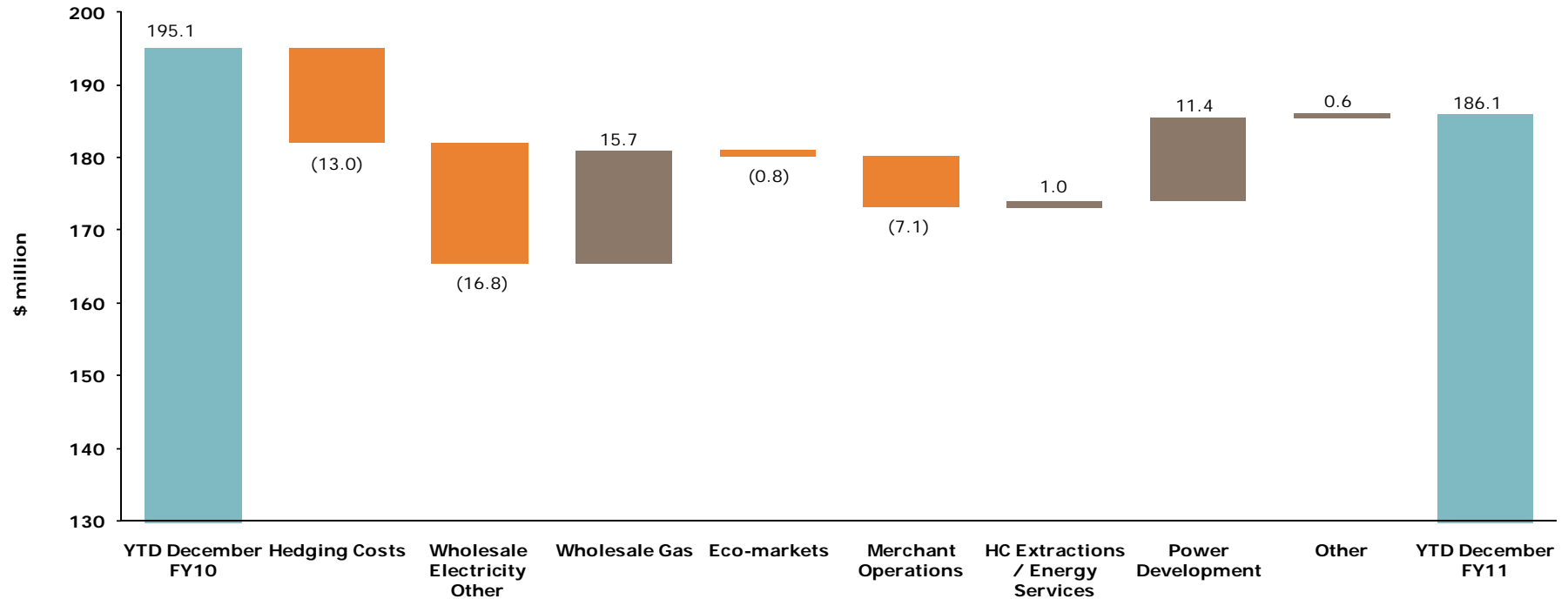
1. Includes development fees of \$27.0m (Dec 09: \$16.0m).

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## Merchant – EBIT Drivers

Strong result from gas portfolio offset by Wholesale electricity.



### Key Drivers:

- › Wholesale Electricity Hedging Costs – the inclusion of costs associated with hedges which implicitly included anticipated carbon costs
- › Wholesale Electricity Other – current reporting period characterised by a slower start to summer which led to reduced volumes, lower contribution from Torrens Island due to lower prices and volatility
- › Wholesale Gas – higher demand due to cooler weather and effective portfolio optimisation resulted in favourable outcomes in the period
- › Merchant Operations – additional costs associated with increased throughput, maintenance costs and labour
- › Power Development – higher development fees recognised for Hallett 4 wind farm in 1H11

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# Operating Cash Flow

Banking RECs for the future.

6 months to \$m	31 Dec 2010	31 Dec 2009	Movement
Operating EBITDA	416.0	425.7	(9.7)
Equity accounted income (net of dividend received)	2.9	(19.1)	22.0
Accounting for onerous gas contract	(10.4)	(10.4)	-
Working capital movements:			
(Increase) / decrease in receivables	17.6	67.7	(50.1)
Net movement in green assets / liabilities	(88.7)	2.9	(91.6)
(Increase) / decrease in inventories	3.6	(33.1)	36.7
Increase / (decrease) in creditors	(82.1)	(23.3)	(58.8)
(Increase) / decrease in futures margin calls	(19.4)	14.5	(33.9)
Net derivative premiums paid / roll-offs	(83.2)	(27.7)	(55.5)
Net movement in GST recoverable / payable	5.4	(31.7)	37.1
Other	(12.8)	(10.0)	(2.8)
<b>Operating cash flow before interest, tax &amp; significant items</b>	<b>148.9</b>	<b>355.5</b>	<b>(206.6)</b>
Net finance costs paid	(25.3)	(28.9)	3.6
Cash flow relating to significant items	(22.6)	(17.9)	(4.7)
<b>Operating cash flow before tax</b>	<b>101.0</b>	<b>308.7</b>	<b>(207.7)</b>

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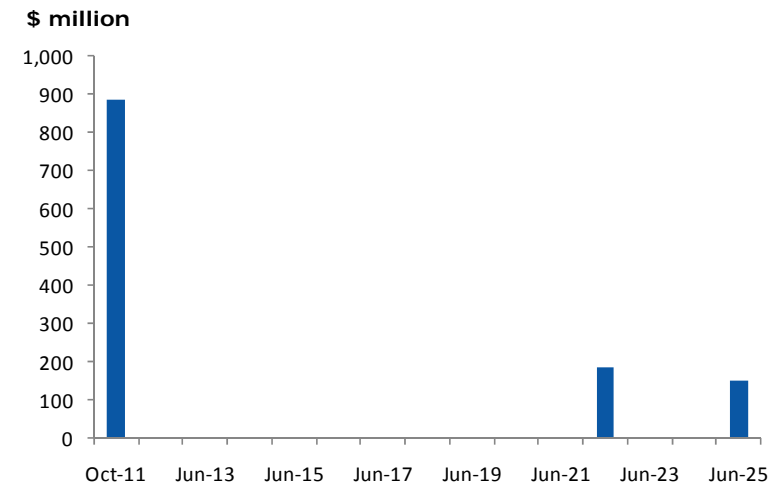
# Debt Position

Diversifying funding sources and lengthening maturity profile.

- › US\$300m raised in United States Private Placement
  - » Two tranches of 12 year and 15 year maturities
- › Refinancing of \$886m syndicated bank loan to be completed prior to September 2011

Facilities @ 31 Dec 2010 \$m	Limit	Usage
<b>Current</b>		
Term facilities Tranche C	886.7	886.7
<b>Non Current</b>		
US Private Placement	337.8	337.8
<b>Total debt facilities</b>	<b>1,224.5</b>	<b>1,224.5</b>
<b>Cash</b>	<b>-</b>	<b>467.5</b>
<b>Net Debt<sup>1</sup></b>	<b>-</b>	<b>757.0</b>

Debt Maturity Profile post US Private Placement



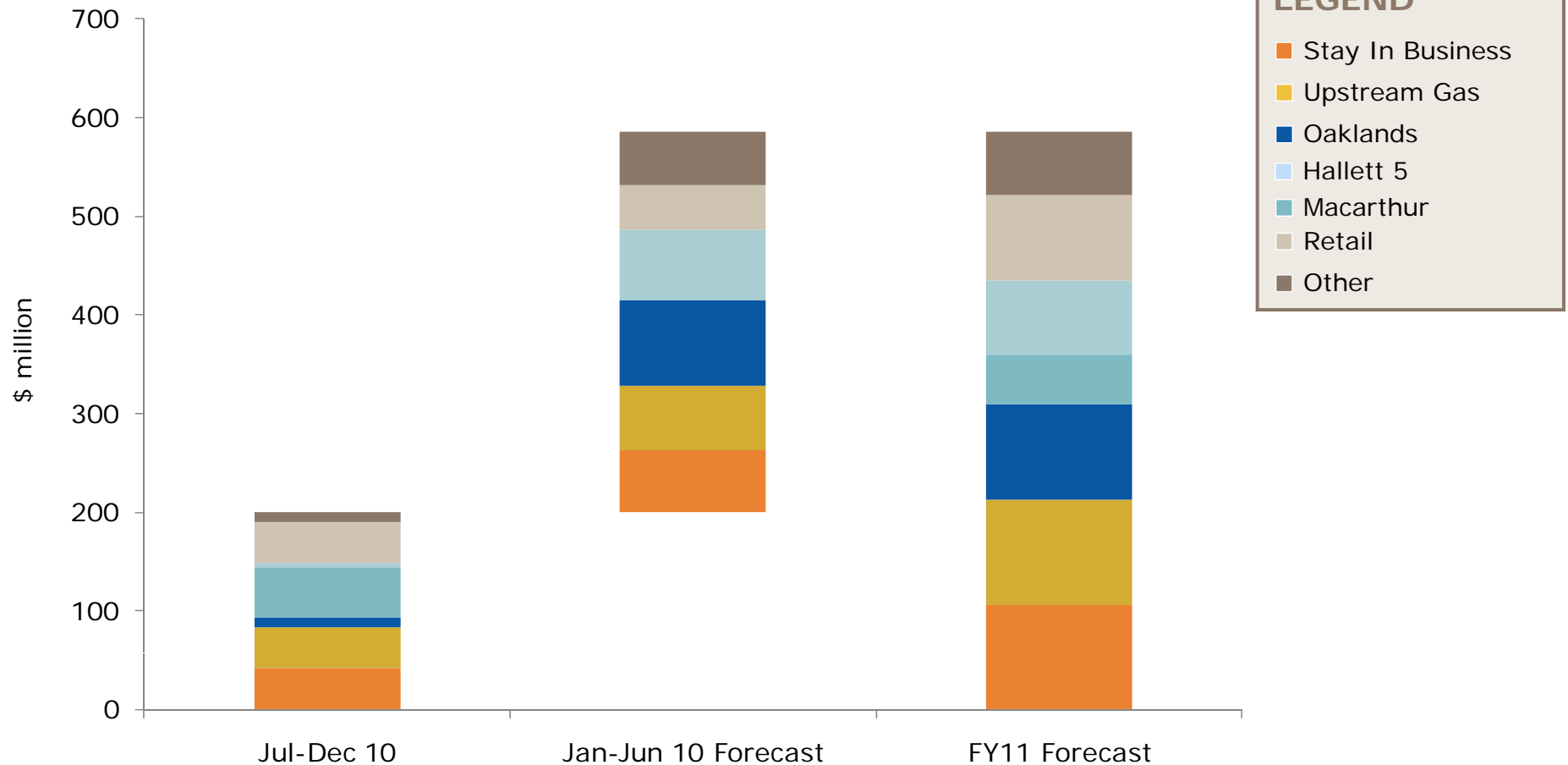
1. Excludes a) other items classified as borrowings including finance lease liabilities (\$15.0m); and b) fair value adjustments on borrowings in hedge relationships (\$55.1m). Net debt including these items is \$716.9m

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# Capital Expenditure

Wind farm developments drive 2H expenditure.

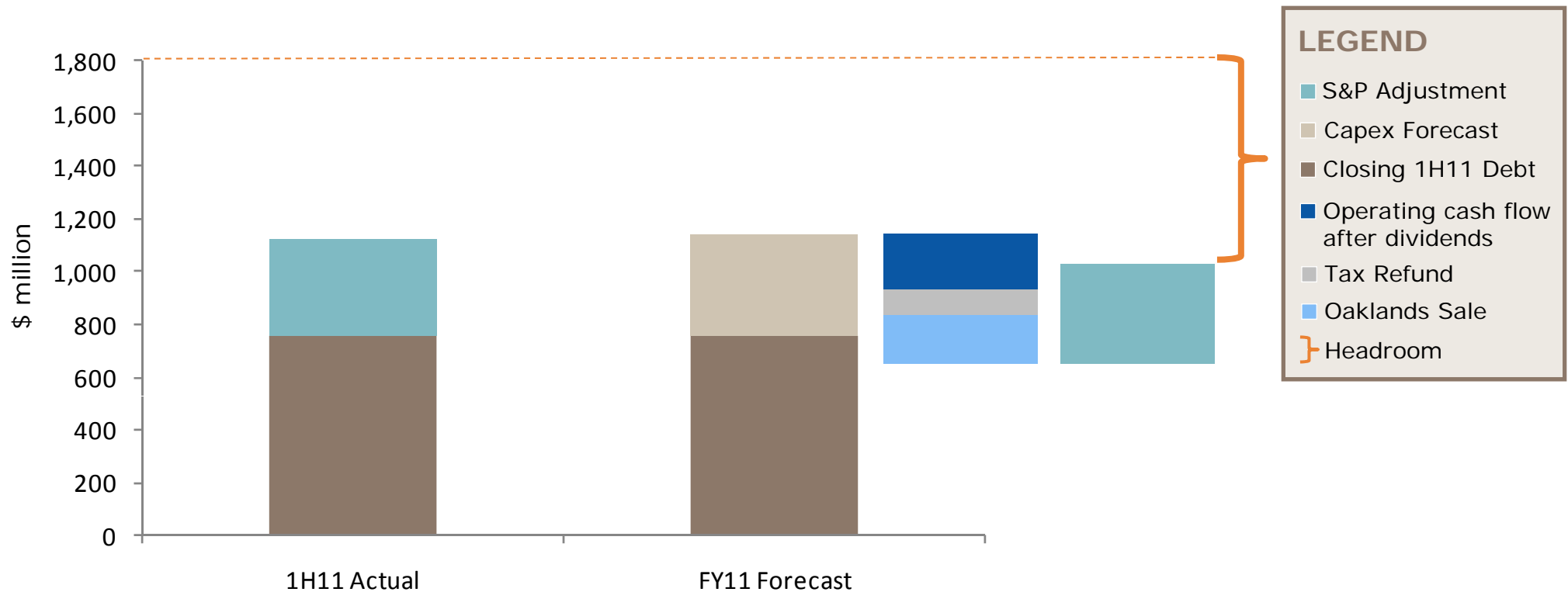


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# Debt Capacity

Approximately \$800m headroom to fund growth.



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# Operational Review

Michael Fraser  
Managing Director & CEO



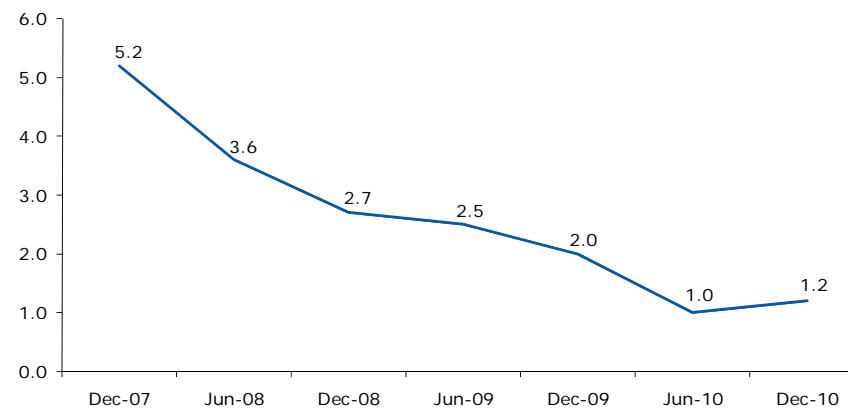
# People & Safety

Good safety performance trend.

## Our three people initiatives:

1. Attract, retain and develop talent
2. Enable a high performance culture
3. Safe and sustainable

### Lost Time Injury Frequency Rate



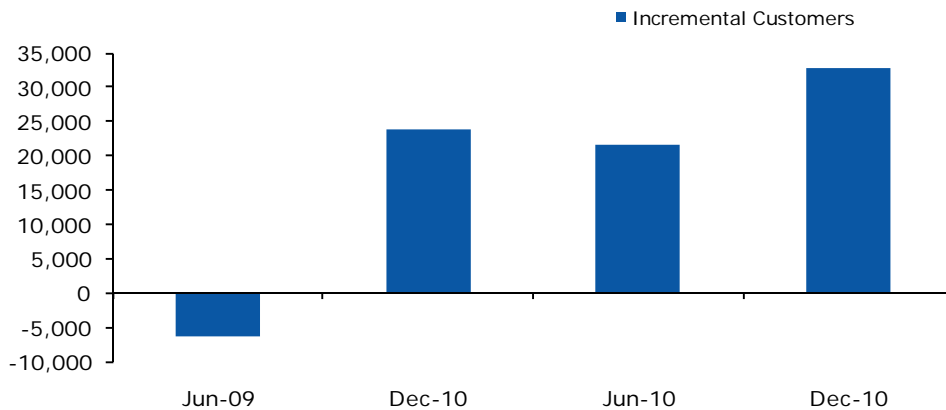
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# Retail – Delivering Customer Growth

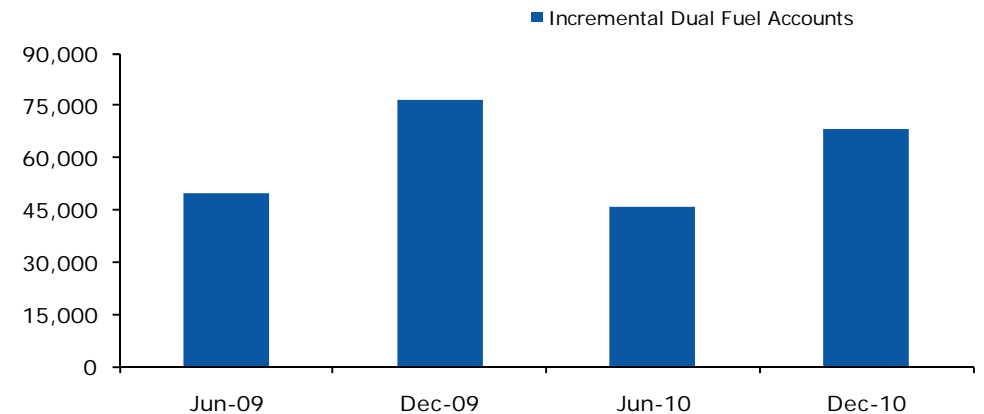
Strong growth in dual fuel customers.

- › Dual fuel accounts, up 68,444 (+5.0%)
- › Customer numbers up 32,676 (+1.0%) to 3.27 million
- › Strong growth in NSW electricity customer numbers (+42,000)

Incremental Customer Numbers



Dual Fuel Accounts



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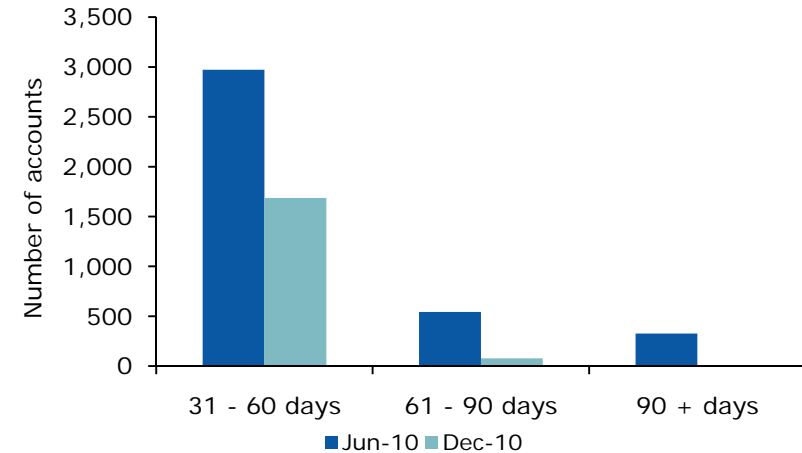


# Retail – Improving Core Operations

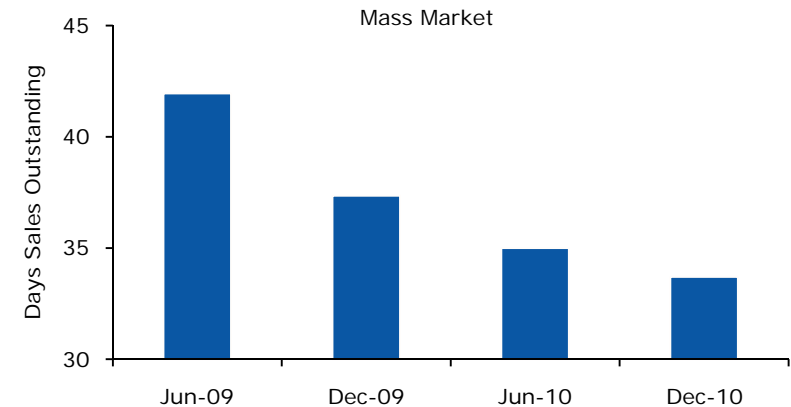
## Strong working capital management.

- › Aged unbilled customers at historically low levels
  - » Zero unbilled mass market customers over 90 days nationally for the first time
- › Enhanced cash performance by improving collection processes
- › Significant reduction in mass market days sales outstanding over past four half-year periods
- › Solid mass market and C&I aged debt performance despite growing revenue streams
  - » Overall reduction in Retail debt despite mass market and C&I revenue increasing 12.4% and 5.7% respectively

Aged Unbilled Accounts – improving across all categories



Days Sales Outstanding – consistent improvement over 2 years



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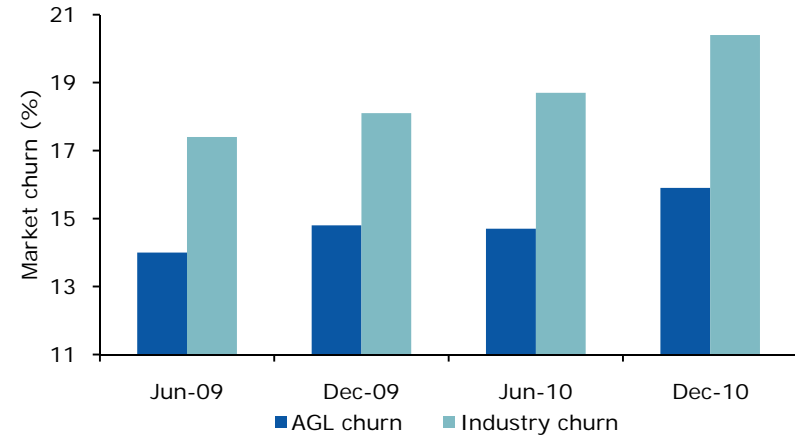


# Retail – Improving customer service

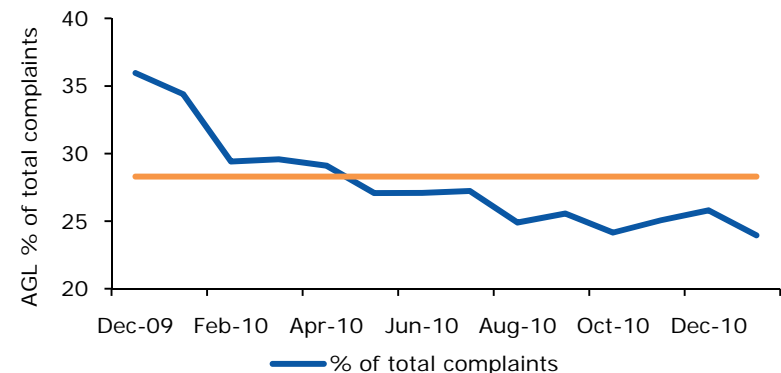
## Industry outperformance.

- › AGL market churn continues to outperform industry
  - » AGL churn 4.5 ppts below industry average
  - » Victoria confirmed as the most competitive energy market in the world for 3rd year running
  - » New South Wales electricity market churn increasing in recent months to 15%
- › Effective AGL retention activity continues to reduced the impact of churn on gross margin and customer numbers
- › AGL share of Ombudsman complaints remaining lower than market share

AGL churn much lower than industry



AGL share of total Ombudsman complaints decreasing



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# Renewable Energy Certificates (REC) obligations

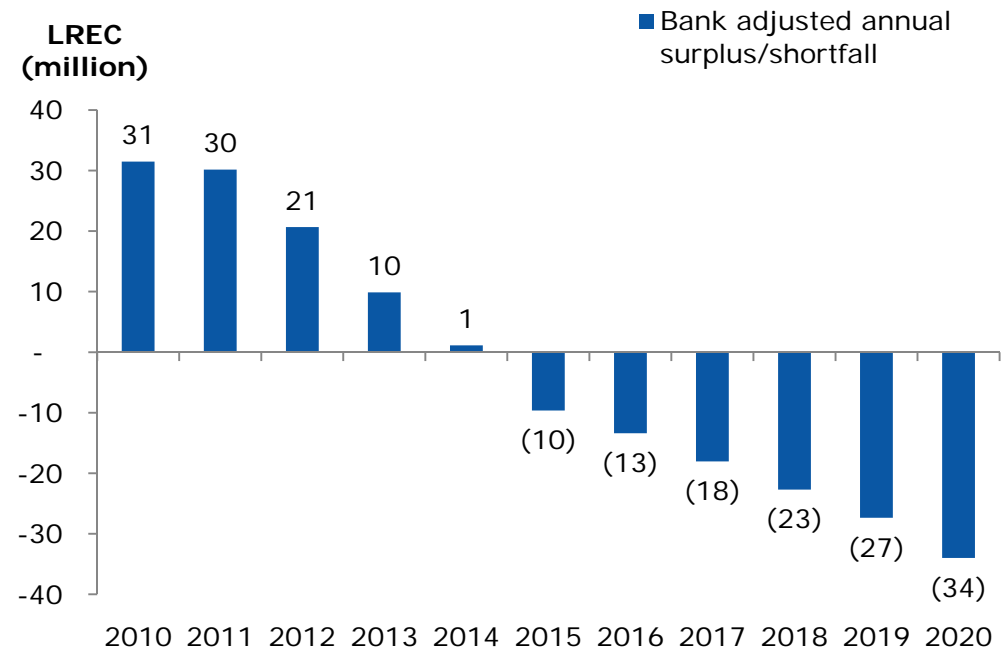
Large surplus continues to suppress REC prices.

- › AGL's REC obligations covered to 2014/15
- › Future wind farm development timing subject to recovery of REC prices

## Renewable generation

- › Under construction
  - » Hallett 4 (132 MW)
  - » Oaklands Hill (67 MW)
  - » Hallett 5 (52 MW)
  - » Macarthur (420 MW)
- › Development pipeline
  - » Barn Hill, SA (150 MW)
  - » Hallett 3, SA (99 MW)
  - » Coopers Gap, Qld (300 MW)
  - » Solar Flagships (200 MW)

## Forecast Industry LRET Balance



Source: AGL

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## Upstream Gas – Creating long-term value

Total 2P reserves entitlement increased by 451 PJ.

- › Initial Hunter gas reserves booked (2P: 142 PJ)
- › Total Bowen Basin 2P reserves up 312 PJ despite 129 PJ decline at Moranbah

AGL share of CSG reserves	As at 31 Dec 10		As at 30 Jun 10		Change	
	2P	3P	2P	3P	2P	3P
PJ						
Gloucester (100%)	669	832	669	832	-	-
Moranbah (50%) – Bowen Basin	372	703	501	1,022	(25.7%)	(31.2%)
Camden (100%)	151	198	154	201	(1.9%)	(1.5%)
Hunter (100%)	142	271	-	-	n/a	n/a
Spring Gully (various, small)	8	10	8	10	-	-
<b>Sub-Total</b>	<b>1,342</b>	<b>2,014</b>	<b>1,332</b>	<b>2,065</b>	<b>0.8%</b>	<b>(2.5%)</b>
ATP 1103 back-in rights (50%) – Bowen Basin*	687	1,495	246	1,307	179.3%	14.4%
<b>Total</b>	<b>2,029</b>	<b>3,509</b>	<b>1,578</b>	<b>3,372</b>	<b>28.6%</b>	<b>4.1%</b>

\* 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.

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# Upstream Gas growth opportunities

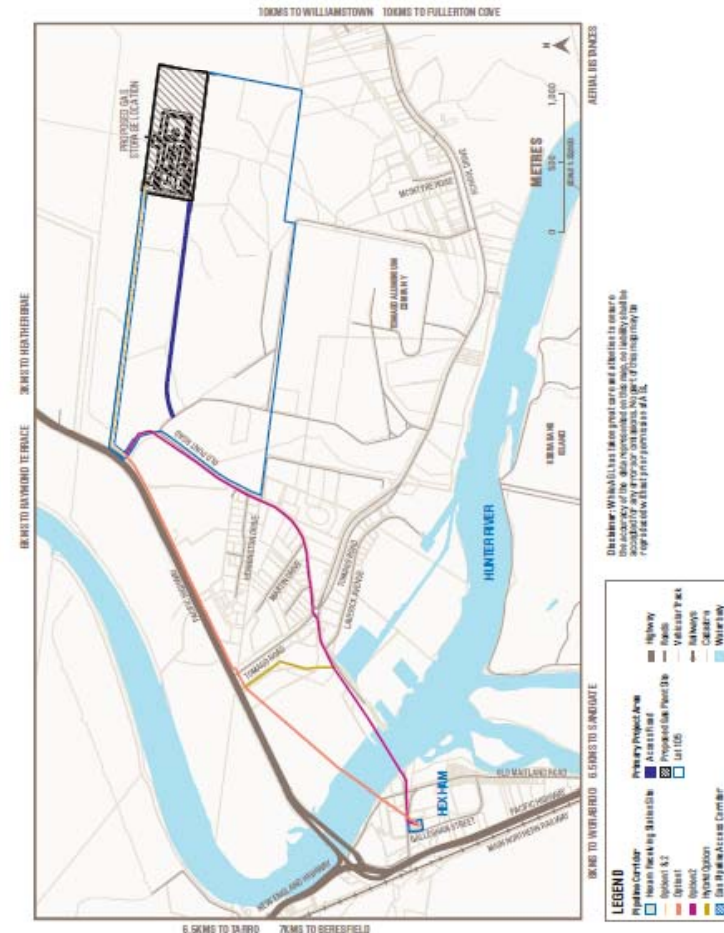
Emerging gas storage business provides new platform for growth.

## Silver Springs underground gas storage project

- › Underpinned by QGC gas storage services agreement for first 7 years
- › First injection of gas targeted for June 2011
- › Plans underway to expand initial injection rate and storage capacity by 30%

## Newcastle Gas Storage Facility

- › FEED program 75% complete
- › EPC tender process underway
- › Project decision scheduled for 1H12



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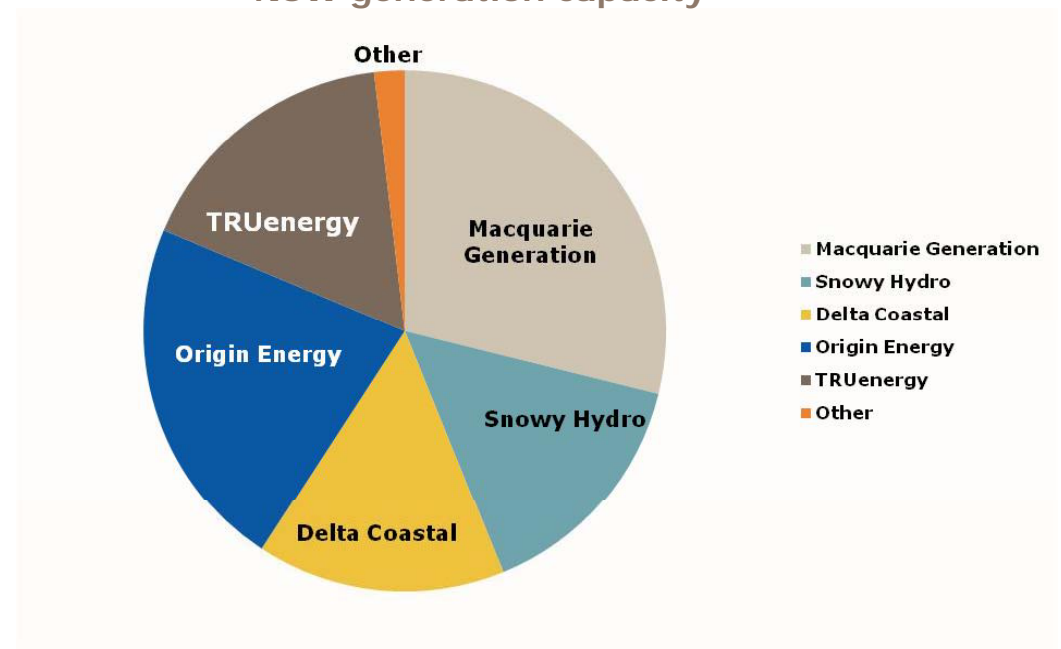
## NSW growth

Up to 10,000 MW unaligned NSW generation.

- › Unaligned NSW generation available to support AGL's retail growth strategy
- › NSW/ACT already AGL's largest market by volume
- › Recent NSW price volatility supports business case to construct Dalton gas peaker
  - » Stage 1      500-750 MW
  - » Total            1,500 MW
  - » FID expected in 1H12

Entity	Capacity	% of Region
Macquarie Generation	4,839	28.8
Snowy Hydro	2,516	15
Delta Coastal	2,588	15.4
<b>Total</b>	<b>9,943</b>	<b>59.2</b>

NSW generation capacity



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# Summary

Retail/Merchant in line with expectation: Loy Yang disappoints.

- › Retail Energy continues to perform well
  - » Ongoing improvement in customer service
  - » Good growth in NSW electricity customer numbers
- › Merchant Energy impacted by lower contribution from Torrens Island power station and higher hedge costs
- › Upstream Gas continues to expand reserves
- › Organic growth supported by \$800 million balance sheet capacity



# Outlook 2011

Solid 2H result expected despite weather events.

- › Underlying Profit guidance of \$415 million to \$440 million maintained
- › Strong growth in Retail contribution in 2H11 expected
- › Accelerated growth in NSW electricity customers expected
- › Wholesale Electricity 2H11 performance expected to surpass 2H10 contribution even after including extreme weather events
- › Nil contribution from Loy Yang expected in FY11 (FY10: \$45.1 million)



## Further Information / Contacts

A range of information on AGL Energy Limited including ASX & Media Releases, Presentations, Financial Results, Annual Reports and Sustainability Reports is available from our website: [www.agl.com.au](http://www.agl.com.au)

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# Supplementary Information





# Electricity Sales Volume

6 months to GWh	31 Dec 2010	31 Dec 2009	Change
<b>Mass Market</b>			
VIC	2,476	2,595	(4.6%)
SA	1,764	1,704	3.5%
NSW	1,859	1,566	18.7%
QLD	1,577	1,713	(7.9%)
Mass Market Total	7,676	7,578	1.3%
<b>C &amp; I</b>			
VIC	3,147	3,011	4.5%
SA	1,731	1,517	14.1%
NSW	2,736	2,712	0.9%
QLD	1,545	2,770	(44.2%)
C & I Total	9,159	10,010	(8.5%)
<b>Total (excl. ActewAGL )</b>	<b>16,835</b>	<b>17,588</b>	<b>(4.3%)</b>
Purchased volume ActewAGL	1,575	1,563	0.8%

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# Gas Sales Volume

6 months to PJ	31 Dec 2010	31 Dec 2009	Change
<b>Mass Market</b>			
VIC	17.7	15.9	11.3%
SA	1.5	1.1	36.4%
NSW	14.6	13.4	9.0%
QLD	1.6	1.5	6.7%
Mass Market Total	35.4	31.9	11.0%
<b>C &amp; I</b>			
VIC	13.6	13.3	2.3%
SA	4.0	1.9	110.5%
NSW	20.5	20.0	2.5%
QLD	7.2	7.6	(5.3%)
C & I Total	45.3	42.8	5.8%
Wholesale Customers & Generation <sup>1</sup>	41.1	35.8	14.8%
<b>Total</b>	<b>121.8</b>	<b>110.5</b>	<b>10.2%</b>

1. Includes volumes sold to TIPS and Yabulu during 2011 half year Dec 10 14.3 PJ (Dec 09 13.7 PJ). Increase due to higher generation at TIPS.

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## Retail – Mass Market Key Indicators (includes SME)

6 months to Electricity	31 Dec 2010	31 Dec 2009	Change
Volume (GWh)	<b>7,677</b>	7,578	1.3%
Avg. Mass Market Accounts ('000)	<b>1,877</b>	1,806	3.9%
Revenue (\$m)	<b>1,217.9</b>	1,084.2	12.3%
Gross Margin (\$m)	<b>200.0</b>	185.9	7.6%
Gross Margin	<b>16.4%</b>	17.1%	(0.7) ppts
Gross Margin per customer	<b>\$106.69</b>	\$102.93	3.7%
6 months to Gas			
Volume (PJ)	<b>35.4</b>	31.9	11.0%
Avg. Mass Market Accounts ('000)	<b>1,368</b>	1,384	(1.2%)
Revenue (\$m)	<b>588.8</b>	522.9	12.6%
Gross Margin (\$m)	<b>104.3</b>	105.7	(1.3%)
Gross Margin	<b>17.7%</b>	20.2%	(2.5) ppts
Gross Margin per customer	<b>\$76.25</b>	\$76.38	(0.2%)

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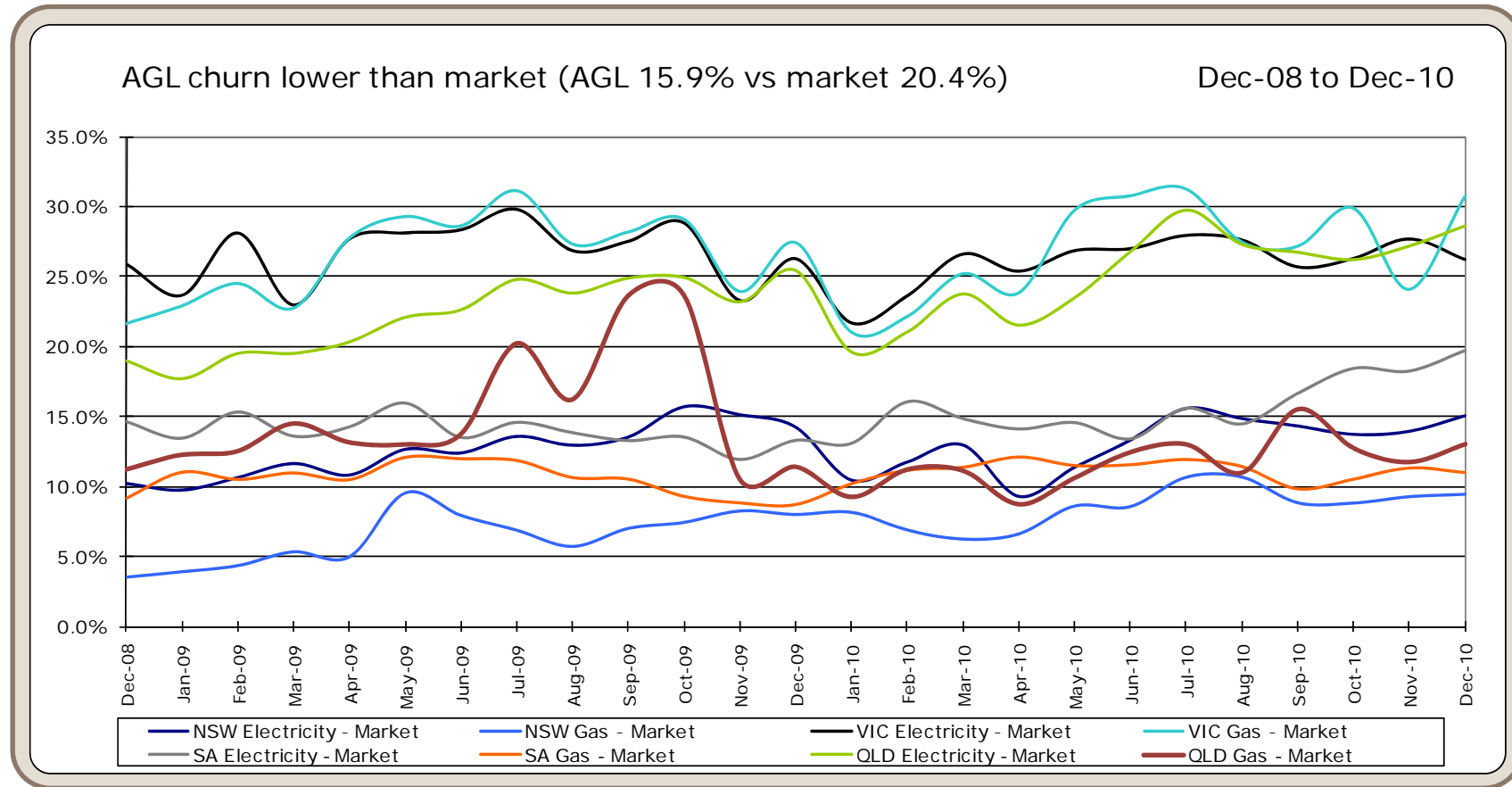
## Retail – C & I Key Indicators

6 months to Electricity	31 Dec 2010	31 Dec 2009	Change
Volume (GWh)	<b>9,159</b>	10,010	(8.5%)
C & I Accounts ('000)	<b>17.9</b>	15.4	16.2%
Revenue (\$m)	<b>905.3</b>	868.9	4.2%
Gross Margin (\$m)	<b>30.9</b>	27.7	11.6%
\$ / MWh	<b>\$3.37</b>	\$2.77	21.7%
6 months to Gas			
Volume (PJ)	<b>45.2</b>	42.8	5.6%
C & I Accounts ('000)	<b>1.0</b>	1.0	0%
Revenue (\$m)	<b>276.1</b>	248.9	10.9%
Gross Margin (\$m)	<b>20.1</b>	22.9	(12.2%)
\$ / GJ	<b>\$0.44</b>	\$0.54	(18.5%)

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## Retail – Market Churn



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## Retail – Delivering customer growth

State	Period	Gas	Electricity	Total
 <b>Victoria</b>	<b>1H11</b> <i>FY10</i>	<b>473,934</b> <i>468,190</i>	<b>645,618</b> <i>642,588</i>	<b>1,119,552</b> <i>1,110,778</i>
 <b>South Australia</b>	<b>1H11</b> <i>FY10</i>	<b>102,212</b> <i>96,788</i>	<b>475,329</b> <i>477,879</i>	<b>577,541</b> <i>574,667</i>
 <b>New South Wales</b>	<b>1H11</b> <i>FY10</i>	<b>717,399</b> <i>726,692</i>	<b>422,681</b> <i>380,801</i>	<b>1,140,080</b> <i>1,107,493</i>
 <b>Queensland</b>	<b>1H11</b> <i>FY10</i>	<b>75,359</b> <i>77,454</i>	<b>361,803</b> <i>371,267</i>	<b>437,162</b> <i>448,721</i>
<b>Total accounts (Net)</b>	<b>1H11</b> <i>FY10</i>	<b>1,368,904</b> <i>1,369,124</i>	<b>1,905,431</b> <i>1,872,535</i>	<b>3,274,335</b> <i>3,241,659</i>
<b>Change</b>		<b>(220)</b> <i>(0.0%)</i>	<b>+32,896</b> <i>+1.8%</i>	<b>+32,676</b> <i>+1.0%</i>

<b>Dual fuel accounts</b>	<b>1H11</b>	<b>1,430,518</b>
<b>Change</b>		<b>+68,444</b>

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## Retail – Cost to Serve

6 months to	31 Dec 2010	31 Dec 2009 <sup>3</sup>	Change
Net operating expenditure	161.5m	158.7m	1.8%
<b>Net operating cost per customer account</b>	<b>\$49.49</b>	\$49.51	0.0%
Cost to grow/retain	38.5m	38.6m	(0.3%)
<b>Cost to grow per account acquired/retained<sup>1</sup></b>	<b>\$81.21</b>	\$84.82	(4.3%)
Cost to serve	123.0m	120.1m	2.4%
<b>Cost to serve per customer account<sup>2</sup></b>	<b>\$37.69</b>	\$37.45	0.6%

- › Cost to grow per acquisition / retention increased due to a higher spend on customer sales and retention activities
- › Cost to serve per customer account up – labour cost increase due to maintaining low unbilled levels, increased sales and support for C&I customers and increased connections and transfers, and higher Ombudsman costs

1. Cost to grow per account acquired / retained = costs to win and retain market contracts and transfer customers to AGL DIVIDED by contracts acquired PLUS contracts retained.
2. Cost to serve per customer account = net operating costs LESS cost to grow DIVIDED by average customer accounts.
3. The cost to grow/retain has been adjusted to include all labour costs associated with growth and retention in 2010 and the prior corresponding period. The prior year impact of this change was a \$6.8m increase in cost to grow/retain.

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## Retail – EBIT / Sales Analysis

6 months to \$m	31 Dec 2010	31 Dec 2009	Change
<b>Total revenue</b>	<b>3,022.5</b>	2,756.1	9.7%
Cost of sales	<b>(2,632.8)</b>	(2,382.8)	10.5%
Gross margin	<b>389.7</b>	373.3	4.4%
Operating costs (excl D & A)	<b>(175.0)</b>	(169.4)	3.3%
<b>Operating EBITDA</b>	<b>214.7</b>	203.9	5.3%
Depreciation and amortisation	<b>(20.9)</b>	(20.4)	2.5%
<b>Operating EBIT</b>	<b>193.8</b>	183.5	5.6%
<b>Operating EBIT / Sales (%)</b>	<b>6.4%</b>	6.7%	(0.3) pts

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# Retail – Weather

## Cool summer impacts electricity volumes.

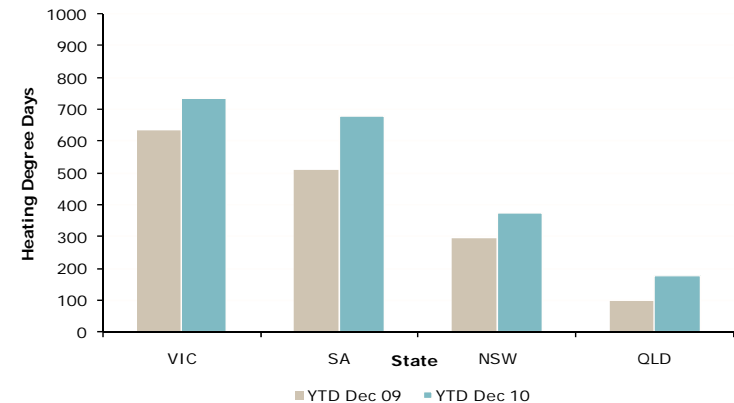
### > Winter months

- » Victoria experienced 6th wettest August on record with exceptionally low daytime temperatures
- » South Australia July and August 2010: 1 - 3°C below average temperatures
- » New South Wales August 2010 the coldest August for maximum temperatures since 1990
- » Queensland experienced cooler daytimes and warmer minimum temperatures than average

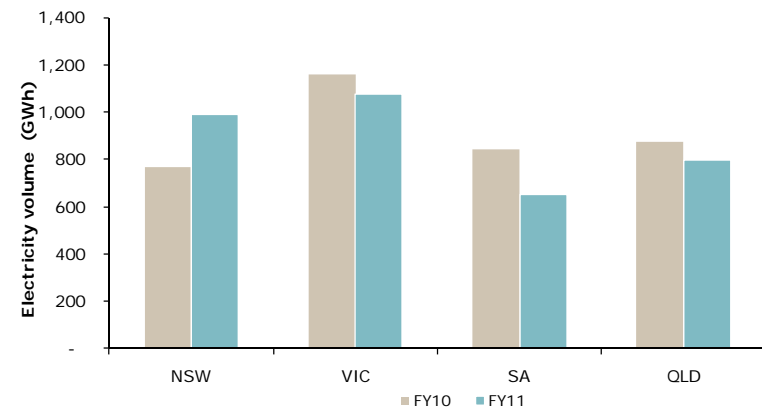
### > Summer months

- » Mild temperatures across all states in November and December 2010 compared to prior year
- » New South Wales and South Australia experienced below average day time temperatures throughout Spring 2010, driven by La Niña weather patterns
- » New South Wales experienced 5th coldest December on record in 2010
- » Queensland experienced its wettest December on record, resulting in significant flooding and power interruptions

Heating Degree Days



Mass market electricity volume – October to December



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## Merchant – EBIT Analysis

6 months to \$m	31 Dec 2010	31 Dec 2009	Change
Revenue from Retail Business			
- Electricity (COGS transfer price)	1,149.2	1,144.1	0.4%
- Gas (COGS transfer price)	433.4	367.7	17.9%
External Revenue			
- Generation Revenue <sup>1</sup>	68.4	145.5	(53.0%)
- ActewAGL <sup>2</sup>	142.5	136.0	4.8%
- External (3rd Party) Revenue <sup>3</sup>	212.8	147.4	44.4%
- Wind Farm Development Fees	27.0	16.0	68.8%
<b>Total Merchant Revenue</b>	<b>2,033.3</b>	<b>1,956.7</b>	<b>3.9%</b>
Cost of Goods Sold			
- Electricity COGS <sup>4</sup>	(704.0)	(1,275.3)	(44.8%)
- Electricity CFD's	(442.3)	92.5	(578.2%)
- Gas COGS	(502.9)	(437.5)	14.9%
- Green Certificates	(110.1)	(58.4)	88.5%
<b>Gross Margin</b>	<b>274.0</b>	<b>278.0</b>	<b>(1.4%)</b>
Operating Costs	(53.7)	(52.6)	2.1%
<b>EBITDA</b>	<b>220.3</b>	<b>225.4</b>	<b>(2.3%)</b>
D&A	(34.2)	(30.3)	12.9%
<b>EBIT</b>	<b>186.1</b>	<b>195.1</b>	<b>(4.6%)</b>

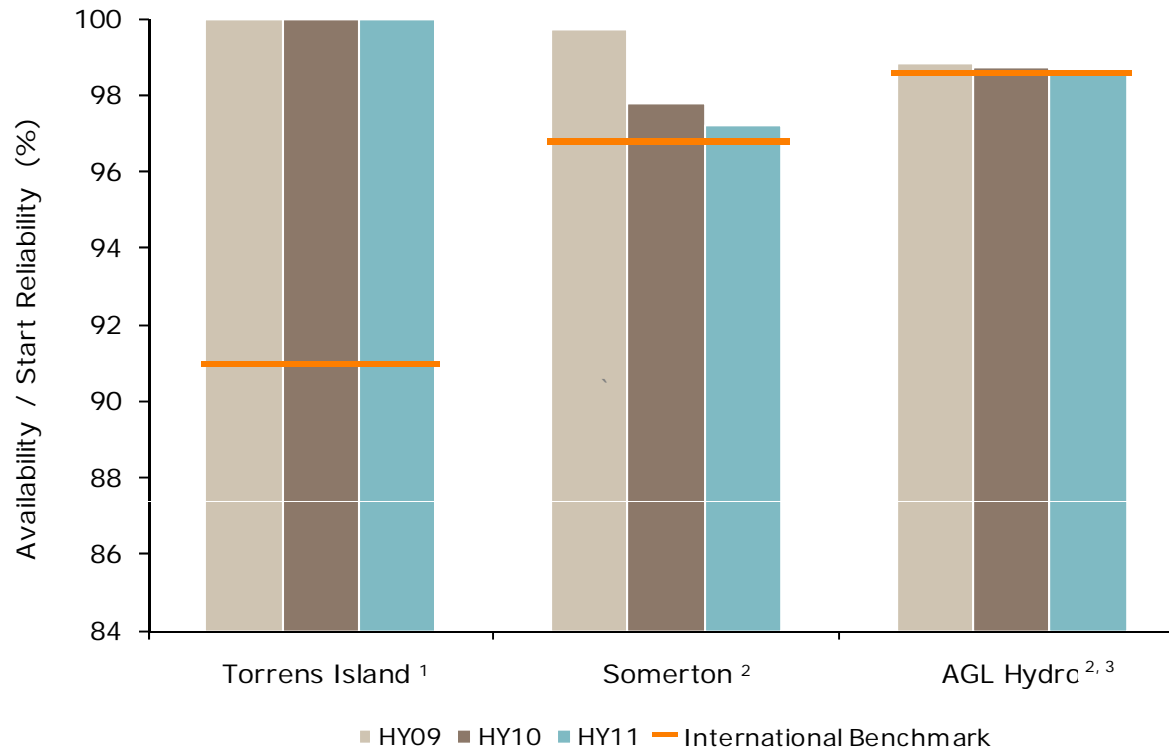
1. Generation revenue is pool revenue from owned generation assets.
2. ActewAGL Dec 10: Electricity sales 62%, Gas sales 30%; Other sales 7%; Dec 09: Electricity sales 61%, Gas sales 32%; Other sales: 7%.
3. External revenue Dec 10: Gas sales 42%, Green Certificate Sales 46%, Other sales 12%; Dec 09: Gas sales 50%, Green Certificate Sales 31%, Other sales 19%.
4. Electricity COGS includes \$38.9m (Dec 09: \$59.6m) of gas costs for gas fired generation (TIPS, Oakey, Somerton and Yabulu) which is reported in Wholesale Electricity EBIT.

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## Merchant – Generation: Operational performance

### Commercial Availability / Start Reliability (%)



Operational performance of generation assets continues to meet and exceed international benchmarks.

1. Commercial availability is used to measure Torrens Island performance, and represents the percentage of times the plant is available to operate when required.
2. Start reliability is used to measure the performance of Somerton and AGL Hydro. Start Reliability is the percentage of times the plant started successfully when asked to start.
3. NERC – North American Electric Reliability Council 5 Year average for Hydro facilities adjusted for the difference in operating regime between the North American fleet and AGL's fleet which operate as peaking plant which increases the frequency of starts and stops.

## Merchant – Generation: Wind Farm

- › Hallett 2 commissioned 17 May 2010
- › High operational availability continued across portfolio

Six months to 31 Dec 2010	Unit	Wattle Point	Hallett 1	Hallett 2	Total
<b>Capacity</b>	<b>MW</b>	90.8	94.5	71.4	256.7
<b>Availability</b>	<b>%</b>	94.5	94.3	95.1	94.6
<b>Generated Energy<sup>1</sup></b>	<b>GWh</b>	100.3	159.4	120.7	380.4
<b>Capacity Factor</b>	<b>%</b>	29.7	39.2	39.2	36.0

### Notes

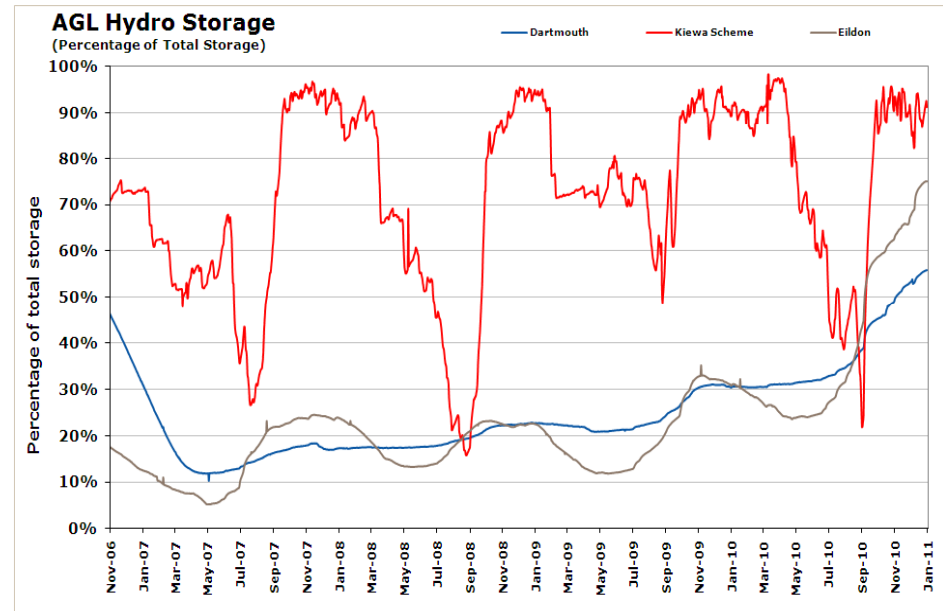
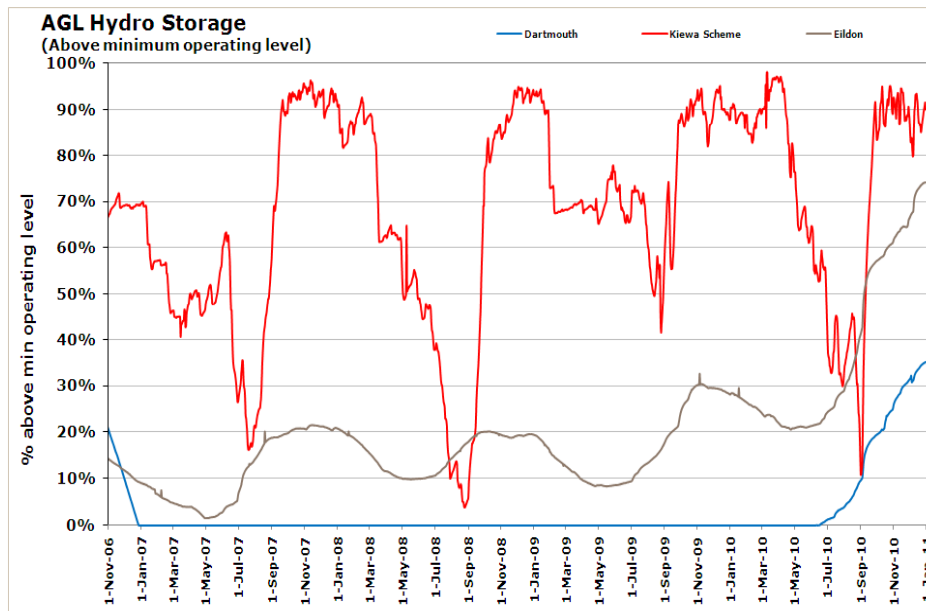
1. Energy generated at node.

- 
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# Merchant – Hydrology

- › 52.6% of hydro capacity is linked to drought resistant Kiewa Scheme
- › Dartmouth returned to operation in Q4 2010. Re-commissioning works were completed and with good inflows, the current capacity is 135 MW. Irrigation releases are expected to be minimal and the dam is expected to remain at its current levels over summer
- › Eildon has also had high inflows in FY2011 thus far and the dam is above 70% capacity. Eildon's current capacity is 113 MW (out of 120 MW)



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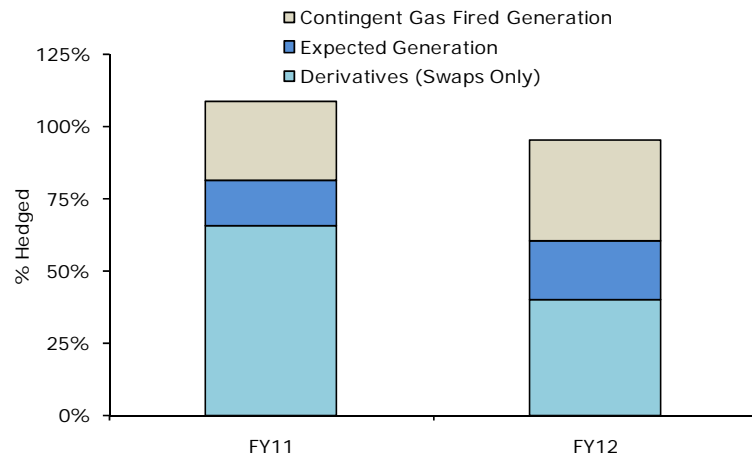
## Merchant – Electricity Hedging: Policy

- › AGL Risk Management Policy is set by the Board and establishes the requirements for the management of wholesale risk
- › Clearly defined and approved commodity and transaction limits
- › Counter party credit limit tier allocation
- › Market price risk is contained with requirements for hedging based upon physical limits and financial limits:
  - » **Physical Limits:** Appropriate hedges to meet minimum fraction of expected energy load
  - » **Financial Limits:** Additional limits defined on basis of detailed economic analysis of portfolio dynamics of load, hedge contracts, generation and volatile prices:
    - › Earnings at Risk limits are established as the worst outcome expected 1 year in every 10

# Merchant – Electricity Hedging: Position

## Physical

AGL Energy Hedge Position - All States

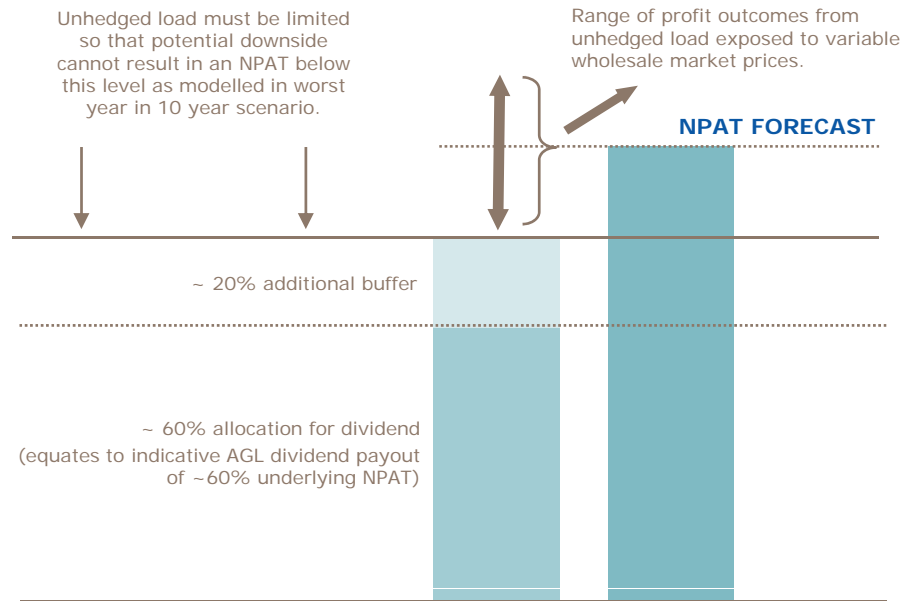


### Key Points

- > Positions across all states and time periods have been aggregated
- > Reference load is average annual energy (in MWh) for 100% of (C&I contracted load + expected mass market load)
- > Expected Generation represents AGL's internal estimate of the amount of energy likely to be generated based on pool price, fuel cost and hydrology assumptions
- > Contingent Gas Fired Generation is the maximum amount of energy that AGL's portfolio could generate if required
- > Position does not include AGL's passive investment in Loy Yang A

## Financial

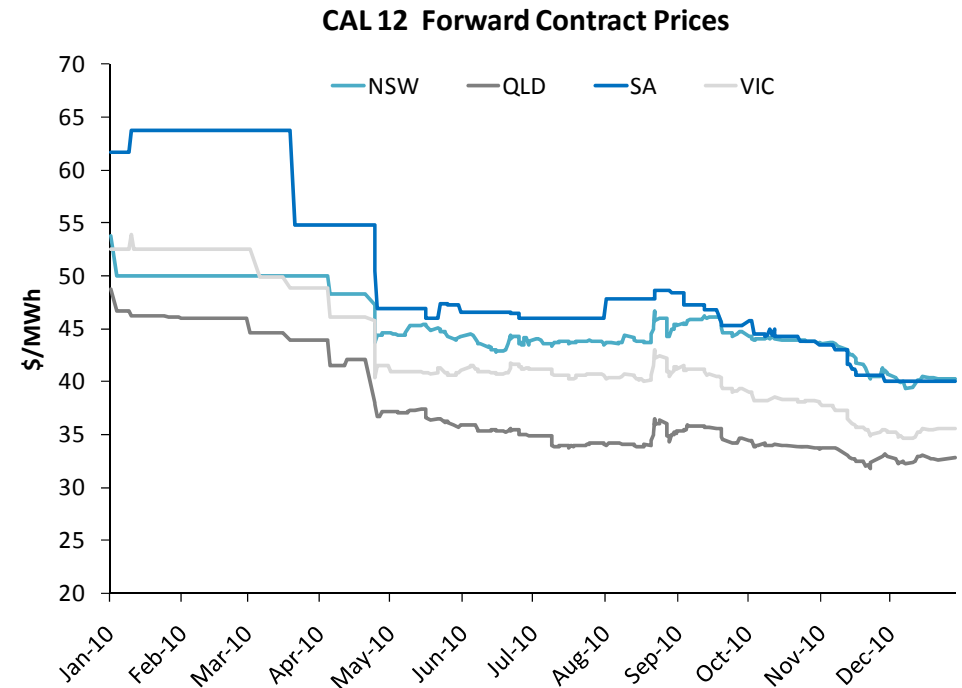
### Satisfying Financial Risk Limits



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## Merchant – Wholesale Electricity Prices

- › The delay in CPRS to 2013 (announced April 2010) and declining spot prices across the NEM resulted in the forward curve falling in all states
- › Forward prices then remained relatively unchanged due to little spot price volatility and market participants awaiting the results of the federal election for further guidance on CPRS
- › Forward prices have been falling considerably since November 2010 in response to sub-\$20/MWh pool prices, driven by a lack of hot weather and high levels of supply across the NEM





## Upstream Gas – Key Financial Metrics

6 months to \$m	31 Dec 2010	31 Dec 2009	Change
<b>Operating EBITDA</b>	<b>27.2</b>	13.8	97.1%
D & A	(10.3)	(10.8)	(4.6%)
<b>EBIT</b>			
Upstream Gas			
Queensland / South Australia	17.5	3.4	414.7%
New South Wales	3.1	2.0	55.0%
Equity Investments	(0.1)	(0.1)	0.0%
Sundry	(3.6)	(2.3)	56.5%
<b>Operating EBIT</b>	<b>16.9</b>	3.0	463.3%

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## Upstream Gas Interests – Permit Details

Basin	Project	Permits		Working Interest
		Exploration (Area km <sup>2</sup> )	Production (Area km <sup>2</sup> )	
Sydney	Camden Gas Project	PEL 2 (6,708)	-	100%
		PEL 5 (401)	-	100%
-		PPL 1 (48)	100%	
-		PPL 2 (1)	100%	
-		PPL 4 (55)	100%	
-		PPL 5 (103)	100%	
		-	PPL 6 (7)	100%
	Hunter Gas Project	PEL 4 (5,081)	-	100%
		PEL 267 (4,925)	-	100%
Gloucester	Gloucester Gas Project	PEL 285 (1,021)	-	100%
Bowen	Moranbah Gas Project	ATP 1103 (4,135)	-	99%**
		-	PL 191 (219)	50%
-		PL 196 (38)	50%	
-		PL 222 (108)*	50%	
-		PL 223 (166)	50%	
-		PL 224 (70)	50%	
	Spring Gully Project	ATP 592P (1,734)	-	0.75%
		-	PL 195 (256)	0.75%
		-	PL 203 (259)	0.75%
		-	PL 204 (219)	0.0375%
Galilee	Galilee Exploration Project	ATP 529P (5,930)	-	50%
Cooper/Eromanga	Conventional oil and gas targets	PEL 101 (154)	-	35%***
		PEL 103 (177)	-	37.5%***
		PEL 103A (56)	-	37.5%***
		PRL 17 (64)	-	37.5%***
		PRL 18 (65)	-	37.5%***
		-	PRL 14 (22)	37.5%

\* Under application.

\*\* 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 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.

\*\*\* Working interests reflect AGL's final position after respective farm-in programs are completed.

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## Upstream Gas Interests – Permit Details

Basin	Project	Permits		Working Interest
		Exploration (Area km <sup>2</sup> )	Production (Area km <sup>2</sup> )	
Surat	Conventional oil and gas targets	ATP 471P (703)*	-	28.71-100%
		ATP 709P (146)	-	100%
		-	PL 1 (55)	15%
		-	PL 15 (259)	75%
		-	PL 16 (259)	100%
		-	PL 30 (37)	100%
		-	PL 46 (33)*	100%
		-	PL 48 (6)*	100%
		-	PL 49 (21)*	100%
		-	PL 56 (18)*	10%
		-	PL 66 (125)	100%
		-	PL 74 (18)*	16%
		-	PL 192 (91)	100%
		-	PL 202 (91)	100%
-	PL 213 (46)	100%		
-	PL 441 (43)	75.252%		
Cooper/Eromanga	Conventional oil and gas targets	ATP 934P (1,466)**	-	20%
		ATP 1056P (3,917)	-	40%
Carnarvon	Conventional oil and gas targets	WA 208P (731)	-	6%
Taranaki (New Zealand)	Conventional oil and gas targets	PEP 51149 (636)	-	18.575%
		PEP 51151 (482)	-	50%
		PEP 52181 (172)	-	15%
		PEP 53247 (6)	-	75%

\* Under renewal.

\*\* Under application.

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# Energy Investments

6 months to \$m	31 Dec 2010	31 Dec 2009	Change
<b>EBIT</b>			
ActewAGL	<b>17.6</b>	17.5	0.6%
Loy Yang	<b>0.4</b>	22.8	(98.2%)
Investments Other	<b>2.4</b>	3.1	(22.6%)
<b>Total EBIT</b>	<b>20.4</b>	43.4	(53.0%)

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# Significant Items<sup>1</sup>

6 months to 31 Dec 2010 \$m	Pre Tax	Tax	After Tax
Merger and acquisition related costs	(16.1)	3.8	(12.3)
Redundancy, termination and restructuring costs	(6.5)	2.0	(4.5)
<b>Total significant items</b>	<b>(22.6)</b>	<b>5.8</b>	<b>(16.8)</b>

1. Full detail in Appendix 4D, Section 1.

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# Capital Expenditure

6 months to 31 Dec 2010 \$m	SIB	Discretionary	Total
Merchant Energy	30.8	74.5	105.3
Upstream Gas	-	41.5	41.5
Retail Energy	-	41.3	41.3
Corporate Other	11.6	-	11.6
<b>Total</b>	<b>42.4</b>	<b>157.3</b>	<b>199.7</b>

- » **2011 Interim Results** 6 months to 31 December 2010
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# Balance Sheet

As at \$m	31 Dec 2010	30 Jun 2010
Current assets	2,418.1	2,208.5
PPE, E&E and oil & gas assets	3,274.9	2,997.1
Other non current assets	3,560.6	3,485.3
<b>Total Assets</b>	<b>9,253.6</b>	<b>8,690.9</b>
Current liabilities	1,495.7	1,532.5
Total debt	1,184.4	900.8
Other non current liabilities	501.5	457.7
<b>Total Liabilities</b>	<b>3,181.6</b>	<b>2,891.0</b>
<b>Net Assets</b>	<b>6,072.0</b>	<b>5,799.9</b>
Contributed equity	4,201.0	4,066.7
Reserves	(146.6)	(159.4)
Retained earnings	2,017.6	1,892.6
<b>Total Equity</b>	<b>6,072.0</b>	<b>5,799.9</b>

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# Fair Value Reconciliation

As at \$m	Net Assets (Liabilities)		
	31 Dec 2010	30 Jun 2010	Change
Electricity derivative contracts	(348.1)	(474.3)	126.2
Interest rate swap & foreign currency derivative contracts	(135.8)	(7.2)	(128.6)
<b>Total net liabilities for derivative contracts</b>	<b>(483.9)</b>	<b>(481.5)</b>	<b>(2.4)</b>
<b>Change in derivative net liability</b>	<b>(2.4)</b>		
Premiums paid	(126.0)		
Equity accounted fair value	(6.0)		
Premium roll off	39.6		
<b>Total change in fair value</b>	<b>(94.8)</b>		
Recognised in equity hedge reserve	(86.6)		
Recognised in borrowings	(53.9)		
Recognised in profit and loss	45.7		
<b>Total change in fair value</b>	<b>(94.8)</b>		

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# Loy Yang A: Financial Performance

6 months to \$m	31 Dec 2010	31 Dec 2009	Change
Generation Volume (GWh)	7,677	7,775	(1.3%)
Average Price (\$/MWh) <sup>1</sup>	\$36.60	\$42.68	(14.2%)
Sales Revenue <sup>2</sup>	307.9	359.0	(14.2%)
Other Revenue	14.9	14.2	4.9%
Expenses	(146.6)	(135.7)	8.0%
Depreciation	(59.1)	(56.0)	5.5%
Borrowing costs	(132.2)	(126.6)	4.4%
Profit (loss) after tax before fair value changes	(15.1)	54.9	(127.5%)
AGL share of profit (loss) after tax before fair value	(4.9)	17.9	(127.4%)
Interest on loan note	5.3	4.9	8.2%
<b>Operating EBIT</b>	<b>0.4</b>	<b>22.8</b>	<b>(98.2%)</b>

1. Weighted average price based on Generation Revenue and Generation Volume.
2. Sales Revenue includes revenue from generation, mining and infrastructure services.

- » **2011 Interim Results** 6 months to 31 December 2010
- » 23 February 2011
- » AGL External

