

## Appendix 4D

# AGL Energy Limited

ABN 74 115 061 375

## Half Year Report

### Results for announcement to the market for the half year ended 31 December 2012

*Extracts from this report for announcement to the market*

				<i>\$A Million</i>
Revenue	<b>Up</b>	<b>37.5%</b>	To	<b>4,970.2</b>
Statutory Profit after tax attributable to shareholders	<b>Up</b>	<b>211.7%</b>	To	<b>364.7</b>
Underlying Profit after tax attributable to shareholders	<b>Up</b>	<b>20.0%</b>	To	<b>279.4</b>
				<i>Cents per share</i>
Statutory Earnings per share	<b>Up</b>	<b>171.4%</b>	To	<b>66.5</b>
Underlying Earnings per share	<b>Up</b>	<b>4.7%</b>	To	<b>51.0</b>
Dividends	Amount per ordinary share		Franked amount per ordinary share	
Interim dividend	30.0¢		30.0¢	
Prior interim dividend	29.0¢		29.0¢	
<b>Record date for determining entitlements to the interim dividend:</b>				
12 March 2013 and payable on 4 April 2013.				
<b>Brief explanation of Underlying Profit and Underlying Earnings per share:</b>				
Statutory Profit and Statutory Earnings per share are prepared in accordance with the Corporations Act 2001 and the Australian Accounting Standards, which comply with the International Financial Reporting Standards.				
Statutory Profit after tax of \$364.7 million included a gain after tax of \$85.3 million from the changes in the fair value of financial instruments. Excluding this item, the Underlying Profit was \$279.4 million, up 20.0% on the prior corresponding period.				
Underlying Profit and Underlying Earnings per share are reported to give information to shareholders that provides a greater understanding of the performance of AGL Energy Limited's (AGL's) operations. AGL believes Underlying Profit is useful as it removes significant items and timing mismatches between the fair value of derivatives and the underlying asset being hedged thereby facilitating a more representative comparison of financial performance between financial periods.				
An analysis of these results is in the Directors' Report attached to this announcement.				

**AGL Energy Limited and Subsidiaries**  
**Half Year Report**  
**For the half year ended 31 December 2012**

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*Directors' Report for the half year ended 31 December 2012 (incorporating the commentary by Directors and dividend announcement made to the Australian Securities Exchange Limited on 27 February 2013)*

The Directors report on the AGL Energy Limited (AGL) consolidated entity for the half year ended 31 December 2012 in accordance with the Corporations Act 2001.

## 1. Results

The following tables reconcile Statutory Profit to Underlying Profit and Statutory Earnings before Interest and Tax (EBIT) to Operating EBIT.

	<b>Half year ended 31 December 2012</b>	Half year ended 31 December 2011
	<b>\$m</b>	\$m
<b>Statutory Profit</b>	<b>364.7</b>	117.0
Adjust for the following after tax items:		
Significant items <sup>(1)</sup>	-	-
Changes in fair value of financial instruments <sup>(2)</sup>	<b>(85.3)</b>	115.9
<b>Underlying Profit</b>	<b>279.4</b>	232.9
<b>Statutory EBIT</b>	<b>633.5</b>	181.4
Significant items	-	-
Changes in fair value of financial instruments	<b>(121.8)</b>	167.4
Finance income included in Operating EBIT	-	5.8
<b>Operating EBIT</b>	<b>511.7</b>	354.6
Net finance costs	<b>(109.4)</b>	(23.3)
Underlying Profit before tax	<b>402.3</b>	331.3
Income tax expense	<b>(122.9)</b>	(98.4)
<b>Underlying Profit</b>	<b>279.4</b>	232.9

<sup>(1)</sup> Section 1.1

<sup>(2)</sup> Section 1.2

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

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

- remove significant items that are material items of revenue or expense that are unrelated to the underlying performance of the business thereby facilitating a more representative comparison of financial performance between financial periods and;
- remove changes in the fair value of financial instruments recognised in the income statement to remove the volatility caused by mismatches in valuing derivatives and the underlying asset differently.

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

## 1.1 Significant Items

There were no significant items recognised for the half year ended 31 December 2012 or for the prior corresponding period.

## 1.2 Changes in Fair Value of Derivative Financial Instruments

AGL uses derivative financial instruments (“derivatives”), in large part, to manage electricity purchase price risks but also to manage its exposure to interest rates and foreign exchange rates arising in the normal course of business. AGL’s intention when transacting derivatives is to prudently manage the electricity price risk, interest rate risk and foreign exchange rate risk it faces. AGL considers this activity to be hedging in nature.

Australian Accounting Standard AASB 139 ‘Financial Instruments: Recognition and Measurement’ (“AASB 139”) requires derivatives to be reported at fair value in the financial statements. Changes in the fair value of derivatives between reporting periods for “effective hedges” are recognised in equity as an adjustment to the hedge reserve. Changes in the fair value of derivatives between reporting periods for “ineffective hedges” are recognised in the statement of profit or loss.

AASB 139 considers derivatives to be effective hedges where the change in the fair value of the item being hedged and the change in the fair value of the derivative substantially offset each other. All other hedges are deemed to be ineffective hedges.

In AGL’s view, AASB 139’s definition of an effective hedge results in an appropriate outcome for the interest rate and foreign exchange rate hedging activity currently undertaken by AGL. It does not however adequately address the more complex exposures from managing electricity price risk. This means that a material number of AGL’s electricity derivatives are not considered effective hedges under AASB 139.

The change in fair value of derivatives reported in profit and loss for the six months to 31 December 2012 was a gain of \$121.8 million before tax and \$85.3 million after tax. For the prior corresponding period the change in fair value of derivatives was a loss before tax of \$167.4 million and a loss of \$115.9 million after tax. AGL believes this volatility does not reflect the underlying performance of the business and therefore, changes in fair value of derivatives recognised in profit and loss should be excluded when calculating Underlying Profit.

A reconciliation of the statement of financial position movement in derivative balances to the amount included in the statement of profit or loss is presented in the following table:

	<b>Net Assets (Liabilities)</b>		
	<b>31 December 2012</b>	30 June 2012	Change
	<b>\$m</b>	\$m	\$m
Electricity derivative contracts	<b>270.4</b>	208.7	61.7
Cross currency and interest rate swaps and foreign currency derivative contracts	<b>(112.5)</b>	(224.9)	112.4
Total net assets (liabilities) for derivative contracts	<b>157.9</b>	(16.2)	174.1
<b>Change in derivative net asset</b>	<b>174.1</b>		
Premiums paid	<b>(67.1)</b>		
Settlement of interest rate swaps	<b>(105.1)</b>		
Premium roll off	<b>53.5</b>		
<b>Total change in fair value</b>	<b>55.4</b>		

Recognised in equity hedge reserve	(69.7)
Recognised in borrowings	(7.9)
Recognised in profit and loss (fair value – pre-tax)	121.8
Recognised in profit and loss (interest – pre-tax)	11.2
<b>Total change in fair value</b>	<b>55.4</b>

## 2. Earnings per Share

Earnings per share (EPS) has been calculated on the profit after tax attributable to shareholders (Statutory) and the Underlying Profit adjusted for significant items and changes in the fair value of financial instruments. Further discussion on the reconciliation between Statutory Profit and Underlying Profit is contained in Section 1.

	<b>Half year ended 31 December 2012 \$m</b>	Half year ended 31 December 2011 \$m
<b>Statutory Profit</b>	<b>364.7</b>	117.0
Adjust for the following after tax items:		
Changes in fair value of financial instruments	<b>(85.3)</b>	115.9
<b>Underlying Profit</b>	<b>279.4</b>	232.9
	<b>cents</b>	cents
<b>Statutory EPS</b>	<b>66.5</b>	24.5
<b>Underlying EPS</b>	<b>51.0</b>	48.7

The half year ended 31 December 2011 Statutory EPS and Underlying EPS have been restated to reflect the bonus element of the rights issue completed in June 2012.

## 3. Dividend

The Directors have declared an interim dividend of 30.0 cents per share, an increase of 1 cent per share compared with the prior corresponding period's interim dividend of 29.0 cents per share. The interim dividend will be paid on 4 April 2013. The record date to determine shareholders' entitlements to the interim dividend is 12 March 2013 and shares will commence trading ex-dividend on 5 March 2013.

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 interim dividend will be fully franked.

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 14 March 2013.

## 4. Review of Operations

The following review of operations focuses on Operating EBIT defined as EBIT before changes in fair value of financial instruments and significant items. AGL believes that Operating EBIT provides a better understanding of its financial performance by removing significant items and volatile changes in fair value of financial instrument accounting adjustments thereby facilitating a more relevant comparison of financial performance between financial periods.

The following table reconciles Statutory EBIT to Operating EBIT:

	Half year ended 31 December 2012 \$m	Half year ended 31 December 2011 \$m
<b>Statutory EBIT</b>	<b>633.5</b>	181.4
Significant items	-	-
Changes in fair value of financial instruments	<b>(121.8)</b>	167.4
Finance income included in Operating EBIT	-	5.8
<b>Operating EBIT</b>	<b>511.7</b>	354.6

Each segment section commences with a table reconciling Statutory EBIT with the Operating EBIT.

Operating EBIT for the six months to 31 December 2012 was \$511.7 million compared with \$354.6 million for the prior corresponding period. The Statutory and Operating EBIT by segment is presented in the following table:

	EBIT (Statutory)		EBIT (Operating)	
	Half year ended 31 December 2012 \$m	Half year ended 31 December 2011 \$m	Half year ended 31 December 2012 \$m	Half year ended 31 December 2011 \$m
Retail Energy	136.4	178.2	136.4	178.2
Merchant Energy	575.1	77.2	453.3	248.8
Upstream Gas	(2.5)	1.0	(2.5)	1.0
Energy Investments	15.9	10.8	15.9	12.4
Centrally managed expenses	(91.4)	(85.8)	(91.4)	(85.8)
<b>EBIT</b>	<b>633.5</b>	181.4	<b>511.7</b>	354.6
Depreciation and amortisation	138.3	84.3	138.3	84.3
<b>EBITDA</b>	<b>771.8</b>	265.7	<b>650.0</b>	438.9

#### 4.1 Retail Energy Operating EBIT: Decreased 23.5% to \$136.4 million from \$178.2 million

	Half year ended 31 December 2012 \$m	Half year ended 31 December 2011 \$m
<b>Statutory EBIT</b>	<b>136.4</b>	178.2
Significant items	-	-
Finance income included in EBIT	-	-
<b>Operating EBIT</b>	<b>136.4</b>	178.2
Depreciation and amortisation	<b>34.5</b>	28.3
<b>Operating EBITDA</b>	<b>170.9</b>	206.5

Retail Energy is responsible for growing and servicing AGL's consumer customers. The consumer market consists of residential and small business customers. Retail Energy currently services 3.5 million customer accounts.

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

Retail Energy sources its energy from AGL's Merchant Energy business. The transfer price for this energy is calculated based on methodologies adopted by regulators for determining wholesale energy costs in setting tariffs.

##### 4.1.1 Analysis of Operating EBIT

Retail Energy contributed \$136.4 million to Operating EBIT for the half year, down 23.5% on the prior corresponding period. The main factors contributing to the decrease in Operating EBIT are summarised in the table below.

	\$m
<b>Operating EBIT for the half year ended 31 December 2011</b>	<b>178.2</b>
Decrease in gas and electricity gross margin	(18.5)
Increase in depreciation and amortisation	(6.2)
Increase in net operating costs	(17.1)
<b>Operating EBIT for the half year ended 31 December 2012</b>	<b>136.4</b>

The decrease in gross margin of \$18.5 million included two timing differences discussed in detail in section 4.1.1.1. After adjusting for these timing differences, underlying Operating EBIT was \$204.4 million, an increase of 14.7% compared with the prior corresponding period.

#### 4.1.1.1 Gross Margin

Gross margin, excluding fees and charges, decreased by \$18.5 million, or 5.5% compared with the prior corresponding period. Gross margin was lowered approximately \$68 million by intra-year timing differences, which will reverse in the second half. The underlying gross margin, excluding fees and charges, increased \$49.5 million or 14.8%.

The two timing differences are:

- i. The introduction of a cost on carbon resulted in a liability for carbon being incurred from 1 July 2012 however cost recovery through price increases to customers was progressively introduced over four months July to October. Costs were under-recovered by approximately \$40 million in the first half and will be caught up in the second half. The under recovery is approximately split \$30 million in electricity gross margin and \$10 million in gas gross margin.
- ii. The electricity transfer price used for South Australia (SA) was updated to be based on a financial year rather than a calendar year, reflecting an earlier change made by the regulator. It is now consistent with AGL's approach in all other states which are based on a financial year. The transfer price from Merchant Energy to Retail Energy is flat across the financial year whereas in the prior year it was lower in the first half and higher in the second half, creating a shift in segmental profits. As a result, first half Retail Energy electricity gross margin is \$28 million lower (offset by higher gross margin in Merchant Energy), which will reverse in the second half.

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

	<b>Half year ended 31 December 2012 \$m</b>	Half year ended 31 December 2011 \$m	Movement %
Electricity	<b>199.4</b>	217.5	(8.3)
Gas	<b>117.0</b>	117.3	(0.3)
Fees and charges	<b>41.2</b>	38.4	7.3
<b>Total gross margin</b>	<b>357.6</b>	373.2	(4.2)
<b>Gross margin excluding fees and charges</b>	<b>316.4</b>	334.9	(5.5)

Excluding the timing differences, electricity gross margin is up \$39.9 million or 18% and gas gross margin is up \$9.7 million or 8.3%.

New South Wales (NSW) electricity volumes were up 18% due to the increase in customer numbers, however, lower average consumption has had an impact on all states. Gas volumes were up in both SA and Victoria (VIC), 13.3% and 11.0% respectively, driven by increases in customer base and the prior corresponding period having a mild winter. Improved underlying margins were then largely due to close price management.



#### 4.1.1.2 Depreciation and Amortisation

Depreciation and amortisation (D&A) increased by \$6.2 million, or 21.9% compared with the prior corresponding period.

	Half year ended 31 December 2012 \$m	Half year ended 31 December 2011 \$m	Movement %
NSW direct customer acquisition cost amortisation	(16.1)	(6.2)	159.7
Other	(18.4)	(22.1)	(16.7)
<b>Total depreciation and amortisation</b>	<b>(34.5)</b>	<b>(28.3)</b>	<b>21.9</b>

The increase in D&A related to AGL's project to substantially grow its customer base by 30 June 2014. For the life of the project (which commenced in January 2011) the direct cash costs incurred to acquire NSW customers will be capitalised. These costs will then be amortised over the expected benefit period, typically between two and three years. The amortisation charge for the six months to 31 December 2012 was \$16.1 million compared with \$6.2 million for the prior corresponding period.

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

	Half year ended 31 December 2012 \$m	Half year ended 31 December 2011 \$m	Total Project to date \$m
Direct cash outlay	19.0	20.4	75.9
Amortised to the income statement	(16.1)	(6.2)	(35.4)
<b>Net capitalised costs</b>	<b>2.9</b>	<b>14.2</b>	<b>40.5</b>
Number of lead sales	116,620	123,980	
Cost per lead sale	\$162.62	\$164.70	
<b>Amortisation for the year ending:</b>	<b>\$m</b>		
30 June 2011	2.1		
30 June 2012	17.2		
30 June 2013	32.9		
30 June 2014	20.7		
30 June 2015	3.0		
<b>Total amortisation</b>	<b>75.9</b>		

In addition to the above capitalised costs, AGL estimates that it spent a further \$6 per new customer on sales fulfilment activities. These costs have been incurred to process new customers onto AGL's system and are consistent with prior period costs.

#### 4.1.1.3 Net Operating Costs excluding Depreciation and Amortisation

Retail Energy's net operating costs excluding D&A increased by \$17.1 million, or 13.3%, during the half year compared with the prior corresponding period. The following table provides the breakdown of the material increases in net operating costs:

	Half year ended 31 December 2012 \$m	Half year ended 31 December 2011 \$m	Movement %
Labour and contractor services	(68.6)	(64.4)	6.5
Bad and doubtful debts	(38.4)	(29.7)	29.3
Campaigns and advertising	(36.9)	(35.2)	4.8
Other expenditure	(42.8)	(37.5)	14.1
Fees and charges	41.2	38.4	7.3
<b>Net operating costs excluding D&amp;A</b>	<b>(145.5)</b>	<b>(128.4)</b>	<b>13.3</b>
Depreciation and amortisation	(34.5)	(28.3)	21.9
<b>Net operating costs</b>	<b>(180.0)</b>	<b>(156.7)</b>	<b>14.9</b>

Labour and contractor services costs increased by \$4.2 million, or 6.5%, to \$68.6 million. The increase largely resulted from increased customer numbers driving higher levels of new customer connections and transfers. Higher call volumes as a result of the increase in customer numbers together with bill enquiries following the introduction of carbon and credit management activity led to higher call centre labour costs. The majority of increased contractor costs from new connections was recovered in fees and charges. Labour rates increased broadly in line with CPI.

The increase in bad and doubtful debt expense of 29.3% was due to an increase in provisioning due to the current pricing pressure including carbon coupled with the current economic climate. This increase was in line with the total revenue increase of \$482.2 million, or 23.7%, compared with the prior corresponding period.

Campaign and advertising expenditure increased by \$1.7 million across all states. This was driven by an increase in customer retention activities as a result of increased market competition and churn levels.

Other expenditure increased by \$5.3 million. AGL announced its partnership with the flybuys program in April 2012, the cost of the program for the six months to December 2012 was \$3.0 million with no expenditure in the prior corresponding period. The program to date has resulted in 300,000 AGL accounts linked to the flybuys program, which is expected to improve long term loyalty and retention.

#### 4.1.2 Dual Fuel Strategy

Retail Energy continued to pursue its dual fuel strategy. AGL now services 1.67 million dual fuel customer accounts, compared with 1.62 million as at 30 June 2012, a 3.1% increase. Approximately 85% of this growth was in NSW.

### 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 Gross Margin per Customer

	Half year ended 31 December 2012	Half year ended 31 December 2011	Movement %
Gross margin (excluding fees & charges)	<b>\$316.4m</b>	\$334.9m	(5.5)
Average customer numbers	<b>3,494,550</b>	3,322,300	5.2
Consumer gross margin per customer	<b>\$90.54</b>	\$100.80	(10.2)

The decrease in gross margin per customer was due mainly to the timing differences in the recovery of carbon costs and change in SA transfer price as discussed in section 4.1.1.1.

Excluding these timing differences, consumer gross margin per customer increased to \$110.00 or by 9.1%.

#### 4.1.3.2 EBIT / Sales Analysis

	Half year ended 31 December 2012 \$m	Half year ended 31 December 2011 \$m	Movement %
Electricity revenue	<b>1,774.3</b>	1,410.2	25.8
Gas revenue	<b>698.1</b>	582.8	19.8
Other fees and charges	<b>41.2</b>	38.4	7.3
Total revenue	<b>2,513.6</b>	2,031.4	23.7
Cost of sales	<b>(2,156.0)</b>	(1,658.1)	30.0
Gross margin	<b>357.6</b>	373.3	(4.2)
Operating costs (excl D&A)	<b>(186.7)</b>	(166.8)	11.9
EBITDA	<b>170.9</b>	206.5	(17.2)
Depreciation and amortisation	<b>(34.5)</b>	(28.3)	21.9
EBIT	<b>136.4</b>	178.2	(23.5)
EBIT / Sales %	<b>5.4%</b>	8.8%	-3.4ppts

The decrease in EBIT / Sales to 5.4% was largely driven by the gross margin timing differences discussed in section 4.1.1.1.

Excluding these timing differences, EBIT / Sales % was 8.0%.

#### 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

	Half year ended 31 December 2012 \$m	Half year ended 31 December 2011 \$m	Movement %
Net operating costs	(180.0)	(156.7)	14.9
Gross margin	357.6	373.3	(4.2)
Fees and charges	(41.2)	(38.4)	7.3
Gross margin less fees and charges	316.4	334.9	(5.5)
Net operating costs as percentage of gross margin (less fees and charges)	56.9%	46.8%	10.1ppts

Net operating costs as a percentage of gross margin increased by 10.1 percentage points (ppts).

The main impact on operating efficiency is the timing issues in gross margin discussed in section 4.1.1.1. Net operating costs increased by 14.9% as described in section 4.1.1.3.

Excluding the timing differences in gross margin, net operating costs as a percentage of gross margin was 46.8%, level with the prior corresponding period.

##### 4.1.4.2 Cost to Serve Analysis

	Half year ended 31 December 2012 \$	Half year ended 31 December 2011 \$	Movement %
Net operating costs	(180.0m)	(156.7m)	14.9
<b>Net operating cost per customer account</b>	<b>(51.43)</b>	<b>(47.14)</b>	<b>9.1</b>
Cost to acquire/retain	(64.1m)	(48.8m)	31.4
<b>Cost to acquire/retain per account acquired/retained</b>	<b>(67.84)</b>	<b>(67.75)</b>	<b>0.1</b>
Cost to serve	(115.9m)	(107.9m)	7.4
<b>Cost to serve per customer account</b>	<b>(33.12)</b>	<b>(32.44)</b>	<b>2.1</b>

Net operating cost per customer account for the half year ended 31 December 2012 was \$51.43, a 9.1% increase on the prior corresponding period. The increase in net operating costs is discussed in detail in section 4.1.1.3.

The cost to acquire/retain increased by 31.4% for the half year, due to higher amortisation charges relating to NSW electricity customer acquisitions. Customer numbers in NSW electricity increased 22.8% from December 2011 to December 2012 and retention activity is 61.0% higher than the prior corresponding period.

Overall cost to serve increased 7.4% driven by increased provisioning for bad and doubtful debts as described in section 4.1.1.3. However, the average number of customers increased substantially since the prior corresponding period, thus the increase in cost to serve per customer was only 2.1%.

#### 4.1.5 Customer Numbers and Competition

High levels of competitor activity persisted throughout the half year ended 31 December 2012. The following table<sup>1</sup> provides a breakdown of customer numbers by state.

	<b>31 December 2012</b>	30 June 2012	Movement	Movement
	('000)	('000)	('000)	%
<b>Electricity</b>				
Victoria	<b>624</b>	638	(14)	(2.2)
South Australia	<b>458</b>	459	(1)	(0.2)
New South Wales	<b>684</b>	620	64	10.3
Queensland	<b>379</b>	367	12	3.2
	<b>2,145</b>	2,084	61	2.9
<b>Gas</b>				
Victoria	<b>491</b>	487	4	0.8
South Australia	<b>127</b>	117	10	8.5
New South Wales	<b>693</b>	711	(18)	(2.5)
Queensland	<b>75</b>	75	-	-
	<b>1,386</b>	1,390	(4)	(0.3)
<b>Total</b>	<b>3,531</b>	3,474	57	1.6

1. The above table includes 20,397 C&I customers at 31 December 2012 (22,694 at 30 June 2012)

In the six months to 31 December 2012, industry market churn increased by 1.0 ppt, from 22.2% to 23.2%. AGL churn across all markets remained well below the industry at 18.9%. The favourable gap between AGL's churn rate and the industry decreased marginally during the half year driven by higher competition in the market. Maintaining this favourable gap is attributed to strong product offers, the dual fuel strategy, involvement in the flybuys rewards scheme and interactive tools such as AGL Energy Online.

**4.2 Merchant Energy Operating EBIT:  
 Increased 82.2% to \$453.3 million from \$248.8 million**

	Half year ended 31 December 2012 \$m	Half year ended 31 December 2011 \$m
<b>Statutory EBIT</b>	<b>575.1</b>	77.2
Significant items	-	-
Finance income included in EBIT	-	-
Change in fair value of financial instruments	<b>(121.8)</b>	171.6
<b>Operating EBIT</b>	<b>453.3</b>	248.8
Depreciation and amortisation	<b>82.4</b>	38.9
<b>Operating EBITDA</b>	<b>535.7</b>	287.7

Merchant Energy is responsible for developing, operating and maintaining AGL's power generation assets, developing AGL's carbon strategy and managing the risks associated with the procurement and delivery of gas and electricity for AGL's Wholesale and Retail portfolios. Merchant Energy also manages the business relationship with AGL's Business customers. In addition to providing gas and electricity the business unit supplies 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, Business Customers and Power Development.

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

	Operating EBIT		Operating EBITDA	
	Half year ended 31 December 2012 \$m	Half year ended 31 December 2011 \$m	Half year ended 31 December 2012 \$m	Half year ended 31 December 2011 \$m
Energy Portfolio Management	<b>607.5</b>	259.4	<b>613.1</b>	264.8
Merchant Operations	<b>(203.6)</b>	(58.4)	<b>(134.9)</b>	(31.2)
Business Customers	<b>59.5</b>	43.6	<b>67.0</b>	49.8
Power Development	<b>(0.4)</b>	9.4	<b>(0.3)</b>	9.4
Sundry	<b>(9.7)</b>	(5.2)	<b>(9.2)</b>	(5.1)
<b>Total Merchant Energy</b>	<b>453.3</b>	248.8	<b>535.7</b>	287.7

**4.2.1 Energy Portfolio Management Operating EBIT:  
 Increased 134.2% to \$607.5 million from \$259.4 million**

	Half year ended 31 December 2012 \$m	Half year ended 31 December 2011 \$m	Movement %
Wholesale Electricity	518.9	178.6	190.5
Wholesale Gas	71.8	58.7	22.3
Eco-Markets	28.9	33.1	(12.7)
Gross margin	619.6	270.4	129.1
Operating costs	(6.5)	(5.6)	16.1
Operating EBITDA	613.1	264.8	131.5
Depreciation and amortisation	(5.6)	(5.4)	3.7
Operating EBIT	607.5	259.4	134.2

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 regular reporting to the Board.

The risk policy mandates that the principal purpose of energy 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; and
- Utilising a variety of instruments including weather derivatives to optimise risk and return.

**4.2.1.1 Wholesale Electricity Gross Margin:  
 Increased 190.5% to \$518.9 million from \$178.6 million**

Wholesale Electricity 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.

Wholesale Electricity's 190.5% increase in gross margin compared with the prior corresponding period was mainly due to additional generation from new assets, primarily the acquisition of Loy Yang, and a net benefit from the introduction of carbon including transitional assistance. The overall increase in gross margin was partly offset by lower regulatory outcomes in Queensland (QLD) which reduced gross margin by \$29 million compared with the prior corresponding period. There was also an increase in transfer revenue received from the Retail business due to higher tariffs including a timing difference in SA as discussed in section 4.1.1.1.

**4.2.1.2 Wholesale Gas Gross Margin:**  
**Increased 22.3% to \$71.8 million from \$58.7 million**

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

The increase in gross margin was driven by increased customer demand in both the consumer and business segments compared with the prior corresponding period. The increased demand from consumer market customers was mainly driven by a colder winter compared with the prior corresponding period. There was also a net benefit for the period as a result of Short Term Trading Market activities.

**4.2.1.3 Eco-Markets Gross Margin:**  
**Decreased 12.7% to \$28.9 million from \$33.1 million**

Eco-Markets is responsible for managing the liabilities for both voluntary and mandatory green schemes. The largest of the schemes in which Eco-Markets participates is the Mandatory Renewable Energy Target which was split into the Small-scale Renewable Energy Scheme (SRES) and the Large-scale Renewable Energy Target (LRET) from 1 January 2011.

The decrease in gross margin compared with the prior corresponding period was due to the cessation of the NSW Gas Abatement Scheme coupled with higher costs associated with mandatory renewable schemes resulting in overall higher net purchase costs for the period.

**4.2.2 Merchant Operations Operating Expense:**  
**Increased 248.6% to \$203.6 million from \$58.4 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 and Hallett 2, Hallett 4, Hallett 5 and Oaklands wind farms (505 MW capacity). Upon completion of the Great Energy Alliance Corporation Pty Limited (GEAC) acquisition on 29 June 2012, Merchant Operations is also now responsible for managing and maintaining the 2,210 MW Loy Yang A power station and adjacent brown coal mine.

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 expenses for the period compared with the corresponding prior period primarily reflects the impact of the Loy Yang acquisition, with other movements representing minor increases across the portfolio.



**4.2.3 Business Customers Operating EBIT:**  
**Increased 36.5% to \$59.5 million from \$43.6 million**

	Half year ended 31 December 2012 \$m	Half year ended 31 December 2011 \$m
Electricity Gross Margin	32.2	29.5
Gas Gross Margin	34.8	20.7
C&I Operations and Customer Services Expenses	(15.3)	(15.1)
Energy Services	15.3	14.7
Operating EBITDA	67.0	49.8
Depreciation and amortisation	(7.5)	(6.2)
Operating EBIT	<b>59.5</b>	43.6

Business Customers manages AGL's Commercial and Industrial (C&I) gas and electricity customers through an integrated sales and service model. The customer base provides a channel to market for additional energy related services over above basic energy supply.

Business Customers generates revenues through:

- Retention and acquisition of new gas and electricity customers;
- Provision of energy services in demand-side management, efficiency and utilisation; and
- Development and operations of customer based assets.

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

Electricity gross margin increased compared with the prior corresponding period due to increased cost recoveries. Gas gross margin was higher than the prior corresponding period mainly driven by higher rates and volume, lower haulage costs and some lower gross margin customers rolling off contract.



**4.2.4 Power Development Operating EBIT:**  
**Decreased 104.3% to (\$0.4) million from \$9.4 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.

No development profits were recognised in the period compared with \$10.1 million in the prior corresponding period.

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

	<b>Half year ended 31 December 2012</b>	Half year ended 31 December 2011
	<b>\$m</b>	\$m
Hallett 4	-	4.8
Oaklands Hill	-	5.0
Other	-	0.3
<b>Total</b>	<b>-</b>	<b>10.1</b>

Development of the Macarthur wind farm in a joint venture with Meridian Energy continues with completion scheduled for the first half of 2013.

### 4.3 Upstream Gas Operating EBIT: Decreased to (\$2.5 million) from \$1.0 million

	Half year ended 31 December 2012 \$m	Half year ended 31 December 2011 \$m
<b>Statutory EBIT</b>	<b>(2.5)</b>	1.0
Significant items	-	-
<b>Operating EBIT</b>	<b>(2.5)</b>	1.0
Depreciation and amortisation	<b>11.8</b>	10.1
<b>Operating EBITDA</b>	<b>9.3</b>	11.1

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	
	Half year ended 31 December 2012 \$m	Half year ended 31 December 2011 \$m	Half year ended 31 December 2012 \$m	Half year ended 31 December 2011 \$m
Queensland/South Australia	1.3	4.2	7.7	9.2
New South Wales	0.5	1.0	5.6	5.4
Equity investments	-	(0.1)	-	(0.1)
Sundry	(4.3)	(4.1)	(4.0)	(3.4)
<b>Total Upstream Gas</b>	<b>(2.5)</b>	1.0	<b>9.3</b>	11.1

#### 4.3.1 Queensland/South Australia Operating EBIT: Decreased by 69.0% to \$1.3 million from \$4.2 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, conventional oil and gas interests in the Surat and Cooper/Eromanga Basins together with the Silver Springs gas storage project, the Galilee Basin and Spring Gully joint ventures and until 6 December 2011, AGL's interests in the Cooper Basin (Innamincka) joint venture.

Operating EBIT contribution from the combined MGP and NQE joint ventures was a loss of \$1.7 million compared with \$0.1 million in the prior corresponding period. Gas sales increased by 9.4% to 3.5 PJ compared with 3.2 PJ in the prior corresponding period as field development activity picked up and production recovered from the wet weather and water management constraints in the prior corresponding period. However, this improvement was more than offset by lower gas bank income.

Operating EBIT contribution from Silver Springs operations, including gas storage, was \$3.1 million compared with \$4.8 million in the prior corresponding period. Lower storage injection income, higher operating expenses and higher depreciation and amortisation costs were the main contributors to the decrease in Operating EBIT.

On 6 December 2011, AGL completed the sale of all its interests in PELs 101, 103 and 103A to Acer Energy for \$6 million. There was, therefore, no Operating EBIT contribution from these assets in the six months to 31 December 2012 compared with a loss of \$0.9 million for the prior corresponding period.

**4.3.2 New South Wales Operating EBIT:  
 Decreased 50.0% to \$0.5 million from \$1.0 million**

The NSW 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 \$0.5 million compared with \$1.0 million in the prior corresponding period. Gas sales decreased by 3.6% to 2.7 PJ compared with 2.8 PJ in the prior corresponding period. This, combined with higher well intervention costs and plant operating expenses, resulted in lower Operating EBIT.

**4.3.3 Equity Investments Operating EBIT:  
 Increased by 100.0% to nil from (\$0.1 million)**

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

**4.3.4 Sundry Operating EBIT:  
 Decreased 4.9% to (\$4.3 million) from (\$4.1 million)**

The Sundry category includes Upstream Gas overheads and non-core exploration interests in New Zealand.

**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:

<b>AGL share of operations</b>	<b>Half year ended 31 December 2012</b>	<b>Half year ended 31 December 2011</b>
<b>Gas sales volume (PJ)</b>		
Queensland/South Australia	3.5	3.2
New South Wales	2.7	2.8
Total gas sales volume	<b>6.2</b>	6.0
<b>Sales revenue (\$m)</b>		
Queensland/South Australia	10.2	7.4
New South Wales	10.2	10.4
Total sales revenue	<b>20.4</b>	17.8
Average gas price (\$/GJ)	<b>3.29</b>	2.97

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 in the table below:

AGL share of gas reserves (PJ)	31 December 2012		30 June 2012	
	2P	3P	2P	3P
Gloucester (100%)	669	832	669	832
Moranbah (50%)	307	511	376	862
Camden (100%)	140	186	142	189
Hunter (100%)	142	271	142	271
Silver Springs (various)	61	158	61	158
Spring Gully (various)	8	10	8	10
Sub-Total	1,327	1,968	1,398	2,322
ATP 1103 back-in rights (50%) <sup>(1)</sup>	904	2,151	768	1,660
<b>Total</b>	<b>2,231</b>	<b>4,119</b>	<b>2,166</b>	<b>3,982</b>

<sup>(1)</sup> 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.

AGL's combined 2P reserves entitlement, net of production over the half year, increased by 65 PJ (3.0%) to 2,231 PJ.

Gas reserves within the Moranbah Gas Project and ATP 1103 were reassessed by independent reserves auditor Netherland Sewell & Associates, Inc as at 31 December 2012. AGL's entitlement of 2P reserves within the Project and ATP combined increased by 67 PJ (5.9%) to 1,211 PJ as a result of exploration and appraisal activities during the past 12 months.

The fall in gas reserves at Camden was due solely to gas production during the half year.

The estimates of gas reserves shown in the table above were prepared in accordance with the definitions and guidelines set out in the 2007 Petroleum Resources Management System approved by the Society of Petroleum Engineers. The information was compiled by Andrew Falkner, a full-time employee of AGL, who is qualified in accordance with ASX Listing Rule 5.11 and has consented to the form and context in which this table appears.

AGL will undertake a full Annual Reserves Assessment at the end of the financial year as at 30 June 2013. Details of AGL's Annual Reserves Assessment as at 30 June 2012 were released to the ASX on 22 August 2012.

**4.4 Energy Investments Operating EBIT:  
 Increased 28.2% to \$15.9 million from \$12.4 million**

	Half year ended 31 December 2012 \$m	Half year ended 31 December 2011 \$m
Statutory EBIT	15.9	10.8
Finance income from Loy Yang investment	-	5.8
Change in fair value of financial instruments (Loy Yang)	-	(4.2)
<b>Operating EBIT</b>	<b>15.9</b>	<b>12.4</b>
Depreciation and amortisation	-	-
<b>Operating EBITDA</b>	<b>15.9</b>	<b>12.4</b>

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

	Half year ended 31 December 2012 \$m	Half year ended 31 December 2011 \$m
ActewAGL	15.9	17.3
Loy Yang	-	(4.9)
<b>Operating EBIT</b>	<b>15.9</b>	<b>12.4</b>

**4.4.1 ActewAGL (50% AGL Ownership) Operating EBIT:  
 Decreased 8.1% to \$15.9 million from \$17.3 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 \$15.9 million compared with \$17.3 million for the prior corresponding period. This decrease was driven mainly by lower electricity volumes compared with the prior corresponding period.

**4.4.2 Loy Yang Investment Operating EBIT:**

On 29 June 2012, AGL completed the acquisition of the remaining 67.46% of shares and loan notes issued by GEAC that it did not already own. As a result of the acquisition AGL now owns the 2,210 MW Loy Yang A power station and adjacent brown coal mine.

Upon acquisition AGL ceased equity accounting its former investment in GEAC and therefore no Operating EBIT contribution was recorded in the six months to 31 December 2012.

The Operating EBIT contribution from AGL's 100% ownership of GEAC has been included in the Merchant Energy operating result.

**4.4.3 Diamantina Power Station Joint Venture**

On 6 October 2011 AGL entered into a 50:50 joint venture with the APA Group (APA) to construct the 242 MW Diamantina Power Station in Mt Isa. The joint venture did not contribute to Operating EBIT for the half year ended 31 December 2012 or the prior corresponding period. On 20 December 2012, AGL and APA announced the completion of limited-recourse project financing.

#### 4.5 Centrally Managed Expenses: Increased 6.5% to \$91.4 million from \$85.8 million

	Half year ended 31 December 2012 \$m	Half year ended 31 December 2011 \$m
Statutory EBIT	(91.4)	(85.8)
Significant items	-	-
<b>Operating EBIT</b>	<b>(91.4)</b>	<b>(85.8)</b>
Depreciation and amortisation	9.6	7.0
<b>Operating EBITDA</b>	<b>(81.8)</b>	<b>(78.8)</b>

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.

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

	Half year ended 31 December 2012 \$m	Half year ended 31 December 2011 \$m
Labour	(28.9)	(25.8)
Office leases	(9.4)	(9.8)
Hardware and software costs	(29.0)	(26.8)
Consultants and contractor fees	(6.4)	(6.8)
Insurance premiums	(5.5)	(5.0)
Depreciation and amortisation	(9.6)	(7.0)
Other	(2.6)	(4.6)
Total	<b>(91.4)</b>	<b>(85.8)</b>

Labour costs increased 12.0% or \$3.1 million. Cash labour costs increased \$1.0 million largely in line with inflation with the remaining \$2.1 million increase driven by increases in provisions for long service leave and employee incentives.

Hardware and software development costs increased by \$2.2m driven by increased investment in IT platforms and infrastructure.

Depreciation and amortisation expenses increased by \$2.6 million driven by the commencement of depreciation on a number of IT related projects.

With the completion of the Loy Yang acquisition on 29 June 2012, there are a number of costs currently in the Loy Yang operating result (reported in Merchant Energy) that eventually will be reported under centrally managed expenses, including information technology, finance, human resources and other corporate functions. Whilst the transfer of these costs is not currently reflected in the centrally managed expenses result it is estimated that approximately \$1 - \$2 million of the increase in costs in centrally managed expenses is attributable to Loy Yang integration activity.

**5. Net Finance Costs**  
**Increased 369.5% to \$109.4 million from \$23.3 million**

	Half year ended 31 December 2012	Half year ended 31 December 2011
	\$m	\$m
Statutory finance costs	(130.4)	(37.3)
Statutory finance income	21.0	19.8
Remove finance income included in EBITDA	-	(5.8)
<b>Net financing costs</b>	<b>(109.4)</b>	<b>(23.3)</b>

Net financing costs increased by \$86.1 million to \$109.4 million for the half year compared with \$23.3 million in the prior corresponding period. The increase in net financing costs was mainly due to additional financing facilities associated with the Loy Yang acquisition completed on 29 June 2012. Average net debt increased to \$2,553.4 million compared with \$711.9 million for the prior corresponding period. The average net interest rate increased from 7.1% to 7.2%.

**6. Underlying Tax Expense**  
**Increased 24.9% to \$122.9 million from \$98.4 million**

	Half year ended 31 December 2012	Half year ended 31 December 2011
	\$m	\$m
Statutory income tax expense	(159.4)	(46.9)
Adjusted for:		
Income tax (benefit) / expense from fair value movements	36.5	(51.5)
<b>Underlying tax expense</b>	<b>(122.9)</b>	<b>(98.4)</b>

The underlying effective tax rate was 30.5% compared with 29.7% for the prior corresponding period.



## 7. Operating Cash Flow

Underlying operating cash flow before interest and tax increased 323.1% or \$492.4 million. The substantially higher underlying cash flow result was achieved due to a \$211.1 million increase in Operating EBITDA together with a working capital benefit from carbon of approximately \$175 million.

### 7.1 Reconciliation of Statutory Cash Flow to Underlying Operating Cash Flow before interest and tax

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.

	Half Year ended 31 December 2012 \$m	Half Year ended 31 December 2011 \$m
Statutory net cash provided by operating activities	364.8	27.8
Increase / (decrease) in futures margin calls	21.3	(19.6)
Increase / (decrease) in net green position	(54.1)	(15.2)
Unwind of carbon assistance received	120.0	-
Underlying Operating Cash Flow	452.0	(7.0)
Income tax paid	71.9	121.6
Net finance costs paid	120.9	37.8
<b>Underlying Operating Cash Flow before interest and tax</b>	<b>644.8</b>	<b>152.4</b>

#### 7.1.1 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 payment for the half year ended 31 December 2012 was \$21.3 million compared with a net receipt of \$19.6 million for the prior corresponding period.

#### 7.1.2 Net Green Position

AGL purchases various green products to satisfy its green compliance obligations. As at 31 December 2012, AGL had paid \$56.7 million for certificates relating to future obligations compared with \$110.8 million as at 30 June 2012, a net decrease of \$54.1 million.

#### 7.1.3 Carbon Transitional Assistance

Immediately prior to AGL's acquisition, GEAC received \$240 million of carbon transitional assistance in June 2012. This receipt was not recognised in underlying cash flow for the year ended 30 June 2012 as it was provided to partially offset the cost of carbon in the 2013 financial year. The underlying cash flow for the 6 months to 31 December 2012 therefore includes one-half (\$120 million) of the carbon transitional assistance.

## 7.2 Reconciliation of Operating EBITDA to Underlying Operating Cash Flow before interest and tax

The following table provides a reconciliation of Operating EBITDA to Operating Cash Flow before interest and tax

	Half year ended 31 December 2012	Half year ended 31 December 2011
	\$m	\$m
<b>Operating EBITDA</b>	<b>650.0</b>	438.9
Equity accounted income (net of dividend received)	<b>(2.9)</b>	8.0
Accounting for onerous contracts	<b>(26.4)</b>	(10.4)
Working capital movements		
(Increase) / decrease in receivables	<b>(194.3)</b>	(51.3)
(Increase) / decrease in inventories	<b>9.2</b>	(7.5)
Increase / (decrease) in creditors	<b>(77.4)</b>	(155.9)
Increase / (decrease) in carbon creditors	<b>295.5</b>	-
Net derivative premiums paid / roll-offs	<b>(13.6)</b>	(44.5)
Net movement in GST recoverable / payable	<b>17.3</b>	(4.4)
Other	<b>(12.6)</b>	(20.5)
<b>Underlying Operating Cash Flow before interest and tax</b>	<b>644.8</b>	152.4

The increase in receivables of \$194.3 million reflects the pass through of network price rises and carbon. The \$295.5 million increase in carbon creditors represents the accrual of AGL's direct carbon liability for the six months ended 31 December 2012.

## Directors in Office

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

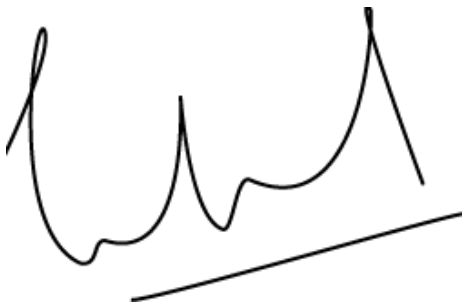
	<b><i>First Appointed</i></b>
Jeremy Charles Roy Maycock - Chairman	9 October 2006 (chairman since 21 October 2010)
Michael Anthony Fraser – Managing Director	22 October 2007
Maxwell Gilbert Ould	17 February 2006 (retired 23 October 2012)
Sandra Veronica McPhee	9 October 2006
Bruce John Phillips	23 August 2007
Leslie Victor Hosking	1 November 2008
John Victor Stanhope	9 March 2009
Belinda Jane Hutchinson	22 December 2010
Graeme Peter Hunt	1 September 2012

## 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.

## Auditor's Independence Declaration

The auditor's independence declaration is on page 52.



**Jeremy Maycock**  
**Chairman**

**AGL Energy Limited and Subsidiaries**  
**Condensed consolidated Statement of Profit or Loss**  
**For the half year ended 31 December 2012**

**Half year ended**  
**31 Dec 2012**    31 Dec 2011  
**\$m**                    \$m

	<b>Note</b>	<b>31 Dec 2012</b>	<b>31 Dec 2011</b>
		<b>\$m</b>	<b>\$m</b>
<b>Continuing operations</b>			
Revenue	3	<b>4,970.2</b>	3,615.3
Other income	4	<b>0.8</b>	-
Expenses	5	<b>(4,215.1)</b>	(3,360.5)
Share of profits of associates and jointly controlled entities accounted for using the equity method	11	<b>15.9</b>	10.9
Profit before net financing costs, depreciation and amortisation		<b>771.8</b>	265.7
Depreciation and amortisation	6	<b>(138.3)</b>	(84.3)
<b>Profit before net financing costs</b>		<b>633.5</b>	181.4
Finance income		<b>21.0</b>	19.8
Finance costs		<b>(130.4)</b>	(37.3)
<b>Net financing costs</b>	7	<b>(109.4)</b>	(17.5)
<b>Profit before tax</b>		<b>524.1</b>	163.9
Income tax expense	8	<b>(159.4)</b>	(46.9)
<b>Profit for the period attributable to owners of AGL Energy Limited</b>		<b>364.7</b>	117.0

**Statutory earnings per share <sup>(a)</sup>**

Basic earnings per share	15	<b>66.5 cents</b>	24.5 cents
Diluted earnings per share	15	<b>66.5 cents</b>	24.5 cents

(a) The comparative earnings per share for the half year ended 31 December 2011 have been restated for the bonus element of the one-for-six share rights issue undertaken in June 2012; refer Note 15 for further details.

Notes to the condensed consolidated financial statements are included on pages 33 to 50.

**AGL Energy Limited and Subsidiaries**  
**Condensed consolidated Statement of Comprehensive Income**  
**For the half year ended 31 December 2012**

**Half year ended**  
**31 Dec 2012**    31 Dec 2011  
**\$m**                    \$m

<b>Profit for the period</b>	<b>364.7</b>	117.0
<b>Other comprehensive income</b>		
<i>Items that will not be reclassified subsequently to profit or loss</i>		
Actuarial gain/(loss) on defined benefit plans	<b>28.0</b>	(39.1)
Income tax relating to items that will not be reclassified subsequently	<b>(8.4)</b>	11.7
	<b>19.6</b>	(27.4)
<i>Items that may be reclassified subsequently to profit or loss</i>		
Cash flow hedges		
(Loss)/gain in fair value of cash flow hedges	<b>(27.8)</b>	41.9
Reclassification adjustments transferred to profit or loss	<b>(49.0)</b>	123.7
Reclassification adjustments transferred to the initial carrying amounts of hedged items	<b>7.1</b>	14.3
Available-for-sale financial assets		
Gain on revaluation of available-for-sale financial assets	<b>0.1</b>	0.1
Share of other comprehensive income of associates	<b>-</b>	(58.9)
Income tax relating to items that may be reclassified subsequently	<b>20.9</b>	(54.0)
	<b>(48.7)</b>	67.1
<b>Other comprehensive income for the period, net of income tax</b>	<b>(29.1)</b>	39.7
<b>Total comprehensive income for the period attributable to owners of AGL Energy Limited</b>	<b>335.6</b>	156.7

Notes to the condensed consolidated financial statements are included on pages 33 to 50.

**AGL Energy Limited and Subsidiaries**  
**Condensed consolidated Statement of Financial Position**  
**As at 31 December 2012**

		As at	
	Note	31 Dec 2012	30 June 2012
		\$m	\$m
<b>Current assets</b>			
Cash and cash equivalents		654.7	1,812.9
Trade and other receivables		1,810.4	1,531.4
Inventories		174.0	185.4
Other financial assets		130.1	295.6
Other assets		369.5	306.6
<b>Total current assets</b>		<b>3,138.7</b>	4,131.9
<b>Non-current assets</b>			
Investments accounted for using the equity method		34.5	31.6
Exploration and evaluation assets		666.4	654.0
Oil and gas assets		511.7	483.8
Property, plant and equipment		5,168.0	5,185.7
Intangible assets		3,169.4	3,172.0
Deferred tax assets		812.4	611.1
Other financial assets		457.3	431.6
Other assets		33.8	36.7
<b>Total non-current assets</b>		<b>10,853.5</b>	10,606.5
<b>Total assets</b>		<b>13,992.2</b>	14,738.4
<b>Current liabilities</b>			
Trade and other payables		1,589.3	1,158.4
Borrowings	13	46.6	616.0
Provisions		120.3	132.3
Current tax liabilities		16.1	11.0
Other financial liabilities		308.8	441.8
Other liabilities		128.3	250.3
<b>Total current liabilities</b>		<b>2,209.4</b>	2,609.8
<b>Non-current liabilities</b>			
Borrowings	13	3,207.3	3,696.0
Provisions		269.5	265.8
Deferred tax liabilities		399.8	349.0
Other financial liabilities		334.0	436.3
Other liabilities		218.4	248.6
<b>Total non-current liabilities</b>		<b>4,429.0</b>	4,995.7
<b>Total liabilities</b>		<b>6,638.4</b>	7,605.5
<b>Net assets</b>		<b>7,353.8</b>	7,132.9
<b>Equity</b>			
Issued capital	14	5,289.7	5,227.3
Reserves		(28.9)	22.0
Retained earnings		2,093.0	1,883.6
<b>Total equity attributable to owners of AGL Energy Limited</b>		<b>7,353.8</b>	7,132.9

Notes to the condensed consolidated financial statements are included on pages 33 to 50.

**AGL Energy Limited and Subsidiaries**  
**Condensed consolidated Statement of Changes in Equity**  
**For the half year ended 31 December 2012**

**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
<b>Balance at 1 July 2012</b>	<b>5,227.3</b>	-	<b>2.6</b>	<b>19.4</b>	-	<b>1,883.6</b>	<b>7,132.9</b>
Profit for the period	-	-	-	-	-	<b>364.7</b>	<b>364.7</b>
Other comprehensive income for the period	-	<b>0.1</b>	-	<b>(48.8)</b>	-	<b>19.6</b>	<b>(29.1)</b>
<b>Total comprehensive income for the period</b>	-	<b>0.1</b>	-	<b>(48.8)</b>	-	<b>384.3</b>	<b>335.6</b>
<b>Transactions with owners in their capacity as owners:</b>							
Issue of ordinary shares under AGL Dividend Reinvestment Plan	<b>62.4</b>	-	-	-	-	-	<b>62.4</b>
Payment of dividends	-	-	-	-	-	<b>(174.9)</b>	<b>(174.9)</b>
Share-based payments	-	-	<b>(2.2)</b>	-	-	-	<b>(2.2)</b>
<b>Balance at 31 December 2012</b>	<b>5,289.7</b>	<b>0.1</b>	<b>0.4</b>	<b>(29.4)</b>	-	<b>2,093.0</b>	<b>7,353.8</b>
<b>Balance at 1 July 2011</b>	4,244.6	-	0.6	(97.3)	(0.4)	2,194.0	6,341.5
Profit for the period	-	-	-	-	-	117.0	117.0
Other comprehensive income for the period	-	0.1	-	84.1	-	(44.5)	39.7
<b>Total comprehensive income for the period</b>	-	0.1	-	84.1	-	72.5	156.7
<b>Transactions with owners in their capacity as owners:</b>							
Issue of ordinary shares under AGL Dividend Reinvestment Plan	46.8	-	-	-	-	-	46.8
Payment of dividends	-	-	-	-	-	(143.2)	(143.2)
Share-based payments	-	-	(1.9)	-	-	-	(1.9)
<b>Balance at 31 December 2011</b>	4,291.4	0.1	(1.3)	(13.2)	(0.4)	2,123.3	6,399.9

Notes to the condensed consolidated financial statements are included on pages 33 to 50.

**AGL Energy Limited and Subsidiaries**  
**Condensed consolidated Statement of Cash Flows**  
**For the half year ended 31 December 2012**

	Note	Half year ended	
		31 Dec 2012	31 Dec 2011
		\$m	\$m
<b>Cash flows from operating activities</b>			
Receipts from customers		5,612.2	4,368.1
Payments to suppliers and employees		(5,067.6)	(4,195.6)
Dividends received		13.0	14.7
Finance income received		26.8	16.1
Finance costs paid		(147.7)	(53.9)
Income taxes paid		(71.9)	(121.6)
<b>Net cash provided by operating activities</b>		<b>364.8</b>	<b>27.8</b>
<b>Cash flows from investing activities</b>			
Payments for property, plant and equipment		(241.8)	(289.9)
Payments for exploration and evaluation assets		(15.4)	(23.7)
Payments for oil and gas assets		(21.7)	(29.8)
Payments for interest acquired in a jointly controlled entity		-	(1.6)
Payments for investment securities		-	(0.1)
Payments for intangible assets		(19.0)	(21.8)
Payments for businesses and subsidiaries, net of cash acquired			
acquisitions in current period	18	-	(10.8)
acquisitions in prior period	18	(3.1)	-
Proceeds from sale of property, plant and equipment		0.9	0.2
Proceeds from sale of exploration and evaluation assets		2.9	9.0
Proceeds from sale of oil and gas assets		-	0.1
Loans advanced to related parties		(72.1)	(25.1)
Proceeds from repayment of related party loans		165.4	0.2
<b>Net cash used in investing activities</b>		<b>(203.9)</b>	<b>(393.3)</b>
<b>Cash flows from financing activities</b>			
On-market share purchases		(5.8)	(4.4)
Proceeds from borrowings		235.0	930.0
Repayment of borrowings		(1,330.6)	(1,016.5)
Payments for settlement of derivative financial instruments		(105.2)	-
Dividends paid	9	(112.5)	(96.4)
<b>Net cash used in financing activities</b>		<b>(1,319.1)</b>	<b>(187.3)</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(1,158.2)</b>	<b>(552.8)</b>
Cash and cash equivalents at the beginning of the period		1,812.9	753.1
<b>Cash and cash equivalents at the end of the period</b>	16	<b>654.7</b>	<b>200.3</b>

Notes to the condensed consolidated financial statements are included on pages 33 to 50.



**AGL Energy Limited and Subsidiaries**  
**Notes to the condensed consolidated Financial Statements**  
**For the half year ended 31 December 2012**

**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 half year financial report includes the condensed consolidated financial statements which comprise the Parent Entity and its subsidiaries (together referred to as the consolidated entity).

**(a) Statement of compliance**

The half year financial report is a general purpose financial report which has been prepared in accordance with the Corporations Act 2001 and AASB 134 *Interim Financial Reporting* (AASB 134). Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*.

The half year financial report does not include notes of the type normally included in an annual financial report and should be read in conjunction with the most recent annual financial report.

**(b) Basis of preparation**

The condensed consolidated financial statements have been prepared on the basis of historical cost, except for derivative financial instruments and available-for-sale financial assets, which are measured at fair value. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

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

The accounting policies and methods of computations adopted in the preparation of the half year financial report are consistent with those adopted and disclosed in the consolidated entity's 2012 annual financial report for the year ended 30 June 2012, except for the impact of the Standards and Interpretations described below. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

**(c) Adoption of new and revised standards**

The consolidated entity has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board that are relevant to its operations and effective for the current half year.

New and revised Standards and amendments thereof and Interpretations effective for the current half year that are relevant to the consolidated entity include:

- Amendments to AASB 1, 5, 7, 101, 112, 120, 121, 132, 133 and 134 as a consequence of AASB 2011-9 *Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income*

The adoption of all the new and revised Standards and Interpretations has not resulted in any changes to the consolidated entity's accounting policies and has no effect on the amounts reported for the current or prior half years. However, the application of AASB 2011-9 has resulted in changes to the consolidated entity's presentation of, or disclosure in, its half year financial statements.

AASB 2011-9 introduces new terminology for the income statement. Under the amendments to AASB 101, the income statement is renamed as a statement of profit or loss. The amendments to AASB 101 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements.

However, the amendments to AASB 101 require items of other comprehensive income to be grouped into two categories in the other comprehensive income section: (a) items that will not be reclassified subsequently to profit or loss and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis – the amendments do not change the option to present items of other comprehensive income either before tax or net of tax. The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes. Other than the above mentioned presentation changes, the application of the amendments to AASB 101 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

**AGL Energy Limited and Subsidiaries**  
**Notes to the condensed consolidated Financial Statements**  
**For the half year ended 31 December 2012**

**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.

Segment results are reported according to the internal management reporting structure at the reporting date.

The consolidated entity has four reportable operating segments as follows:

- **Retail Energy** is responsible for selling natural gas, electricity and energy-related products and services to residential and small business customers.
- **Merchant Energy** is responsible for developing, operating and maintaining power generation assets and managing the risks associated with the procurement and delivery of gas and electricity for its wholesale portfolio and for the Retail Energy segment. Merchant Energy also sells natural gas and electricity to business customers and provides energy efficiency and carbon management services. Merchant Energy is also now responsible for managing and maintaining the Loy Yang A power station and adjacent brown coal mine.
- **Upstream Gas** is responsible for investments and operations in gas exploration, development and production tenements, development and operation of gas storage facilities, as well as for exploration and development of geothermal renewable energy sources.
- **Energy Investments** includes equity accounted investments in the ActewAGL Retail Partnership and Diamantina Holding Company Pty Limited. The equity accounted investment in Great Energy Alliance Corporation Pty Limited (GEAC) was also included in this segment up until 29 June 2012, when AGL completed the acquisition of GEAC, increasing its ownership from 32.54% to 100%. GEAC owns the Loy Yang A power station and adjacent brown coal mine which are now reported in the Merchant Energy operating segment.

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

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

**Segment financial results**

The measurement of segment results is in line with the basis of information presented to the Board of Directors for internal management reporting purposes. The performance of each segment is measured based on their 'Operating EBIT contribution' to the consolidated entity. Certain items of income and expense are excluded from the segment results to show a measure of underlying performance. These items include changes in fair value of financial instruments and significant items.

Transfer prices between operating segments are on an arm's-length basis in a manner similar to transactions with third parties. Inter-segment revenue is eliminated on consolidation.

The accounting policies of the reportable segments are the same as the consolidated entity's accounting policies.

Information regarding the consolidated entity's reportable segments is presented below.

**AGL Energy Limited and Subsidiaries**  
**Notes to the condensed consolidated Financial Statements**  
**For the half year ended 31 December 2012**

**Note 2 - Segment information (cont'd)**

	Retail Energy \$m	Merchant Energy \$m	Upstream Gas \$m	Energy Investments \$m	Other \$m	Total \$m
<b>Half year ended 31 December 2012</b>						
<b>Revenue</b>						
Total segment revenue	2,509.1	3,569.3	39.9	-	0.1	6,118.4
Inter-segment revenue	-	(1,133.3)	(14.9)	-	-	(1,148.2)
<b>External revenue</b>	<b>2,509.1</b>	<b>2,436.0</b>	<b>25.0</b>	<b>-</b>	<b>0.1</b>	<b>4,970.2</b>
<b>Earnings before interest, tax, depreciation and amortisation (EBITDA)</b>						
	170.9	535.7	9.3	15.9	(81.8)	650.0
Depreciation and amortisation	(34.5)	(82.4)	(11.8)	-	(9.6)	(138.3)
<b>Operating EBIT</b>	<b>136.4</b>	<b>453.3</b>	<b>(2.5)</b>	<b>15.9</b>	<b>(91.4)</b>	<b>511.7</b>
Net financing costs						(109.4)
Underlying profit before income tax						402.3
Income tax expense						(122.9)
<b>Underlying profit</b>						<b>279.4</b>
<b>Other segment information</b>						
Share of profits of associates and jointly controlled entities	-	-	-	15.9	-	15.9
Additions to non-current assets	41.7	18.0	88.3	-	10.8	158.8
<b>Half year ended 31 December 2011</b>						
<b>Revenue</b>						
Total segment revenue	2,027.2	2,411.0	41.7	-	0.1	4,480.0
Inter-segment revenue	-	(849.5)	(15.2)	-	-	(864.7)
<b>External revenue</b>	<b>2,027.2</b>	<b>1,561.5</b>	<b>26.5</b>	<b>-</b>	<b>0.1</b>	<b>3,615.3</b>
<b>Earnings before interest, tax, depreciation and amortisation (EBITDA)</b>						
	206.5	287.7	11.1	12.4	(78.8)	438.9
Depreciation and amortisation	(28.3)	(38.9)	(10.1)	-	(7.0)	(84.3)
<b>Operating EBIT</b>	<b>178.2</b>	<b>248.8</b>	<b>1.0</b>	<b>12.4</b>	<b>(85.8)</b>	<b>354.6</b>
Net financing costs						(23.3)
Underlying profit before income tax						331.3
Income tax expense						(98.4)
<b>Underlying profit</b>						<b>232.9</b>
<b>Other segment information</b>						
Share of profits of associates and jointly controlled entities	-	-	0.1	10.8	-	10.9
Additions to non-current assets	52.9	224.7	79.8	-	9.2	366.6
<b>Segment assets</b>						
As at 31 December 2012	3,553.6	6,860.0	1,433.6	30.2	110.1	11,987.5
As at 30 June 2012	3,455.0	6,656.8	1,360.4	116.9	116.1	11,705.2
<b>Segment liabilities</b>						
As at 31 December 2012	415.1	1,679.3	110.2	-	121.2	2,325.8
As at 30 June 2012	424.1	1,392.9	101.9	-	136.5	2,055.4



**AGL Energy Limited and Subsidiaries**  
**Notes to the condensed consolidated Financial Statements**  
**For the half year ended 31 December 2012**

**Note 2 - Segment information (cont'd)**

	<b>Half year ended</b>	
	<b>31 Dec 2012</b>	31 Dec 2011
	\$m	\$m
<b>Segment revenue reconciliation to the statement of profit or loss</b>		
Reconciliation of segment revenue to total revenue is as follows:		
Total segment revenue for reportable segments	<b>6,118.3</b>	4,479.9
Elimination of inter-segment revenue	<b>(1,148.2)</b>	(864.7)
Total revenue for reportable segments	<b>4,970.1</b>	3,615.2
Other	<b>0.1</b>	0.1
<b>Total revenue</b>	<b>4,970.2</b>	3,615.3

**Revenue from major products and services**

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

Electricity	<b>2,959.3</b>	2,421.2
Gas	<b>1,157.7</b>	955.8
Generation sales to pool	<b>629.0</b>	102.6
Coal	<b>34.7</b>	-
Oil	<b>1.7</b>	1.7
Wind farm development fees	-	10.1
Green commodities scheme certificates	<b>108.3</b>	61.6
Management fees	<b>5.0</b>	6.3
Other goods and services revenue	<b>73.9</b>	54.8
Other revenue	<b>0.6</b>	1.2
<b>Total revenue</b>	<b>4,970.2</b>	3,615.3

**Segment Operating EBIT reconciliation to the statement of profit or loss**

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

Operating EBIT for reportable segments	<b>603.1</b>	440.4
Other	<b>(91.4)</b>	(85.8)
	<b>511.7</b>	354.6
Amounts excluded from underlying results:		
- gain/(loss) in fair value of financial instruments	<b>121.8</b>	(167.4)
Finance income included in Operating EBIT	-	(5.8)
Finance income	<b>21.0</b>	19.8
Finance costs	<b>(130.4)</b>	(37.3)
<b>Profit before tax</b>	<b>524.1</b>	163.9

**AGL Energy Limited and Subsidiaries**  
**Notes to the condensed consolidated Financial Statements**  
**For the half year ended 31 December 2012**



**Note 2 - Segment information (cont'd)**

	<b>As at</b>	
	<b>31 Dec 2012</b>	30 June 2012
	\$m	\$m
<b>Segment assets reconciliation to the statement of financial position</b>		
Reconciliation of segment assets to total assets is as follows:		
Segment assets for reportable segments	<b>11,877.4</b>	11,589.1
Other	<b>110.1</b>	116.1
	<b>11,987.5</b>	11,705.2
Cash and cash equivalents	<b>654.7</b>	1,812.9
Deferred tax assets	<b>812.4</b>	611.1
Derivative financial instruments	<b>537.6</b>	609.2
<b>Total assets</b>	<b>13,992.2</b>	14,738.4
<b>Segment liabilities reconciliation to the statement of financial position</b>		
Reconciliation of segment liabilities to total liabilities is as follows:		
Segment liabilities for reportable segments	<b>2,204.6</b>	1,918.9
Other	<b>121.2</b>	136.5
	<b>2,325.8</b>	2,055.4
Borrowings	<b>3,253.9</b>	4,312.0
Current tax liabilities	<b>16.1</b>	11.0
Deferred tax liabilities	<b>399.8</b>	349.0
Derivative financial instruments	<b>379.7</b>	625.4
Deferred and contingent consideration liabilities	<b>263.1</b>	252.7
<b>Total liabilities</b>	<b>6,638.4</b>	7,605.5

**AGL Energy Limited and Subsidiaries**  
**Notes to the condensed consolidated Financial Statements**  
**For the half year ended 31 December 2012**

**Half year ended**  
**31 Dec 2012**    31 Dec 2011  
**\$m**                    \$m

**Note 3 - Revenue**

Revenue from sale of goods	<b>4,894.7</b>	3,547.6
Revenue from rendering of services	<b>74.9</b>	66.5
Other revenue		
Royalties	<b>0.4</b>	1.2
Rental income	<b>0.2</b>	-
	<b>4,970.2</b>	3,615.3

**Note 4 - Other income**

Net gain on disposal of property, plant and equipment	<b>0.8</b>	-
	<b>0.8</b>	-

**Note 5 - Expenses**

Cost of sales	<b>3,836.8</b>	2,870.0
Administration expenses	<b>102.8</b>	81.0
Employee benefits expense	<b>257.9</b>	173.4
Other expenses		
(Gain)/loss in fair value of financial instruments	<b>(121.8)</b>	167.4
Impairment loss on trade receivables (net of bad debts recovered)	<b>36.5</b>	27.6
Net loss on disposal of exploration and evaluation assets	<b>0.1</b>	1.1
Net loss on disposal of property, plant and equipment	<b>-</b>	0.1
Operating lease rental expenses	<b>10.6</b>	11.0
Other	<b>92.2</b>	28.9
	<b>4,215.1</b>	3,360.5

**Note 6 - Depreciation and amortisation**

Property, plant and equipment	<b>104.4</b>	57.9
Oil and gas assets	<b>9.4</b>	7.9
Intangible assets	<b>21.6</b>	15.6
Other	<b>2.9</b>	2.9
	<b>138.3</b>	84.3

**AGL Energy Limited and Subsidiaries**  
**Notes to the condensed consolidated Financial Statements**  
**For the half year ended 31 December 2012**

**Half year ended**  
**31 Dec 2012**    31 Dec 2011  
**\$m**                      \$m

**Note 7 - Net financing costs**

**Finance income**

Interest income		
Associates and jointly controlled entities	<b>3.6</b>	6.1
Other entities	<b>17.4</b>	13.7
	<b>21.0</b>	19.8

**Finance costs**

Interest expense		
Other entities	<b>123.9</b>	39.6
Less finance costs capitalised	<b>(20.6)</b>	(10.3)
Unwinding of discounts on provisions	<b>9.3</b>	5.4
Unwinding of discount on deferred and contingent consideration	<b>13.5</b>	-
Other finance costs	<b>4.3</b>	2.6
	<b>130.4</b>	37.3
Net financing costs	<b>109.4</b>	17.5

**Note 8 - 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:

Profit before tax	<b>524.1</b>	163.9
Income tax expense calculated at the Australian tax rate of 30% (Dec 2011: 30%)	<b>157.2</b>	49.2
Non-deductible expenses	<b>1.7</b>	2.9
Share of profits of associates and jointly controlled entities	<b>0.5</b>	2.0
Adjustments in relation to current tax of prior years	<b>-</b>	(7.2)
<b>Income tax recognised in the statement of profit or loss</b>	<b>159.4</b>	46.9

**AGL Energy Limited and Subsidiaries**  
**Notes to the condensed consolidated Financial Statements**  
**For the half year ended 31 December 2012**

**Half year ended**  
**31 Dec 2012**    31 Dec 2011  
**\$m**                    \$m

**Note 9 - Dividends**

**Recognised amounts**

*Final dividend*

Final dividend for 2012 of 32.0 cents per share, fully franked at 30%, paid 27 September 2012 (Dec 2011: Final dividend for 2011 of 31.0 cents per share, fully franked at 30%, paid 29 September 2011)

**174.9**                    143.2

**Total dividends**

**174.9**                    143.2

Dividends satisfied by the issue of shares under the AGL Dividend Reinvestment Plan (Note 14)

**(62.4)**                    (46.8)

**Dividends paid as per the statement of cash flows**

**112.5**                    96.4

**Unrecognised amounts**

Since the end of the financial period, the Directors have declared an interim dividend for 2013 of 30.0 cents per share, fully franked at 30%, (Dec 2011: 29.0 cents fully franked), payable 4 April 2013.

**165.1**                    134.7

The financial effect of this dividend has not been recognised as a liability in this financial report but will be brought to account in subsequent financial reports.

**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 14 March 2013.

**As at**  
**31 Dec 2012**    30 June 2012  
**\$**                    \$

**Note 10 - Net tangible asset backing**

Net tangible asset backing per ordinary share                    **7.61**                    7.26

Net tangible assets are defined as net assets of the consolidated entity less intangible assets. The number of AGL shares on issue at the end of the reporting period was 550.2 million (June 2012: 545.9 million).



**AGL Energy Limited and Subsidiaries**  
**Notes to the condensed consolidated Financial Statements**  
**For the half year ended 31 December 2012**

**Note 11 - Interests in associates, jointly controlled entities and jointly controlled operations and assets**

Name of entity	Ownership interest		Contribution to net profit	
	As at		Half year ended	
	31 Dec 2012	31 Dec 2011	31 Dec 2012	31 Dec 2011
	%	%	\$m	\$m
<b>Associates</b>				
Great Energy Alliance Corporation Pty Limited (a)	-	32.54	-	(6.5)
CSM Energy Limited	35.0	35.0	-	(0.1)
<b>Jointly controlled entities</b>				
ActewAGL Retail Partnership	50.0	50.0	15.9	17.3
Energy Infrastructure Management Pty Ltd	50.0	50.0	-	0.2
Central Queensland Pipeline Pty Ltd	50.0	50.0	-	-
Diamantina Holding Company Pty Limited	50.0	50.0	-	-
			<b>15.9</b>	<b>10.9</b>

(a) On 29 June 2012, the consolidated entity completed the acquisition of Great Energy Alliance Corporation Pty Limited, increasing its ownership from 32.54% to 100%.

Jointly controlled operations and assets	Interest	
	31 Dec 2012	31 Dec 2011
	%	%
<b>Bowen Basin - Queensland</b>		
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
<b>Galilee Basin - Queensland</b>		
Galilee Gas Project - ATP 529P	50.0	50.0
<b>Surat Basin - Queensland</b>		
ATP 471P (Bainbilla Block)	75.3	75.3
ATP 471P (Spring Grove #2 sole risk)	52.8	52.8
ATP 471P (Weribone)	28.7	28.7
PL 1 (Cabawin)	15.0	15.0
PL 30 (Riverslea)	10.0	10.0
PL 74 (Major)	16.0	16.0
PL 441 (Downlands) (a)	-	75.3
<b>Cooper / Eromanga Basin - Queensland</b>		
ATP 934P (under application)	20.0	20.0
ATP 1056P	40.0	40.0
<b>Taranaki Basin - New Zealand</b>		
PEP 51149 (a)	-	18.6
PEP 52181 (a)	-	15.0
PEP 53247	75.0	75.0
<b>Others</b>		
North Queensland Energy Joint Venture	50.0	50.0
Macarthur Wind Farm Joint Venture	50.0	50.0
Lytton Joint Venture - Crude oil terminal	33.3	33.3

(a) Interest disposed during the half year.

**AGL Energy Limited and Subsidiaries**  
**Notes to the condensed consolidated Financial Statements**  
**For the half year ended 31 December 2012**

	<b>As at</b>	
	<b>31 Dec 2012</b>	31 Dec 2011
	\$m	\$m
<b>Note 12 - Intangible assets - Goodwill</b>		
Balance at 1 July, net of accumulated impairment	<b>2,639.7</b>	<b>2,624.8</b>
Acquisitions through business combinations (Note 18)	-	<b>14.9</b>
Impairment loss	-	-
<b>Balance at 31 December, net of accumulated impairment</b>	<b>2,639.7</b>	<b>2,639.7</b>
<b>Balance at 1 July</b>		
Cost (gross carrying amount)	<b>2,639.7</b>	<b>2,624.8</b>
Accumulated impairment losses	-	-
<b>Net carrying amount</b>	<b>2,639.7</b>	<b>2,624.8</b>
<b>Balance at 31 December</b>		
Cost (gross carrying amount)	<b>2,639.7</b>	<b>2,639.7</b>
Accumulated impairment losses	-	-
<b>Net carrying amount</b>	<b>2,639.7</b>	<b>2,639.7</b>

**AGL Energy Limited and Subsidiaries**  
**Notes to the condensed consolidated Financial Statements**  
**For the half year ended 31 December 2012**

**As at**  
**31 Dec 2012**    30 June 2012  
**\$m**                    \$m

**Note 13 - Borrowings**

**Current**

Bank loans - secured	<b>39.5</b>	614.5
Finance lease liabilities - secured	<b>1.5</b>	1.5
Other loans - unsecured	<b>5.6</b>	-
	<b>46.6</b>	616.0

**Non-current**

USD senior notes - unsecured	<b>329.7</b>	337.5
Subordinated notes - unsecured	<b>650.0</b>	650.0
Bank loans - secured	<b>1,439.9</b>	1,835.8
Bank loans - unsecured	<b>600.0</b>	750.0
Other loans - unsecured	<b>194.4</b>	150.0
Finance lease liabilities - secured	<b>14.5</b>	14.5
Deferred borrowing costs	<b>(21.2)</b>	(41.8)
	<b>3,207.3</b>	3,696.0
<b>Total borrowings</b>	<b>3,253.9</b>	4,312.0

**Bank loans - secured**

On 13 August 2013, the consolidated entity repaid \$978.1 million of Loy Yang A secured debt assumed at the date of acquisition of Great Energy Alliance Corporation Pty Limited.

**Note 14 - Issued capital**

	<b>As at</b>			
	<b>31 Dec 2012</b>		<b>30 June 2012</b>	
	<b>Number of shares</b>	<b>\$m</b>	Number of shares	\$m
<b>Movement in fully paid ordinary shares</b>				
Balance at beginning of financial year	<b>545,861,083</b>	<b>5,227.3</b>	461,311,732	4,244.6
Shares issued under AGL Dividend Reinvestment Plan (a)	<b>4,307,848</b>	<b>62.4</b>	6,505,209	92.4
Shares issued under the institutional and retail rights offers	-	-	78,044,142	905.3
Transaction costs relating to the institutional and retail rights offers		-		(21.5)
Deferred tax credit recognised directly in equity		-		6.5
Balance at end of financial period	<b>550,168,931</b>	<b>5,289.7</b>	545,861,083	5,227.3

(a) On 27 September 2012, 4,307,848 ordinary shares were issued at \$14.49 per share to participating shareholders under the AGL Dividend Reinvestment Plan.

**AGL Energy Limited and Subsidiaries**  
**Notes to the condensed consolidated Financial Statements**  
**For the half year ended 31 December 2012**

**Half year ended**  
Restated (a)  
**31 Dec 2012**      31 Dec 2011

**Note 15 - Earnings per share (EPS)**

**Statutory earnings per share**

Basic earnings per share	<b>66.5 cents</b>	24.5 cents
Diluted earnings per share	<b>66.5 cents</b>	24.5 cents

**Underlying earnings per share**

Basic earnings per share	<b>51.0 cents</b>	48.7 cents
Diluted earnings per share	<b>50.9 cents</b>	48.7 cents

**31 Dec 2012**      31 Dec 2011  
**\$m**                      \$m

**Earnings used in calculating basic and diluted earnings per share**

Profit for the period attributable to owners of AGL Energy Limited	<b>364.7</b>	117.0
<b>Statutory earnings used to calculate basic and diluted EPS</b>	<b>364.7</b>	117.0
(Gain)/loss in fair value of financial instruments after income tax	<b>(85.3)</b>	115.9
<b>Underlying earnings used to calculate basic and diluted EPS</b>	<b>279.4</b>	232.9

**31 Dec 2012**      Restated (a)  
**Number**              31 Dec 2011  
**Number**              Number

**Weighted average number of ordinary shares**

Number of ordinary shares used in the calculation of basic EPS pre adjusting for bonus element of the rights issue	<b>548,108,656</b>	462,993,480
Bonus element of the rights issue	-	15,237,115
<b>Number of ordinary shares used in the calculation of basic EPS</b>	<b>548,108,656</b>	478,230,595
Effect of dilution - LTIP share performance rights	<b>498,865</b>	164,182
<b>Number of ordinary shares used in the calculation of diluted EPS</b>	<b>548,607,521</b>	478,394,777

(a) In accordance with AASB 133 *Earnings per Share*, the comparative earnings per share calculations for the half year ended 31 December 2011 have been restated for the bonus element of the one-for-six share rights issue undertaken in June 2012. The previously reported 31 December 2011 weighted average number of shares has been adjusted by a factor of 1.0329 being the market price of one ordinary share at the close of the last day at which the shares traded together with the rights of \$14.93, divided by the theoretical ex-rights price per share of \$14.45.

**AGL Energy Limited and Subsidiaries**  
**Notes to the condensed consolidated Financial Statements**  
**For the half year ended 31 December 2012**

Half year ended

**31 Dec 2012**      31 Dec 2011  
**\$m**                      \$m

**Note 16 - Cash flow information**

**Reconciliation of cash and cash equivalents**

For the purpose of the condensed consolidated statement of cash flows, cash and cash equivalents are comprised of the following:

Cash at bank and on hand	<b>382.9</b>	174.1
Short-term deposits	<b>271.8</b>	26.2
	<b>654.7</b>	200.3

**Non-cash financing and investing activities**

Dividends satisfied by the issue of shares under the AGL

Dividend Reinvestment Plan (Note 14)	<b>62.4</b>	46.8
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**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) On 29 June 2012, AGL completed the acquisition of the remaining 67.46% of shares and loan notes issued by Great Energy Alliance Corporation Pty Ltd (GEAC) that it did not already own. AGL received external advice that GEAC was not land rich for the purposes of Section 71 of the Duties Act 2000 (Vic) at the time of the acquisition. On this basis, AGL lodged submissions with the Victorian State Revenue Office (SRO) claiming that there should be no liability for stamp duty in relation to the acquisition.
- On 30 November 2012, the SRO responded to AGL's submissions stating that it believes that the GEAC acquisition was land rich and therefore stamp duty of approximately \$82.0 million is payable. AGL is still in discussions with the SRO to resolve this matter in a timely manner.
- AGL has paid \$17.0 million to the SRO with the agreed purpose of mitigating penalties and interest in the event that AGL is deemed liable for stamp duty. As at 31 December 2012, the \$17.0 million payment has been recorded as a receivable in the statement of financial position.
- (b) The consolidated entity has various contingent liabilities arising in connection with the sale of certain subsidiaries and a jointly controlled entity. Under the various sale agreements the consolidated entity has given warranties and indemnities in relation to tax related matters, environmental and other specific liabilities.
- (c) 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 31 December 2012 are expected to arise.
- (d) Certain entities in the consolidated entity are party to various other legal actions and claims which have arisen in the ordinary course of business. Any liabilities arising from such legal actions and claims are not expected to have a material adverse effect on the consolidated entity.

**AGL Energy Limited and Subsidiaries**  
**Notes to the condensed consolidated Financial Statements**  
**For the half year ended 31 December 2012**

**Note 18 - Acquisition of subsidiaries and businesses**

**Half year ended 31 December 2012**

There were no acquisitions made during the half year ended 31 December 2012.

**Half year ended 31 December 2011**

**Acquisition of EKO Energy solar business**

On 25 July 2011, the consolidated entity acquired the Victorian based solar photovoltaic business, EKO Energy, from the privately owned company, Rezeko Pty Ltd. The consideration paid comprised cash of \$10.8 million and contingent consideration payable of \$4.3 million.

EKO Energy specialises in solar systems, from design through to installation, for both residential and commercial properties in Victoria, South Australia, Queensland and New South Wales.

Acquisition-related costs amounting to \$0.6 million were excluded from the consideration paid and were recognised as an expense in the half year ended 31 December 2011, within the 'other expenses' line item in the income statement.

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

<b>Assets acquired and liabilities assumed</b>	<b>EKO Energy \$m</b>
<b>Assets</b>	
Property, plant and equipment	0.3
<b>Liabilities</b>	
Provisions	(0.1)
Fair value of identifiable net assets acquired	0.2
Goodwill arising on acquisition	14.9
Purchase consideration	15.1
<b>Purchase consideration</b>	
Cash paid	10.8
Contingent consideration	4.3
Total consideration	15.1

The goodwill arising on the acquisition of EKO Energy was attributable to the benefit of expected future market development opportunities and the technical skills of the workforce. The goodwill is not expected to be deductible for income tax purposes.

	<b>Half year ended</b>	
	<b>31 Dec 2012</b>	31 Dec 2011
	<b>\$m</b>	\$m
<b>Net cash outflow on acquisitions</b>		
Cash paid	<b>3.1</b>	10.8
Cash and cash equivalent balances acquired	-	-
	<b>3.1</b>	10.8

**AGL Energy Limited and Subsidiaries**  
**Notes to the condensed consolidated Financial Statements**  
**For the half year ended 31 December 2012**

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

**Year ended 30 June 2012**

**Acquisition of Great Energy Alliance Corporation Pty Limited**

On 29 June 2012, the consolidated entity completed the acquisition of the remaining 67.46% of the voting shares in, and loan notes issued by, Great Energy Alliance Corporation Pty Limited (GEAC), increasing its ownership from 32.54% to 100%. The consolidated entity also acquired 100% of the voting shares in Loy Yang Marketing Holdings Pty Limited.

The consideration paid was \$598.0 million, and comprised the fair value of the consolidated entity's pre-existing interest in GEAC of \$150.0 million, deferred consideration payable of \$248.2 million and cash of \$199.8 million.

GEAC owns the 2,210 MW Loy Yang A power station and the adjacent brown coal mine which supplies all the coal required to meet the current and future operating requirements of the power station. Loy Yang A power station is Victoria's largest power station, producing 30 per cent of the State's electricity requirement and is one of the lowest cost generators in the National Electricity Market.

The initial accounting for the acquisition of GEAC had only been provisionally determined in the financial statements for the year ended 30 June 2012. 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 is still considered provisional.

**AGL Energy Limited and Subsidiaries**  
**Notes to the condensed consolidated Financial Statements**  
**For the half year ended 31 December 2012**

**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:

	<b>GEAC provisional fair value on acquisition</b>	<b>Fair value amendment</b>	<b>GEAC restated fair value on acquisition</b>
	<b>\$m</b>	<b>\$m</b>	<b>\$m</b>
<b>Assets acquired and liabilities assumed</b>			
<b>Current assets</b>			
Cash and cash equivalents	439.3	-	439.3
Trade and other receivables	67.8	-	67.8
Inventories	36.5	(2.2)	34.3
Other financial assets	50.1	-	50.1
Other assets	4.5	-	4.5
<b>Total current assets</b>	<b>598.2</b>	<b>(2.2)</b>	<b>596.0</b>
<b>Non-current assets</b>			
Property, plant and equipment	2,473.6	(180.0)	2,293.6
Deferred tax assets	557.7	220.4	778.1
Other financial assets	435.6	-	435.6
<b>Total non-current assets</b>	<b>3,466.9</b>	<b>40.4</b>	<b>3,507.3</b>
<b>Total assets</b>	<b>4,065.1</b>	<b>38.2</b>	<b>4,103.3</b>
<b>Current liabilities</b>			
Trade and other payables	87.0	(2.0)	85.0
Borrowings	616.0	8.8	624.8
Provisions	51.4	-	51.4
Other financial liabilities	39.2	-	39.2
Other liabilities	240.1	-	240.1
<b>Total current liabilities</b>	<b>1,033.7</b>	<b>6.8</b>	<b>1,040.5</b>
<b>Non-current liabilities</b>			
Borrowings	2,055.0	29.4	2,084.4
Provisions	102.4	-	102.4
Other financial liabilities	153.4	-	153.4
Other liabilities	122.6	2.0	124.6
<b>Total non-current liabilities</b>	<b>2,433.4</b>	<b>31.4</b>	<b>2,464.8</b>
<b>Total liabilities</b>	<b>3,467.1</b>	<b>38.2</b>	<b>3,505.3</b>
<b>Fair value of identifiable net assets acquired</b>	<b>598.0</b>	<b>-</b>	<b>598.0</b>
Goodwill arising on acquisition	-	-	-
<b>Purchase consideration</b>	<b>598.0</b>	<b>-</b>	<b>598.0</b>
<b>Purchase consideration</b>			
Cash paid	199.8	-	199.8
Fair value of pre-existing interest	150.0	-	150.0
Deferred consideration	248.2	-	248.2
<b>Total consideration</b>	<b>598.0</b>	<b>-</b>	<b>598.0</b>



**AGL Energy Limited and Subsidiaries**  
**Notes to the condensed consolidated Financial Statements**  
**For the half year ended 31 December 2012**

**Note 19 - Disposal of subsidiaries**

**Half year ended 31 December 2012**

There were no disposals of subsidiaries made during the half year ended 31 December 2012.

**Half year ended 31 December 2011**

There were no disposals of subsidiaries made during the half year ended 31 December 2011.

**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:

**NSW Government announcements on CSG**

On 19 February 2013, the NSW Government announced a range of new measures addressing regulation of the coal seam gas industry in NSW. Included in the proposed package of new measures is a two kilometre exclusion zone around residential areas as well as land identified for future residential growth. Exclusion zones are also proposed to apply in relation to "critical industry clusters" including the equine and viticulture industries. It is understood there will be a period of consultation before the new rules are finalised.

The changes do not apply to any coal seam gas activities that have already been approved. AGL's existing Camden Gas Project operations and the recently approved Gloucester Gas Project Stage 1 development are not expected to be materially impacted.

AGL's proposed northern expansion of the Camden Gas Project and the development of the Hunter Gas Project are likely to be significantly affected under the new measures. The full impact will not be able to be determined until the new rules are finalised, but there is an impairment risk to the existing book value of the two projects. As at 31 December 2012, AGL's Camden Gas Project (including the northern expansion) had a book value of \$134.5 million. Of this value more than half relates to the existing producing assets at Camden that are not expected to be impacted by the new measures. The Hunter Gas Project had a book value of \$191.0 million as at 31 December 2012.

AGL's further development of the Gloucester Gas Project beyond Stage 1 may also be affected by the new measures, but based upon the current information there is not expected to be a material impact on the book value of the project.

AGL is actively engaging with the NSW Government in relation to these new measures. Further analysis and discussion is required to reach an informed assessment of the potential operational and financial impacts of these changes on AGL, which is expected to be undertaken in the second half of this financial year.

**Interim dividend**

On 27 February 2013, the Directors of AGL resolved to pay a fully franked interim dividend of 30.0 cents per share, amounting to \$165.1 million. The record date for the interim dividend is 12 March 2013 with payment to be made on 4 April 2013. Shares will commence trading ex-dividend on 5 March 2013.

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 the ASX during each of the 10 trading days commencing on 14 March 2013.

**AGL Energy Limited and Subsidiaries**  
**Notes to the condensed consolidated Financial Statements**  
**For the half year ended 31 December 2012**

**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.

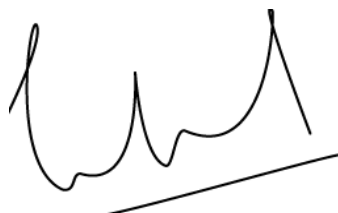
The accounts have been audited.

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.



**Jeremy Maycock**  
**Chairman**

27 February 2013

## AGL Energy Limited and Subsidiaries

### Directors' Declaration For the half year ended 31 December 2012

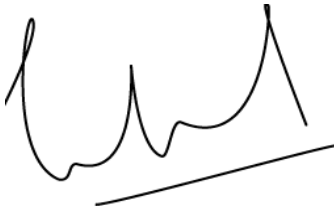
The Directors of AGL Energy Limited declare that, in their opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including:

- (a) giving a true and fair view of the financial position as at 31 December 2012 and of the performance for the half year ended on that date of the consolidated entity; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001.

The Directors also declare that, in their opinion:

- (a) there are reasonable grounds to believe that the Parent Entity will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Directors



**Jeremy Maycock**  
**Chairman**

Sydney, 27 February 2013

The Board of Directors  
AGL Energy Limited  
101 Miller Street  
North Sydney NSW 2060

27 February 2013

Dear Board Members

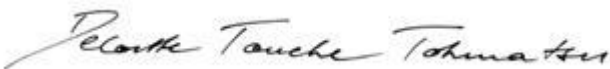
## **AGL Energy Limited**

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of AGL Energy Limited.

As lead audit partner for the review of the financial statements of AGL Energy Limited for the half-year ended 31 December 2012, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the Corporations Act 2001 in relation to the review; and
- (ii) any applicable code of professional conduct in relation to the review.

Yours sincerely



DELOITTE TOUCHE TOHMATSU



G Couttas  
Partner  
Chartered Accountants

## Independent Auditor's Review Report to the members of AGL Energy Limited

We have reviewed the accompanying half-year financial report of AGL Energy Limited which comprises the Condensed consolidated Statement of Financial Position as at 31 December 2012, the Condensed consolidated Statement of Profit or Loss, the Condensed consolidated Statement of Comprehensive Income, the Condensed consolidated Statement of Cash Flows and the Condensed consolidated Statement of Changes in Equity for the half year ended on that date, selected explanatory notes, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the end of the half-year or from time to time during the half-year as set out on pages 28 to 51.

### *Directors' Responsibility for the Half-Year Financial Report*

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of AGL Energy Limited's financial position as at 31 December 2012 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of AGL Energy Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

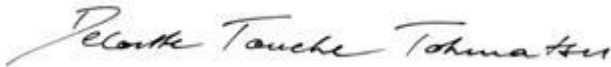
### *Auditor's Independence Declaration*

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of AGL Energy Limited, would be in the same terms if given to the directors as at the time of this auditor's review report.

## *Conclusion*

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of AGL Energy Limited is not in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2012 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001.



DELOITTE TOUCHE TOHMATSU



G Coultas  
Partner  
Chartered Accountants  
Sydney, 27 February 2013