



## ASX & Media Release

### Financial Results – Half Year Ended 31 December 2018

**7 February 2019**

Attached are the following documents relating to AGL Energy Limited's results for the half year ended 31 December 2018:

- Appendix 4D
- Half Year Report

John Fitzgerald

**Company Secretary**

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#### About AGL

AGL is committed to helping shape a sustainable energy future for Australia. We operate the country's largest electricity generation portfolio, we're its largest ASX-listed investor in renewable energy, and we have 3.6 million customer accounts. Proudly Australian, with more than 180 years of experience, we have a responsibility to provide sustainable, secure and affordable energy for our customers. Our aim is to prosper in a carbon-constrained world and build customer advocacy as our industry transforms. That's why we have committed to exiting our coal-fired generation by 2050 and why we will continue to develop innovative solutions for our customers.



## 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 2018

				31 December 2018 \$A million	Restated* 31 December 2017 \$A million
Revenue	<b>Down</b>	<b>1.8%</b>	to	<b>6,337</b>	6,450
Statutory Profit after tax attributable to shareholders	<b>Down</b>	<b>52.9%</b>	to	<b>290</b>	616
Underlying Profit after tax attributable to shareholders	<b>Up</b>	<b>10.3%</b>	to	<b>537</b>	487
				31 December 2018 cents	Restated* 31 December 2017 cents
Statutory Earnings per share	<b>Down</b>	<b>52.9%</b>	to	<b>44.2</b>	93.9
Underlying Earnings per share	<b>Up</b>	<b>10.3%</b>	to	<b>81.9</b>	74.3
				31 December 2018 \$A	Restated* 30 June 2018 \$A
Net tangible asset backing per share	<b>Down</b>	<b>0.8%</b>	to	<b>7.61</b>	7.67
				Amount cents	Franked amount cents
Interim dividend per ordinary share				55.0	44.0
Prior interim dividend per ordinary share				54.0	43.2

*\*Figures restated on adoption of AASB 9 Financial Instruments and AASB 16 Leases. Refer to the half-year report for further information.*

### Record date for determining entitlements to the interim dividend:

21 February 2019 and payable 22 March 2019.

### Dividend reinvestment plan:

The AGL Dividend Reinvestment Plan (DRP) will operate in respect of the 2019 interim dividend. AGL will acquire shares on market and allot them to DRP participants at no discount to the simple average of the daily weighted average price at which AGL's ordinary shares trade during each 10 trading days commencing 25 February 2019. The last date for shareholders to elect to participate in the DRP for the 2019 interim dividend is 22 February 2019.



**Brief explanation of Underlying Profit after tax and Underlying Earnings per share:**

Statutory Profit after tax and Statutory Earnings per share are prepared in accordance with the Corporations Act 2001 and Australian Accounting Standards, which comply with International Financial Reporting Standards.

Statutory Profit after tax of \$290 million included a gain of \$4 million after tax treated as significant items and a loss of \$251 million after tax from the changes in the fair value of financial instruments. Excluding these items, the Underlying Profit after tax was \$537 million, 10.3% up on the prior corresponding period.

Underlying Profit after tax is 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 after tax 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.

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This report should be read in conjunction with the AGL Directors' Report incorporating the Operating and Financial Review and the Half-Year Financial Report for the half-year ended 31 December 2018 released to the market on 7 February 2019.

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# AGL Energy Half-Year Report

For the period ended  
31 December 2018



## Inside AGL's Half-Year Report

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This report is intended to provide information on AGL's performance for the half-year ended 31 December 2018 and includes the Directors' Report, Operating and Financial Review and Financial Report.

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## Directors' Report

In accordance with a resolution of the Board, the Directors present their report on the consolidated entity (AGL) consisting of AGL Energy Limited and its controlled entities at the end of or during the half-year ended 31 December 2018 (the period). Financial comparisons used in this report are of results for the half-year ended 31 December 2017 (the prior corresponding period) for statement of profit or loss and cash flow analysis, and 30 June 2018 for statement of financial position analysis.

### Directors in Office

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

	First Appointed
<b>Current Directors:</b>	
Graeme Hunt – Chairman	1 September 2012 (Appointed as Chairman on 27 September 2017)
Brett Redman – Managing Director	1 January 2019
Leslie Hosking	1 November 2008
John Stanhope	9 March 2009
Jacqueline Hey	21 March 2016
Diane Smith-Gander	28 September 2016
Peter Botten	21 October 2016
<b>Former Directors:</b>	
Belinda Hutchinson	22 December 2010 (Retired 12 December 2018)
Andrew Vesey	12 February 2015 (Retired 23 August 2018)

### Review and results of operations

A review of AGL's operations during the half-year and the results of those operations is set out in the Operating and Financial Review, commencing on page 3.

### Subsequent Events

Apart from the matters identified below and elsewhere in this Directors' Report and the Half-Year Financial Report, the Directors are not aware of any other matter or circumstance that has arisen since 31 December 2018 that has significantly affected or may significantly affect the operations of AGL, the results of those operations, or the state of affairs of AGL in the future.

### Dividends

The Directors have declared an interim dividend of 55 cents per share, compared with 54 cents per share for the prior interim dividend. The dividend will be 80% franked and will be paid on 22 March 2019. The record date to determine shareholders' entitlements to the interim dividend is 21 February 2019. Shares will commence trading ex-dividend on 20 February 2019.

AGL's dividend policy is to target a payout ratio of approximately 75% of annual Underlying Profit after tax and a minimum franking level of 80%. 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.

AGL is able to pay the unfranked component of the dividend out of certain foreign source income (conduit foreign income, or CFI). This is relevant only for non-resident shareholders. The effect is that the unfranked portion of the dividend will not be subject to Australian dividend withholding tax.

Unfranked dividends sourced from CFI have no tax implications for Australian resident shareholders.

The AGL Dividend Reinvestment Plan (DRP) will operate in respect of the 2019 interim dividend. AGL will acquire shares on market and allot them to DRP participants at no discount to the simple average of the daily weighted-average price on each of the 10 trading days commencing 25 February 2019. The last date for shareholders to elect to participate in the DRP for the 2019 interim dividend is 22 February 2019.

## Directors' Report

### Non-IFRS Financial Information

The Operating and Financial Review attached to and forming part of this Directors' Report includes a number of non-International Financial Reporting Standards (IFRS) financial measures. AGL management uses these non-IFRS financial measures to assess the performance of the business and make decisions on the allocation of resources.

Principal among these non-IFRS financial measures is Underlying Profit. This measure is Statutory Profit/(Loss) adjusted for:

- significant items (which are material items of revenue or expense that are unrelated to the underlying performance of the business); and
- changes in the fair value of financial instruments recognised in the statement of profit or loss (to remove the volatility caused by mismatches in valuing financial instruments and the underlying asset differently).

AGL believes that Underlying Profit provides a better understanding of its financial performance than Statutory Profit/(Loss) and allows for a more relevant comparison of financial performance between financial periods.

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

### Rounding

AGL is an entity to which ASIC Corporations Instrument 2016/191 applies and, in accordance with that Instrument, amounts in the Half-Year Financial Report and this Directors' Report have been rounded to the nearest million dollars, unless otherwise stated.

### Auditor's Independence Declaration

The auditor's independence declaration is attached to and forms part of this Directors' Report.



**Graeme Hunt**  
Chairman

Sydney, 7 February 2019

# Operating and Financial Review

For the half-year ended 31 December 2018

## 1. Financial Performance

### About AGL

AGL is a leading integrated energy business that has been operating for more than 180 years. AGL operates the country's largest private electricity generation portfolio, its total capacity of 10,245 MW accounts for 20% of total generation capacity within the National Electricity Market in the financial half-year ended 31 December 2018. AGL is also the largest ASX-listed investor in renewable energy, an active participant in gas and electricity wholesale markets and has more than 3.6 million gas and electricity customer accounts.

### Principal activities

AGL's principal activities consisted of the operation of energy businesses and investments, including electricity generation, gas storage and the sale of electricity and gas to residential, business and wholesale customers. There were no significant changes in the principal activities of AGL during the period.

### 1.1 Group Results Summary

#### Adoption of new standards

AGL has adopted AASB 9 Financial Instruments and AASB 16 Leases and restated 2018 comparative figures to reflect the adoption of these new standards. The tables in section 1.8 summarise the adjustments recognised against each individual line item within the Group Financial Performance statement and the Summary Statement of Financial Position for all standards. AGL also adopted AASB 15 Revenue from Contracts with Customers, however this did not have a material impact on adoption.

#### 1.1.1 Reconciliation of Statutory Profit to Underlying Profit

##### 1.1.1.1 Profit after Tax

	31 Dec 2018 \$m	Restated 31 Dec 2017 \$m
<b>Statutory Profit after tax</b>	<b>290</b>	616
Adjust for:		
Significant items after tax		
National Assets gain on divestment	(37)	–
Residential Solar operations impairment	38	–
Proceeds from Yandin wind farm development rights	(5)	–
Sunverge impairment	–	27
Active Stream gain on divestment	–	(29)
(Gain)/loss on fair value of financial instruments after tax	251	(127)
<b>Underlying Profit after tax</b>	<b>537</b>	487

Statutory Profit after tax was \$290 million, down \$326 million compared with the prior corresponding period. There were two items excluded from Underlying Profit:

- The loss on fair value of financial instruments of \$(251) million compared with a \$127 million gain in the prior corresponding period. This net loss reflected a negative fair value movement in AGL's net sold electricity derivatives as a result of higher forward electricity prices, and a negative fair value movement in AGL's purchased oil and coal derivative contracts as a result of lower forward oil and coal prices. See section 1.1.5 for more detail.
- Significant items of \$4 million from divestments and impairments.

Underlying Profit after tax was \$537 million, up 10.3% from the prior corresponding period. A description of the factors driving Underlying Profit is included in section 1.1.2.

	31 Dec 2018	Restated 31 Dec 2017
<b>Earnings per share on Statutory Profit<sup>1</sup></b>	<b>44.2 cents</b>	93.9 cents
<b>Earnings per share on Underlying Profit<sup>1</sup></b>	<b>81.9 cents</b>	74.3 cents

1. EPS calculations have been based upon a weighted average number of ordinary shares of 655,825,043 (31 December 2017: 655,825,043).



## Operating and Financial Review

For the half-year ended 31 December 2018

### 1.1.1.2 Earnings before Interest and Tax (EBIT)

	31 Dec 2018 \$m	Restated 31 Dec 2017 \$m
<b>Statutory EBIT</b>	<b>514</b>	992
Significant items	(10)	3
(Gain)/loss on fair value of financial instruments	358	(183)
Finance income included in Underlying EBIT	-	2
<b>Underlying EBIT</b>	<b>862</b>	814

### 1.1.1.3 Summary of Underlying EBIT by Business Unit

	31 Dec 2018 \$m	Restated 31 Dec 2017 \$m
Wholesale Markets	<b>1,398</b>	1,234
Customer Markets	<b>93</b>	146
Group Operations	<b>(505)</b>	(437)
Investments	<b>18</b>	16
Centrally Managed Expenses	<b>(142)</b>	(145)
<b>Underlying EBIT</b>	<b>862</b>	814

Refer to section 1.4 for detailed Business Unit analysis.

### 1.1.2 Group Underlying Financial Performance

	31 Dec 2018 \$m	Restated 31 Dec 2017 \$m
Revenue	<b>6,337</b>	6,450
Cost of sales	<b>(4,435)</b>	(4,631)
Other income/(loss)	<b>19</b>	23
<b>Gross margin</b>	<b>1,921</b>	1,842
Operating costs (excluding depreciation and amortisation)	<b>(764)</b>	(758)
<b>Underlying EBITDA</b>	<b>1,157</b>	1,084
Depreciation and amortisation	<b>(295)</b>	(270)
<b>Underlying EBIT</b>	<b>862</b>	814
Net finance costs	<b>(100)</b>	(119)
Underlying Profit before tax	<b>762</b>	695
Income tax expense	<b>(225)</b>	(208)
<b>Underlying Profit after tax</b>	<b>537</b>	487

#### 1.1.2.1 Period-on-period movement in revenue (\$m)



## Operating and Financial Review

For the half-year ended 31 December 2018

Total revenue was \$6,337 million, down 1.8%, driven by decreased sales volumes in Customer Markets, lower pool generation sales in Wholesale Markets, and the non-recurrence of revenue associated with divested assets in Group Operations. Customer revenue was also impacted by Consumer Electricity customers switching to lower priced products. Lower pool generation revenue was driven by lower electricity volumes generated and sold to the pool and a lower average pool price compared with the prior corresponding period. The non-recurrence of divested assets revenue relates to the Active Stream business (sold in the prior year) and National Assets portfolio (sold during the period, refer to section 1.1.3.1). Further analysis on the movement in gross margin is provided below.

Other income of \$19 million in the current period includes equity accounted investments income of \$18 million and income from joint ventures. The prior corresponding period included equity accounted investments income of \$16 million and profit on asset disposals.

### 1.1.2.2 Period-on-period movement in gross margin (\$m)



Total gross margin was \$1,921 million, up 4.3%. The increase was largely attributable to Wholesale Markets benefitting from higher wholesale electricity market prices and decreased compliance costs due to lower market prices for Large-scale Renewable Energy Certificates (LREC) combined with AGL generating more certificates through increased hydro generation. This increase in gross margin was partly offset by Customer Markets margin compression and the non-recurrence of margin associated with divested assets in Group Operations. Refer to section 1.4 for further analysis on the movement in gross margin for each operating segment.

### 1.1.2.3 Operating costs

	31 Dec 2018 \$m	Restated 31 Dec 2017 \$m
Wholesale Markets	(13)	(10)
Customer Markets	(264)	(275)
Group Operations	(355)	(340)
Investments	-	(2)
Centrally Managed Expenses	(132)	(131)
<b>Operating costs (excluding depreciation and amortisation)</b>	<b>(764)</b>	<b>(758)</b>
<b>Depreciation and amortisation</b>	<b>(295)</b>	<b>(270)</b>
<b>Operating costs (including depreciation and amortisation)</b>	<b>(1,059)</b>	<b>(1,028)</b>

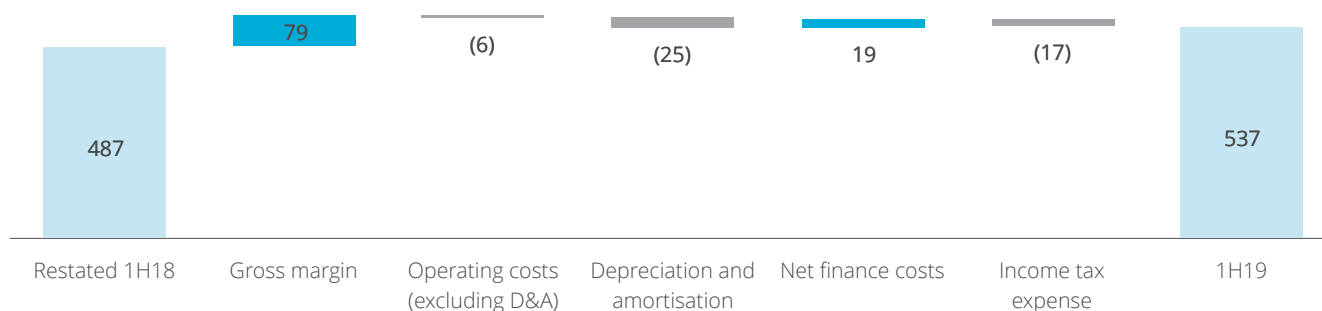
Total operating costs (excluding depreciation and amortisation) were \$764 million, up 0.8%. This was driven by increased costs in Group Operations to maintain plant availability and increased field development costs relating to the Moranbah Gas Project joint venture, and costs in Customer Markets associated with the customer affordability program with one-off debt relief ending on 31 December 2018. This was largely offset by the reduction of labour costs in Customer Markets and AGL Loy Yang as a result of the transition and reorganisation program undertaken in the prior year. Refer to section 1.4 for further analysis on the movement in operating costs for each operating segment.

Depreciation and amortisation costs of \$295 million were up \$25 million. This was principally in Group Operations, which reflected a higher asset base at AGL Macquarie as a result of increased reliability focused capital expenditure relative to a short depreciation schedule given the planned closure of Liddell Power Station in December 2022. Depreciation of AGL's hydro assets also increased due to a change in the estimated asset useful lives.

## Operating and Financial Review

For the half-year ended 31 December 2018

### 1.1.2.4 Period-on-period movement in Underlying Profit after tax (\$m)



Underlying Profit after tax was \$537 million, up 10.3%. The principal driver of the increase was the strong margin growth in Wholesale Markets driven by higher wholesale electricity contracted prices and decreased compliance costs in Eco Markets (refer section 1.4.1). This was offset to some degree by Customer Markets margin compression and higher depreciation and amortisation in Group Operations (refer section 1.1.2.3 above).

Net finance costs were \$100 million, down 16.0%, largely due to lower average borrowings compared with the prior corresponding period. Underlying tax expense was \$225 million, up 8.2% broadly reflecting the increase in profit. The underlying effective tax rate was 29.5%, broadly flat period-on-period.

### 1.1.3 Significant Items

#### 1.1.3.1 Asset and business disposals

##### Current period

On 11 September 2018 AGL completed the sale of a portfolio of small generation and compressed natural gas refuelling assets, known as AGL's National Assets portfolio, to Sustainable Energy Infrastructure, a consortium led by Whitehelm Capital. A post tax profit of \$37 million was recognised in the period.

In December 2018, AGL disposed of the option to purchase the Yandin wind farm development rights in Western Australia. A post tax profit of \$5 million was recognised as a significant item in the period.

##### Prior corresponding period

On 30 November 2017 AGL completed the disposal of its Active Stream metering business. A post tax profit of \$29 million was recognised in the prior period.

#### 1.1.3.2 Asset impairments

##### Current period

On 11 September 2018, AGL announced the decision to exit the residential solar installation operations, rendering many of the residential solar assets obsolete. A post-tax loss of \$38 million was recognised as a significant item in the period to account for the write down of goodwill, systems related assets, inventory and other business closure costs.

##### Prior corresponding period

During the period, AGL impaired the carrying value of its investment interest in Sunverge Energy Inc and related assets. A total post-tax impairment loss of \$27 million was recognised in the prior period.

## Operating and Financial Review

For the half-year ended 31 December 2018

### 1.1.4 Hedging

AGL's approach to managing energy price risks, both through physical ownership of energy generation and through financial hedging, reflects the need to provide pricing certainty to customers, and limit exposure to adverse market outcomes. AGL generates electricity in excess of its customers' demand in some states. In other states, AGL generates less than its customers' demand. As such, AGL manages risk exposure by determining the appropriate timing and degree of contracting activities, provided the overall AGL risk appetite is not exceeded in the pursuit of Wholesale Markets' strategic objectives.

AGL has in place a governance framework that establishes the policy guidelines under which energy hedging activities are conducted. Key components of that policy include segregation of duties, independent risk oversight, earnings-at-risk limits, compliance management and regular reporting to the Board. The risk policy represents the Board's and Senior Management's commitment to an effective risk management function to ensure appropriate management and oversight of AGL's risks related to Wholesale Markets.

The policy allows for commercial optimisation of the portfolio provided that AGL adheres to overall earnings-at-risk limits that reflects its risk appetite.

### 1.1.5 Changes in Fair Value of Financial Instruments

AGL uses certain financial instruments (derivatives) to manage energy price risks and to manage its exposure to interest and foreign exchange rates arising in the normal course of business. The majority of these financial instruments exchange a fixed price for a floating market based price of a given commodity, interest rate, currency or a quoted asset, with only the net differential being settled with the counterparty. AGL is exposed to price volatility on the sale and purchase of energy related commodities in the normal course of business, and therefore enters into instruments that minimise the price risk to AGL on both exposures (sold and purchased derivative contracts).

Certain purchased energy and all treasury-related derivatives are designated in hedge relationships with forecast transactions or balance sheet items, pursuant to criteria as specified in accounting standards. Derivative instruments assigned to an effective hedge relationship with a forecast transaction have movements in fair value deferred to an equity hedge reserve until the transactions to which those instruments are matched impact upon profit or loss. Derivative instruments not assigned to an effective hedge relationship have movements in fair value recognised in profit or loss. AGL's energy-related derivatives assigned to hedge relationships are purchased derivative contracts, where AGL pays a fixed price in exchange for a floating price received from the counterparty. The energy-related derivatives recognised in profit or loss are in a net sold position, where AGL receives a fixed price from a counterparty in exchange for a floating price paid to the counterparty.

#### *Movement in fair value*

The initial fair value of a derivative is the consideration paid or received (the premium). Fair value movements in any given period are a function of changes to underlying indices, market prices or currencies and the roll-off of realised contractual volumes or amounts.

A reconciliation of the statement of financial position movement in financial instruments carried at fair value, which balances to the amount included in the statement of profit or loss for the period ended 31 December 2018 is presented in the following table:

Net assets/(Liabilities)	31 Dec 2018 \$m	30 June 2018 \$m	Change \$m
Energy derivative contracts	(219)	54	(273)
Cross currency and interest rate swap derivative contracts	43	(29)	72
Total net assets/(liabilities) for financial instruments	(176)	25	(201)
<b>Change in net assets/(liabilities)</b>	<b>(201)</b>		
Premiums paid	(37)		
Premium roll off	40		
Equity accounted fair value	(8)		
<b>Total change in fair value</b>	<b>(206)</b>		
Recognised in equity hedge reserve	88		
Recognised in borrowings	64		
Recognised in profit and loss – pre-tax	(358)		
<b>Total change in fair value</b>	<b>(206)</b>		

## Operating and Financial Review

For the half-year ended 31 December 2018

The movement in net derivative assets/(liabilities) in 1H19 was \$(201) million to \$(176) million, from \$25 million. This movement is summarised in the table below:

	Unrealised fair value recognised in:						31 Dec 2018 \$m
	30 June 2018 \$m	Profit and loss	Hedge reserve	Borrowings	Currency basis	Premiums and roll offs paid/ (received)	
Cross currency and interest rate swap contracts	(29)	6	(6)	64	8	-	43
Energy derivative contracts	54	(364)	94	-	-	(3)	(219)
<b>Net asset/(liability)</b>	<b>25</b>	<b>(358)</b>	<b>88</b>	<b>64</b>	<b>8</b>	<b>(3)</b>	<b>(176)</b>

The fair value movement driving the change in the net derivative assets/(liabilities) position reflected unrealised fair value movements as follows:

- A decrease in the fair value of energy-related derivatives of \$(364) million was recognised in profit or loss (excluded from Underlying Profit). This net loss reflected a negative fair value movement in AGL's net sold electricity derivatives as a result of higher forward electricity prices, and a negative fair value movement in AGL's purchased oil and coal derivative contracts as a result of lower forward oil and coal prices.
- An increase in the fair value of purchased energy-related derivatives designated as a hedge relationship of \$94 million, which was recognised in the equity hedge reserve. This increase primarily reflected higher electricity market prices relative to contracted purchase prices.
- Currency related fair value gain of \$64 million recognised in borrowings. This related primarily to AGL's USD denominated debt and reflected the large depreciation of the AUD relative to the USD during the period.

## Operating and Financial Review

For the half-year ended 31 December 2018

### 1.2 Cash Flow

#### 1.2.1 Reconciliation of Underlying EBITDA to Cash Flow

	31 Dec 2018 \$m	Restated 31 Dec 2017 \$m
Underlying EBITDA	1,157	1,084
Equity accounted income (net of dividends received)	(9)	(7)
Accounting for onerous contracts	(15)	(16)
Gain on divestments	-	-
Movement in other assets/liabilities and non-cash items	(34)	(26)
Working capital movements		
(Increase)/decrease in receivables	107	6
Increase/(decrease) in creditors	(84)	(21)
(Increase)/decrease in inventories	(54)	(44)
Net derivative premiums paid/roll-offs	3	(9)
(Increase)/decrease in other financial assets (margin calls)	(146)	10
Net movement in green assets/liabilities	(52)	38
Other	6	(17)
Total working capital movements	(220)	(37)
<b>Underlying operating cash flow before interest and tax</b>	<b>879</b>	<b>998</b>
Net finance costs paid	(76)	(87)
Income taxes paid	(125)	(110)
<b>Net cash provided by operating activities</b>	<b>678</b>	<b>801</b>
Net cash used in investing activities	(279)	(147)
Net cash used in financing activities	(434)	(725)
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>(35)</b>	<b>(71)</b>

Underlying operating cash flow before interest and tax was \$879 million, down \$119 million. As a result, the cash rate of conversion of EBITDA to cash flow was 76%, down from 92% in the prior corresponding period.

Total working capital movements were \$(220) million, a period-on-period change of \$(183) million from a movement of \$(37) million in the prior corresponding period:

- Period-on-period change in receivables cash flow of \$101 million reflected a reduction in days sales outstanding as more Consumer customers paid on time, partially offset by the loss of Large Business customers in the prior corresponding period.
- Period-on-period change in trade creditors cash flow of \$(63) million due to higher AGL Loy Yang mine coal royalty payments and lower gas volumes in the current period largely driven by warmer weather.
- Lower cash flow period-on-period from inventory reflected an increase in the coal stockpile at AGL Macquarie.
- Period-on-period margin calls cash flow of \$(156) million due to an increase in the wholesale electricity forward curve, driving a reduction in the Mark to Market value of AGL's sold futures for future periods (refer to sections 1.1.4 and 1.1.5 for a more detailed description of AGL's hedging policy and the valuation of financial instruments). A large portion of the cash outflows in the current period are expected to reverse in the second half of the year as the existing positions roll off.
- Lower period-on-period cash flow of \$(90) million from AGL's inventory of certificates to comply with renewable schemes (green assets), driven by increased LREC and Small-scale Renewable Energy Certificate (SREC) purchases at current market prices to meet future market surrender obligations.

Period-on-period investing cash flow increased due to higher capital expenditure and lower proceeds from asset sales compared with the prior corresponding period.

Financing cash flow includes dividends of \$(413) million and a repayment in net borrowings of \$(16) million. The prior corresponding period included dividends of \$(328) million and a net borrowing repayment of \$(387) million, including the cancellation of \$150 million of term debt in September 2017 and the purchase of \$68 million of AGL Loy Yang CPI bonds in December 2017.

## Operating and Financial Review

For the half-year ended 31 December 2018

### 1.2.2 Capital Expenditure

	31 Dec 2018 \$m	31 Dec 2017 \$m
Wholesale Markets	21	6
Customer Markets	64	77
Group Operations	275	202
Centrally Managed Expenses	46	42
<b>Total capital expenditure</b>	<b>406</b>	<b>327</b>

#### 1.2.2.1 Summary of capital expenditure split between growth and sustaining.

Growth and transformation	138	122
Sustaining	268	205
<b>Total capital expenditure</b>	<b>406</b>	<b>327</b>

Total capital expenditure was \$406 million, an increase of \$79 million compared with the prior corresponding period.

- Sustaining capital expenditure was \$268 million, an increase of \$63 million. This comprised \$217 million of expenditure on AGL's thermal plants, an increase of \$38 million on the prior corresponding period, driven by a \$47 million increase in planned spend to ensure and improve future availability at AGL Loy Yang. Other sustaining capex was \$51 million, up \$25 million.
- Growth capital expenditure was \$138 million, an increase of \$16 million. This comprised spend on the Customer Experience Transformation program (\$43 million), AGL's program to upgrade its enterprise resource planning systems (\$35 million), the gas import jetty project at Crib Point (\$16 million), and the Barker Inlet Power Station (\$12 million).

## Operating and Financial Review

For the half-year ended 31 December 2018

### 1.3 Review of Financial Position

AGL's financial position is consistent with the strong profitability of its operations, the strong conversion of income to cash flow and the essential nature of the services AGL provides to its customers.

AGL maintained its credit rating of Baa2 as provided by Moody's Investors Service throughout the period.

AGL's dividend policy is to target a payout ratio of 75% of annual Underlying Profit after tax and a minimum franking level of 80%. Total dividends declared for the period of \$361 million were 2% higher than the prior corresponding period, consistent with AGL's profit growth. The Dividend Reinvestment Plan (DRP) continued to operate during the period, at nil discount. During the period, AGL acquired shares for allotment to DRP participants on market, thereby preventing any dilutive impact that would have occurred if new shares were issued.

#### 1.3.1 Summary Statement of Financial Position

	31 Dec 2018 \$m	Restated 30 June 2018 \$m
<b>Assets</b>		
Cash and cash equivalents	428	463
Other current assets	3,751	3,227
Property, plant and equipment	6,890	6,757
Intangible assets	3,247	3,271
Other non-current assets	902	915
<b>Total assets</b>	<b>15,218</b>	<b>14,633</b>
<b>Liabilities</b>		
Borrowings	3,044	2,963
Other liabilities	3,936	3,369
<b>Total liabilities</b>	<b>6,980</b>	<b>6,332</b>
<b>Net assets / total equity</b>	<b>8,238</b>	<b>8,301</b>

At 31 December 2018 AGL's total assets were \$15,218 million, an increase from \$14,633 million at 30 June 2018, primarily due to the increase in margin calls (refer section 1.2 above) and AGL's purchased energy swap derivatives, which is reflected in other current financial assets. The increase in property, plant and equipment was reflective of the increase in capital expenditure (refer section 1.2.2 above).

Total liabilities at 31 December 2018 were \$6,980 million, up from \$6,332 million at 30 June 2018. The primary change reflected the increase in other current financial liabilities due to the revaluation of energy derivative contracts. The net derivative position is a net liability as a result of AGL's net sold energy derivative position (refer section 1.1.5 above).

Total equity at 31 December 2018 was \$8,238 million, down \$63 million, reflecting the increase in AGL's liabilities during the period as energy derivative contracts were revalued. AGL's return on equity, calculated on a rolling 12-month basis was 13.1%, flat from 30 June 2018 (restated).

#### 1.3.2 Net Debt Reconciliation

<b>Net debt reconciliation</b>		
Borrowings	3,044	2,963
Less: Adjustment for cross currency swap hedges and deferred borrowing costs	(74)	(9)
Cash and cash equivalents	(428)	(463)
<b>Net debt</b>	<b>2,542</b>	<b>2,491</b>

Net debt at 31 December 2018 was \$2,542 million, up from \$2,491 million at 30 June 2018 reflecting the increase in borrowings.

AGL's gearing (measured as the ratio of net debt to net debt plus adjusted equity) at 31 December 2018 was 23.5% compared with 22.9% at 30 June 2018 (restated).

AGL maintained its credit rating of Baa2 throughout the period as provided by Moody's Investors Service. Key metrics consistent with this credit rating at 31 December 2018:

- Interest cover: 8.8 times
- Funds from operations to net debt: 44.8%

AGL's funds from operations has been calculated with a similar methodology to Moody's whereby the movement in all current and non-current tax assets and liabilities is treated as working capital.



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For the half-year ended 31 December 2018

### 1.4 Review of Operations

AGL manages its business in four key operating segments: Wholesale Markets, Customer Markets, Group Operations and Investments. Further detail on the activities of each operating segment is provided below.

In accordance with Australian Accounting Standard AASB 8 *Operating Segments*, AGL reports segment information on the same basis as its internal management structure. As a result, the Wholesale Markets and Customer Markets operating segments report the majority of the revenue and margin from AGL's activities, while the Group Operations operating segment reports the majority of the expenses.

#### 1.4.1 Wholesale Markets

Wholesale Markets comprises Wholesale Electricity, Wholesale Gas and Eco Markets and is responsible for managing the price risk associated with procuring electricity and gas for AGL's customers and for managing AGL's obligations in relation to renewable energy schemes. Wholesale Markets also controls the dispatch of AGL's owned and contracted generation assets and associated portfolio of energy hedging products.

- Wholesale Electricity is responsible for managing the procurement of key fuel inputs and hedging of AGL's wholesale electricity requirements, for commercial management of the generation portfolio and for wholesale pricing to support AGL's consumer and business customer bases.
- Wholesale Gas is responsible for sourcing and managing AGL's gas supply and transportation portfolio. Wholesale Gas supplies other retailers, internal and third-party gas-fired generators, and other gas customers. Wholesale Gas is also responsible for the management of the price exposures related to AGL's oil-linked wholesale gas contracts.
- Eco Markets is responsible for managing AGL's liabilities relating to both voluntary and mandatory renewable and energy efficiency schemes, the largest being the Large-scale Renewable Energy Target (LRET) and the Small-scale Renewable Energy Scheme (SRES).

##### 1.4.1.1 Wholesale Markets Underlying EBIT

	31 Dec 2018 \$m	Restated 31 Dec 2017 \$m
Wholesale Electricity gross margin	1,088	997
Wholesale Gas gross margin	261	240
Eco Markets gross margin	67	11
<b>Gross margin</b>	<b>1,416</b>	1,248
Operating costs (excluding depreciation and amortisation)	(13)	(10)
<b>Underlying EBITDA</b>	<b>1,403</b>	1,238
Depreciation and amortisation	(5)	(4)
<b>Underlying EBIT</b>	<b>1,398</b>	1,234

Wholesale Markets Underlying EBIT was \$1,398 million, up 13.3% due to higher wholesale electricity market prices and decreased compliance costs in Eco Markets, which more than offset higher coal and gas supply costs.

- Wholesale Electricity gross margin was \$1,088 million, up 9.1% due to higher wholesale electricity contracted prices, partly offset by higher fuel costs. The higher wholesale electricity forward curve in the National Electricity Market over the past two years has resulted in higher contracted prices for Large Business customers, Wholesale customers and financial energy derivative contracts. The increase in fuel costs from \$20.1/MWh on average in the prior corresponding period to \$24.3/MWh, reflects higher coal and wholesale gas prices (refer to section 1.5.1). The increase in coal costs reflected the rate escalation of existing contracts and the replacement of legacy low-cost coal contracts with contracts linked to Newcastle coal export prices.
- Wholesale Gas gross margin was \$261 million, up 8.8%. The increase was driven by higher customer gas prices, partly offset by higher gas purchase costs. Gas purchase costs increased from \$5.0/GJ on average in the prior corresponding period to \$6.4/GJ, driven by legacy low-cost gas contracts replaced with contracts priced at current market levels. The total gas volumes purchased was 10.7 PJ lower than the prior corresponding period, due to a decrease in volumes sold to Large Business customers (refer section 1.5.2).
- Eco Markets gross margin was \$67 million, up \$56 million due to lower compliance costs, partly a result of AGL generating a larger portion of LRECs through increased hydro generation, combined with the lower prices for on-market purchases.

#### 1.4.2 Customer Markets

Customer Markets comprises the Consumer and Large Business customer portfolios and is responsible for the retailing of electricity, gas, solar and energy efficiency products and services to residential, small and large business customers. Customer Markets sources its energy from Wholesale Markets at a transfer price based on methodologies that reflect the prevailing wholesale market conditions and other energy costs in each state. Customer Markets also includes product innovation, sales, marketing, brand, and operations.

## Operating and Financial Review

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### 1.4.2.1 Customer Markets Underlying EBIT

	31 Dec 2018 \$m	Restated 31 Dec 2017 \$m
Consumer Electricity gross margin	228	260
Consumer Gas gross margin	139	127
Large Business Electricity gross margin	12	20
Large Business Gas gross margin	11	23
Fees, charges and other margin	15	37
<b>Gross margin</b>	<b>405</b>	<b>467</b>
Operating costs (excluding depreciation and amortisation)	(264)	(275)
<b>Underlying EBITDA</b>	<b>141</b>	<b>192</b>
Depreciation and amortisation	(48)	(46)
<b>Underlying EBIT</b>	<b>93</b>	<b>146</b>

Customer Markets Underlying EBIT was \$93 million, down 36.3%, driven by margin compression in the consumer portfolio, lower volumes in the Large Business portfolio and the costs associated with the customer affordability program. This more than offsets realised benefits from re-organisation in the previous period and the Customer Experience Transformation program, and other operating cost savings.

- Consumer Electricity gross margin was \$228 million, down 12.3%. Higher levels of churn and the continued impact of customers switching to lower priced products resulted in margin compression. Consumer electricity volumes declined 3.4% driven by lower average customer accounts and lower average consumption as a result of the change in customer mix.
- Consumer Gas gross margin was \$139 million, up 9.4%, as a result of rate improvement through disciplined price management in highly competitive markets. Gas volumes decreased 4.4% due to lower average consumption as a result of the change in customer mix.
- Large Business Electricity gross margin was \$12 million, down 40.0%, as a result of a decline in volumes and lower energy margin rates.
- Large Business Gas gross margin was \$11 million, down 52.2%, as volumes declined 53.7% due to tight market conditions.
- Fees, charges and other margin was \$15 million, down 59.5%, due to a reallocation of certain fees and recoveries that are directly attributable to Consumer gross margin and a decrease in late payment fees reflecting a positive trend of customers paying on time.

### 1.4.2.2 Customer Markets Operating Costs

	31 Dec 2018 \$m	Restated 31 Dec 2017 \$m
Labour and contractor services	(89)	(105)
Bad and doubtful debts	(66)	(54)
Campaigns and advertising	(63)	(71)
Other expenditure	(46)	(45)
<b>Operating costs (excluding depreciation and amortisation)</b>	<b>(264)</b>	<b>(275)</b>
Add: depreciation and amortisation	(48)	(46)
<b>Operating costs (including depreciation and amortisation)</b>	<b>(312)</b>	<b>(321)</b>

Customer Markets operating costs (excluding depreciation and amortisation) were \$264 million, down \$11 million.

- Labour and contractor services costs were \$89 million, down 15.2%, as a result of realised benefits of re-organisation undertaken during the previous financial year, efficiencies and lower transactional volumes driven by the Customer Experience Transformation program and the reallocation of certain pass through charges that are directly attributable to Consumer gross margin.
- Bad and doubtful debts were \$66 million, up 22.2%. The customer affordability program announced in August 2018 resulted in a \$33 million increase in the bad and doubtful debts expense. This was partially offset by a reduction reflecting a seasonable movement in the provision of trade receivables and an underlying improvement in net bad debt expense.
- Campaigns and advertising costs were \$63 million, down 11.3%, primarily due to savings achieved through the Customer Experience Transformation program and lower retention volumes in the current period, as well as reduced costs associated with entry into the Western Australian gas market and brand transformation activities in the prior corresponding period.
- Other expenditure was \$46 million, broadly in line with the prior corresponding period.

Depreciation and amortisation was \$48 million, broadly flat, largely relating to continued investment in digital capability and core systems improvements.

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### 1.4.2.3 Consumer Customer Profitability and Operating Efficiency

	31 Dec 2018	Restated 31 Dec 2017
Gross margin	<b>\$367m</b>	\$387m
Net operating costs (including fees, charges, recoveries and depreciation and amortisation)	<b>\$(272)m</b>	\$(255)m
EBIT	<b>\$95m</b>	\$132m
Average customer accounts ('000)	<b>3,631</b>	3,659
Gross margin per customer account	<b>\$101</b>	\$106
Net operating costs per customer account	<b>\$(75)</b>	\$(70)
EBIT per customer account	<b>\$26</b>	\$36
Net operating costs as percentage of gross margin	<b>74.1%</b>	65.9%
Cost to Serve	<b>\$(175)m</b>	\$(154)m
Cost to Serve per customer account	<b>\$(48)</b>	\$(42)
Acquisitions and retentions ('000)	<b>994</b>	1,117
Cost to Grow	<b>\$(97)m</b>	\$(101)m
Cost to Grow per account (acquired and retained)	<b>\$(98)</b>	\$(90)

Average customer accounts decreased period-on-period due to higher churn across the market which was partially offset by internal acquisition and retention activities and growth of customers in Western Australia.

AGL churn increased 2.1 ppts to 19.6% from 17.5% reported at 31 December 2017 due to increased market activity. Rest of Market churn increased 2.2 ppts to 26.0% from 23.8% reported at 31 December 2017. The gap between AGL and the rest of the market was 6.4 ppts as at 31 December 2018, up from 6.3 ppts as at 31 December 2017. Acquisitions and retentions decreased to 1 million, down 11.0%, primarily driven by lower retention volumes with more customers switching to lower priced products in the prior year.

Consumer gross margin per customer account was \$101, down 4.7%, as gross margin decreased due to continued intense market activity and the continued impact of customers switching to lower priced products.

Consumer net operating costs per customer account was \$75, up 7.1%, and Consumer net operating costs as a percentage of gross margin was 74.1%, up 8.2 ppts. Increase in net operating costs is primarily attributable to the customer affordability program, as noted above in section 1.4.2.2.

Consumer EBIT per customer account was \$26, down 27.8%, resulting from continued margin compression and higher net operating costs associated with the customer affordability program.

Cost to Serve per account includes the consumer operating costs related to serving existing customers divided by the average number of customers during the reporting period. Cost to Serve per customer account was \$48, up 14.3%, largely reflecting the impact of the customer affordability program. Additionally, late payment fees were lower as more customers paid their bills on time.

Cost to Grow per account includes the consumer operating costs related to acquiring and retaining customers divided by the number of customers acquired and retained during the reporting period. Cost to Grow per account was \$98, up 8.9% due to lower retention volumes.

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### 1.4.2.4 Customer Numbers

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

	31 Dec 2018 ('000)	30 Jun 2018 ('000)
<b>Consumer Electricity</b>	<b>2,222</b>	2,220
New South Wales	831	823
Victoria	658	658
South Australia	364	367
Queensland	369	372
<b>Consumer Gas</b>	<b>1,424</b>	1,406
New South Wales	641	643
Victoria	534	528
South Australia	132	131
Queensland	84	83
Western Australia	33	21
<b>Total Consumer accounts</b>	<b>3,646</b>	3,626
<b>Total Large Business Customer accounts</b>	<b>16</b>	15
<b>Total Customer accounts</b>	<b>3,662</b>	3,641

Total customer account numbers increased 0.6% to 3.662 million, from 3.641 million reported at 30 June 2018. Consumer electricity customer account numbers have remained broadly flat as a result of significant competition in Queensland and South Australia, offset by growth in New South Wales. Consumer gas customer account numbers have increased predominately due to the growth of customers in Western Australia and Victoria.

### 1.4.3 Group Operations

Group Operations comprises AGL's power generation portfolio and other key sites and operating facilities across the Thermal, Renewables, Natural Gas, and Other business units

- Thermal primarily comprises: AGL Macquarie (4,640 MW), consisting of the Bayswater and Liddell black coal power plants in New South Wales; AGL Loy Yang (2,210 MW), a brown coal mine and power plant in Victoria; and AGL Torrens (1,280 MW), a gas power plant in South Australia. Currently under construction as part of AGL Torrens is the Barker Inlet Power Station (210 MW), due for completion in 2019.
- Renewables primarily comprises 788 MW of hydroelectric power stations in Victoria and New South Wales; 924 MW of wind power generation in South Australia and Victoria (as the operator) and 156 MW of solar power in New South Wales (as the operator).
- Natural Gas includes the Newcastle Gas Storage Facility in New South Wales, the Silver Springs underground gas storage facility in Queensland, the natural gas production assets at Camden in New South Wales and the North Queensland gas assets, including the Moranbah Gas Project. On 31 January 2019, AGL announced it had terminated its agreement to sell its North Queensland gas assets to Order (Moranbah) Holdings Pty Ltd, originally announced on 24 August 2017. Certain conditions precedent to the sale were unable to be satisfied to secure counter-party support for the sale to proceed.
- Other operations primarily consist of National Assets, which AGL sold in September 2018 (refer section 1.1.3 above), Power Development and Construction, Property and Facilities, and technical and business support functions.

#### 1.4.3.1 Group Operations Underlying EBIT

	31 Dec 2018 \$m	Restated 31 Dec 2017 \$m
<b>Gross margin</b>	<b>81</b>	109
Operating costs (excluding depreciation and amortisation)	(355)	(340)
<b>Underlying EBITDA</b>	<b>(274)</b>	(231)
Depreciation and amortisation	(231)	(206)
<b>Underlying EBIT</b>	<b>(505)</b>	(437)

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The following tables provide a breakdown of the contributors to Underlying EBITDA and Underlying EBIT:

Thermal	(211)	(200)
Renewables	(25)	(22)
Natural Gas	(15)	(7)
Other operations	(23)	(2)
<b>Underlying EBITDA</b>	<b>(274)</b>	<b>(231)</b>
Thermal	(392)	(367)
Renewables	(48)	(35)
Natural Gas	(29)	(23)
Other operations	(36)	(12)
<b>Underlying EBIT</b>	<b>(505)</b>	<b>(437)</b>

Group Operations Underlying EBIT was \$(505) million, down 15.6%, driven by the non-recurrence of margin from divested assets, increased costs to maintain plant availability, increased costs relating to the Moranbah Gas Project joint venture and higher depreciation and amortisation at AGL Macquarie and AGL's hydro assets. This was partly offset by lower labour costs at AGL Loy Yang as a result of the transition and reorganisation program initiated in the prior period.

- Thermal Underlying EBIT was \$(392) million, down 6.8%, driven by additional labour, contractor and maintenance costs to maintain plant availability at AGL Macquarie. In addition, AGL Macquarie depreciation increased reflecting a higher asset base as a result of increased capital expenditure to ensure future reliability. This was partly offset by the reduction in labour costs at AGL Loy Yang as a result of the transition and reorganisation program initiated in the prior period.
- Renewables Underlying EBIT was \$(48) million, down 37.1%, largely reflecting the increase in depreciation and amortisation on the AGL hydro assets due to a change in the estimated asset useful lives.
- Natural Gas Underlying EBIT was \$(29) million, down 26.1%, primarily due to the increase in field development costs relating to the Moranbah Gas Project joint venture and Silver Springs maintenance costs
- Other operations Underlying EBIT was \$(36) million, down \$24 million, reflecting the reduction in margin received from the Active Stream business (divested in November 2017) and National Assets business (divested in September 2018), and the transfer of the Procurement and Health, Safety and Environment functions from Centrally Managed Expenses in the current period.

### 1.4.3.2 Group Operations Operating Costs

	31 Dec 2018 \$m	Restated 31 Dec 2017 \$m
Labour	(165)	(165)
Contractor services	(91)	(89)
Other operations	(99)	(86)
<b>Operating costs (excluding depreciation and amortisation)</b>	<b>(355)</b>	<b>(340)</b>

Group Operations operating costs (excluding depreciation and amortisation) of \$355 million increased \$15 million, primarily due to initiatives to maintain plant availability at AGL Macquarie and the impact of the increase in field development costs relating to the Moranbah Gas Project joint venture. This was partly offset by the reduction in labour costs at AGL Loy Yang as a result of the transition and reorganisation program undertaken in the prior period.

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### 1.4.4 Centrally Managed Expenses

AGL manages and reports a number of expense items including information technology under Centrally Managed Expenses. These costs are not formally reallocated to the other operating segments because their management is the responsibility of various corporate functions.

Underlying EBIT of \$(10) million included within Centrally Managed Expenses in the prior corresponding period was subsequently incorporated into Customer Markets, Wholesale Markets and Group Operations from 1H19, driven by the transfer of the New Energy, Procurement and Health, Safety and Environment functions.

	31 Dec 2018 \$m	31 Dec 2017 \$m
<b>Gross margin</b>	<b>1</b>	-
Operating costs (excluding depreciation and amortisation)	(132)	(131)
<b>Underlying EBITDA</b>	<b>(131)</b>	(131)
Depreciation and amortisation	(11)	(14)
<b>Underlying EBIT</b>	<b>(142)</b>	(145)

The following table provides a more detailed breakdown of Centrally Managed Expenses operating costs excluding depreciation and amortisation.

Labour	(59)	(60)
Hardware and software costs	(40)	(36)
Consultants and contractor services	(9)	(9)
Insurance premiums	(11)	(9)
Other	(13)	(17)
<b>Operating costs (excluding depreciation and amortisation)</b>	<b>(132)</b>	(131)

Centrally Managed Expenses Underlying EBIT was \$(142) million, up 2.1%. Excluding the impact of the transfer of functions mentioned above, Underlying EBIT was down 5.2%, primarily due to costs associated with responding to a period of intense regulatory activity, IT transformation, the enterprise resource planning software upgrade and executive transition and redundancies. Business as usual costs were broadly flat with labour inflation partially offset by efficiency savings.

### 1.4.5 Investments

Investments comprises AGL's interests in the ActewAGL Retail Partnership, PARF, Digital Energy Exchange and New Energy investments: Advanced Microgrid Solutions Inc, Energy Impact Partners' Fund, Activate Capital Partners, Solar Analytics Pty Limited, Sunverge Energy Inc and Ecobee Inc.

	31 Dec 2018 \$m	31 Dec 2017 \$m
ActewAGL	16	18
PARF	2	-
New Energy investments	-	(1)
Other	-	(1)
<b>Underlying EBIT</b>	<b>18</b>	16

ActewAGL Retail partnership contributed an equity share of profits of \$16 million for the period compared with \$18 million in the prior corresponding period. The decrease was due to increased competition and market activity compared with the prior corresponding period.

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### 1.5 Portfolio Review

The portfolio review reporting for both the Electricity (section 1.5.1) and Gas (section 1.5.2) businesses provides a consolidated margin for each fuel across operating segments. This is as an effective tool to present how value is generated in the business for each type of fuel. The portfolio review combines the revenue from external customers and associated network and other costs, the costs of the procurement and hedging of AGL's gas and electricity requirements, and the costs of managing and maintaining AGL's owned and contracted generation assets to calculate the consolidated margin. A per unit rate (\$/MWh for electricity and \$/GJ for gas) is derived from each category of revenue and cost using the relevant associated volumes.

The tables in section 1.5.1 and 1.5.2 should be read in conjunction with section 1.7 to reconcile the segmental revenue and costs allocated to each portfolio with Group Underlying EBIT.

#### 1.5.1 Electricity Portfolio

Electricity portfolio review reporting combines the Wholesale Markets, Customer Markets (Consumer and Business) and Group Operations businesses to reflect the procurement and hedging of AGL's electricity requirements, the costs of managing and maintaining AGL's owned and contracted generation assets, and the margin from external customers.

All volume generated is sold into the National Electricity Market ("the pool") for which AGL receives pool generation revenue. Pool generation revenue is driven by volume and pool prices, which are set by the real-time market and differ by state. The total volume demanded by AGL customers is then purchased from the pool according to the geographical profile of customer demand and is reported as pool purchase costs. Where pool generation volumes exceed volumes purchased for customers, the net generation volume surplus drives revenue from indirect customers, which is incorporated within the pool generation revenue. Costs incurred in generating volume sold into the pool are reported as costs of generation, of which Wholesale Markets manages the cost of sales and Group Operations manages generation operation costs and asset depreciation.

	31 Dec 2018 GWh	31 Dec 2017 GWh	Movement %
Consumer customers pool purchase volume	7,162	7,411	(3.4)%
Large Business customers and Wholesale Markets pool purchase volume	12,988	13,260	(2.1)%
Pool purchase volume	20,150	20,671	(2.5)%
Add: Net generation volume surplus	1,083	656	65.1%
<b>Pool generation volume</b>	<b>21,233</b>	<b>21,327</b>	<b>(0.4)%</b>
Consumer customers sales	6,715	6,949	(3.4)%
Large Business customers sales	4,711	5,014	(6.0)%
Wholesale customers sales	8,051	7,982	0.9%
<b>Total customer sales volume</b>	<b>19,477</b>	<b>19,945</b>	<b>(2.3)%</b>
Energy losses	673	726	(7.3)%
<b>Pool purchase volume</b>	<b>20,150</b>	<b>20,671</b>	<b>(2.5)%</b>

Pool generation volumes were 21,233 GWh, broadly flat. Reduced generation at AGL Loy Yang and AGL Macquarie due to lower availability from outages, and at AGL Torrens Island due to AGL's lower contracted position in South Australia, was largely offset by the increase in generation at AGL's hydro and wind assets. Consumer customer sales volumes were 6,715 GWh, a decrease of 234 GWh or 3.4% driven by a decrease in average customer accounts and lower average consumption. Total average consumption per customer decreased by 1.9% as a result of a change in customer mix. Large Business customer sales volumes were 4,711 GWh, a 303 GWh or 6.0% decrease predominately due to competitive pressures. Wholesale customer sales volumes were broadly flat at 8,051 GWh, up 69 GWh or 0.9%, with no significant change to AGL's Wholesale customer base.

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	Portfolio Margin		Per Unit		Volume Denomination	
	31 Dec 2018 \$m	Restated 31 Dec 2017 \$m	31 Dec 2018 \$/MWh	Restated 31 Dec 2017 \$/MWh	31 Dec 2018 GWh	31 Dec 2017 GWh
Consumer customers <sup>1</sup>	2,030	2,076	302.3	298.7	6,715	6,949
Large Business customers <sup>1</sup>	844	761	179.2	151.8	4,711	5,014
Wholesale customers and Eco Markets <sup>1,2</sup>	560	439	69.6	55.0	8,051	7,982
Group Operations (Thermal and Renewables)	42	52				
<b>Total revenue<sup>1</sup></b>	<b>3,476</b>	<b>3,328</b>	<b>178.5</b>	<b>166.9</b>	<b>19,477</b>	<b>19,945</b>
Consumer network costs <sup>1</sup>	(825)	(857)	(122.9)	(123.3)	6,715	6,949
Consumer other cost of sales <sup>1</sup>	(292)	(259)	(43.5)	(37.3)	6,715	6,949
Large Business customers network costs <sup>1</sup>	(285)	(290)	(60.5)	(57.8)	4,711	5,014
Large Business customers other cost of sales <sup>1</sup>	(115)	(116)	(24.4)	(23.1)	4,711	5,014
Customer network and other cost of sales <sup>1</sup>	(1,517)	(1,522)	(132.8)	(127.2)	11,426	11,963
Fuel <sup>3</sup>	(515)	(428)	(24.3)	(20.1)	21,233	21,327
Generation running costs <sup>3</sup>	(330)	(262)	(15.5)	(12.3)	21,233	21,327
Depreciation and amortisation <sup>3</sup>	(204)	(180)	(9.6)	(8.4)	21,233	21,327
Costs of generation (a) <sup>3</sup>	(1,049)	(870)	(49.4)	(40.8)	21,233	21,327
Pool generation revenue <sup>2,4</sup>	1,887	1,930	88.9	90.5	21,233	21,327
Pool purchase costs <sup>2,5</sup>	(1,778)	(1,843)	(88.2)	(89.2)	20,150	20,671
Net derivative (cost)/revenue <sup>4</sup>	(64)	(138)	(3.0)	(6.5)	21,233	21,327
Net Portfolio Management (b) <sup>6</sup>	45	(51)	2.3	(2.6)	19,477	19,945
<b>Total wholesale costs (a + b)<sup>5</sup></b>	<b>(1,004)</b>	<b>(921)</b>	<b>(49.8)</b>	<b>(44.6)</b>	<b>20,150</b>	<b>20,671</b>
<b>Total costs<sup>6</sup></b>	<b>(2,521)</b>	<b>(2,443)</b>	<b>(129.4)</b>	<b>(122.5)</b>	<b>19,477</b>	<b>19,945</b>
<b>Portfolio margin<sup>7</sup></b>	<b>955</b>	<b>885</b>	<b>49.0</b>	<b>44.4</b>	<b>19,477</b>	<b>19,945</b>
Consumer customers	228	260				
Large Business customers	12	20				
Wholesale Electricity	1,088	997				
Eco Markets	67	10				
Group Operations (Thermal and Renewables)	(440)	(402)				

1. Customer sales volume - revenue and cost is driven by customer sales volume, which is utilised to calculate \$/MWh for key Consumer, Business and Wholesale Customer metrics.
2. Pool generation revenue, Wholesale electricity revenue and pool purchase costs include amounts from certain wholesale contracts that are treated as derivatives for statutory reporting purposes. In the statutory accounts the amounts associated with these contracts are recognised within cost of sales.
3. Pool generation volume - this is the direct driver of all costs of generation (fuel costs, generation running costs and depreciation and amortisation) and is used to calculate the \$/MWh cost.
4. Pool generation volume - pool generation revenue is directly earned on pool generation volume, which is utilised to calculate a \$/MWh value. Additionally, derivative instruments are used to manage hedging requirements of the consumer and business customer loads, as well as the long energy position where generation volume is more than the internal AGL portfolio (the net generation volume surplus).
5. Pool purchase volume - as Wholesale Markets manage the purchase of pool volume to meet customer demand, pool purchase volume is utilised to calculate the \$/MWh cost.
6. Customer sales volume - excluding generation volumes, which drive generation running costs, the portfolio comprises volumes sold to customers. Sold volumes is utilised to calculate the net portfolio management \$/MWh.
7. Customer sales volume - whilst various drivers exist within total cost of sales metrics and overall portfolio margin, ultimately the volume sold to customers is the key driver of calculating margin and is used to calculate the \$/MWh value.



## Operating and Financial Review

For the half-year ended 31 December 2018

Electricity portfolio margin increased to \$49.0 per MWh from \$44.4 per MWh driven by the increase in higher wholesale prices, partly offset by the increase in fuel costs.

Total revenue was \$3,476 million, an increase of \$148 million. Revenue from Consumer customers was \$2,030 million, a decrease of \$46 million, driven by increase in discounting within a competitive market. Large Business customer revenue was \$844 million, an increase of \$83 million, due to increased market prices more than offsetting lower volumes. Wholesale Electricity and Eco Markets revenue was \$560 million, an increase of \$121 million, reflecting the increase in contract prices.

Lower network rates and customer sales volumes resulted in lower network costs. Increases in solar feed-in tariffs paid to customers and increased costs of complying with green schemes contributed to the increase in Consumer other cost of sales.

Total Wholesale costs were \$(1,004) million, an increase of \$83 million, or \$5.2 per MWh. Net portfolio management improved \$96 million or \$4.9 per MWh driven by higher pool prices and increased forward contract prices. Fuel costs increased \$87 million or \$4.2 per MWh reflecting increased coal contract cost escalation and higher wholesale gas prices. Increased depreciation of \$24 million was predominantly due to a higher asset base at AGL Macquarie due to the committed closure of Liddell Power Station and a change in the estimated asset useful lives of AGL's hydro assets.

In addition to the commentary above, Electricity portfolio margin is discussed in sections 1.4.1 and 1.4.2.

### 1.5.2 Gas Portfolio

The gas portfolio review reporting combines the Wholesale Markets and Customer Markets (Consumer and Business) businesses to reflect the procurement and hedging of AGL's gas requirements and the margin from external customers.

	31 Dec 2018 PJ	31 Dec 2017 PJ	Movement %
Consumer customers	32.7	34.2	(4.4)%
Large Business customers	10.0	21.6	(53.7)%
Wholesale Markets and generation	47.1	44.5	5.8%
<b>Total customer sales volume</b>	<b>89.8</b>	100.3	(10.5)%
Energy losses	1.2	1.4	(14.3)%
<b>Gas purchase volume</b>	<b>91.0</b>	101.7	(10.5)%

Total customer sales volume was 89.8 PJ, a decrease of 10.5 PJ or 10.5% due to the loss of Large Business customer volumes, partially offset by an increase in Wholesale customer acquisitions. The decrease in Consumer customer volumes was due to lower average consumption of 4.7% as a result of changing customer mix and milder weather.

## Operating and Financial Review

For the half-year ended 31 December 2018

	Portfolio Margin		Per Unit		Volume Denomination	
	31 Dec 2018 \$m	31 Dec 2017 \$m	31 Dec 2018 \$/GJ	31 Dec 2017 \$/GJ	31 Dec 2018 PJ	31 Dec 2017 PJ
Consumer customers	851	825	26.0	24.1	32.7	34.2
Large Business customers	108	212	10.8	9.8	10.0	21.6
Wholesale Gas and Eco Markets	478	366	10.1	8.2	47.1	44.5
<b>Total revenue</b>	<b>1,437</b>	1,403	<b>16.0</b>	14.0	<b>89.8</b>	100.3
Consumer network costs	(276)	(294)	(8.4)	(8.6)	32.7	34.2
Consumer other cost of sales	(22)	(20)	(0.7)	(0.6)	32.7	34.2
Large Business customers network costs	(9)	(20)	(0.9)	(0.9)	10.0	21.6
Large Business customers other cost of sales	(3)	(5)	(0.3)	(0.2)	10.0	21.6
Customer network and other cost of sales	(310)	(339)	(7.3)	(6.1)	42.7	55.8
Gas purchases	(572)	(504)	(6.4)	(5.0)	89.8	100.3
Haulage, storage and other	(144)	(169)	(1.6)	(1.7)	89.8	100.3
Total wholesale costs	(716)	(673)	(8.0)	(6.7)	89.8	100.3
<b>Total costs</b>	<b>(1,026)</b>	(1,012)	<b>(11.4)</b>	(10.1)	<b>89.8</b>	100.3
<b>Portfolio margin</b>	<b>411</b>	391	<b>4.6</b>	3.9	<b>89.8</b>	100.3
Consumer customers	139	127				
Large Business customers	11	23				
Wholesale Gas	261	240				
Eco Markets	-	1				

Gas portfolio margin increased to \$4.6 per GJ from \$3.9 per GJ driven by an increase in the market price.

Total revenue was \$1,437 million, an increase of \$34 million largely due to an increase in Consumer and Wholesale customers sales revenue partially offset by a decrease in Large Business customers sales revenue. The increase in Wholesale customer revenue to \$478 million was driven by increased contracted rates. Consumer revenue was \$851 million, an increase of \$26 million due to increases in net customer prices driven by higher wholesale gas prices. The \$104 million decrease in Large Business customers revenue was due to a decrease in volumes sold as a result of continued tight market conditions and the loss of customers.

Total costs were \$(1,026) million, an increase of \$14 million mainly due to the increased wholesale gas price, partially offset by a decrease in total network costs due to lower volumes and decreased network rates.

In addition to the commentary above, Gas portfolio margin is discussed in sections 1.4.1 and 1.4.2.

## Operating and Financial Review

For the half-year ended 31 December 2018

### 1.6 Consolidated Financial Performance by Operating Segment

31 Dec 2018 \$m	Wholesale Markets	Customer Markets	Group Operations	Centrally Managed Expenses	Investments	Inter-segment	Total Group
Revenue	4,293	3,860	89	1	-	(1,906)	6,337
Cost of sales	(2,877)	(3,455)	(9)	-	-	1,906	(4,435)
Other income/(loss)	-	-	1	-	18	-	19
<b>Gross margin</b>	<b>1,416</b>	<b>405</b>	<b>81</b>	<b>1</b>	<b>18</b>	<b>-</b>	<b>1,921</b>
Operating costs (excluding depreciation and amortisation)	(13)	(264)	(355)	(132)	-	-	(764)
<b>Underlying EBITDA</b>	<b>1,403</b>	<b>141</b>	<b>(274)</b>	<b>(131)</b>	<b>18</b>	<b>-</b>	<b>1,157</b>
Depreciation and amortisation	(5)	(48)	(231)	(11)	-	-	(295)
<b>Underlying EBIT</b>	<b>1,398</b>	<b>93</b>	<b>(505)</b>	<b>(142)</b>	<b>18</b>	<b>-</b>	<b>862</b>
Net finance costs							(100)
Underlying Profit before tax							762
Income tax expense							(225)
<b>Underlying Profit after tax</b>							<b>537</b>

Restated 31 Dec 2017 \$m	Wholesale Markets	Customer Markets	Group Operations	Centrally Managed Expenses	Investments	Inter-segment	Total Group
Revenue	4,275	3,930	122	-	-	(1,877)	6,450
Cost of sales	(3,027)	(3,463)	(18)	-	-	1,877	(4,631)
Other income/(loss)			5	-	18	-	23
<b>Gross margin</b>	<b>1,248</b>	<b>467</b>	<b>109</b>	<b>-</b>	<b>18</b>	<b>-</b>	<b>1,842</b>
Operating costs (excluding depreciation and amortisation)	(10)	(275)	(340)	(131)	(2)	-	(758)
<b>Underlying EBITDA</b>	<b>1,238</b>	<b>192</b>	<b>(231)</b>	<b>(131)</b>	<b>16</b>	<b>-</b>	<b>1,084</b>
Depreciation and amortisation	(4)	(46)	(206)	(14)	-	-	(270)
<b>Underlying EBIT</b>	<b>1,234</b>	<b>146</b>	<b>(437)</b>	<b>(145)</b>	<b>16</b>	<b>-</b>	<b>814</b>
Net finance costs							(119)
Underlying Profit before tax							695
Income tax expense							(208)
<b>Underlying Profit after tax</b>							<b>487</b>

## Operating and Financial Review

For the half-year ended 31 December 2018

### 1.7 Portfolio Review Reconciliation

Table 1.7.1: Reconciliation of Portfolio Margin Reporting to Segmental Reporting

31 Dec 2018 \$m	Electricity Portfolio	Gas Portfolio	Other AGL	Adjustments (a)	Total Group
Wholesale Markets	560	478	2	1,377	2,417
Customer Markets	2,874	959	27	(8)	3,852
Group Operations	42	-	47	(22)	67
Other	-	-	1	-	1
<b>Revenue</b>	<b>3,476</b>	<b>1,437</b>	<b>77</b>	<b>1,347</b>	<b>6,337</b>
Wholesale Markets	(521)	(716)	-	(1,605)	(2,842)
Customer Markets	(1,517)	(310)	(12)	252	(1,587)
Group Operations	-	-	(12)	6	(6)
Other	-	-	-	-	-
<b>Cost of sales</b>	<b>(2,038)</b>	<b>(1,026)</b>	<b>(24)</b>	<b>(1,347)</b>	<b>(4,435)</b>
Other income/(loss)	-	-	19	-	19
<b>Gross margin</b>	<b>1,438</b>	<b>411</b>	<b>72</b>	<b>-</b>	<b>1,921</b>
Operating costs (excluding depreciation and amortisation)	(279)	-	(485)	-	(764)
Depreciation and amortisation	(204)	-	(91)	-	(295)
<b>Portfolio Margin / Underlying EBIT</b>	<b>955</b>	<b>411</b>	<b>(504)</b>	<b>-</b>	<b>862</b>

Table 1.7.2: Reconciliation of Portfolio Margin Revenue to Note 4 - Revenue

31 Dec 2018 \$m	Electricity	Gas	Pool revenue	Other	Total Group
Portfolio Margin Reporting	3,476	1,437	1,887	-	6,800
Revenue reclass	(381)	-	(23)	-	(404)
Intragroup	(1)	(145)	-	(26)	(172)
Other	(105)	11	-	207	113
<b>Note 4 - Revenue</b>	<b>2,989</b>	<b>1,303</b>	<b>1,864</b>	<b>181</b>	<b>6,337</b>

#### Notes

(a) Key adjustments include:

- Wholesale Markets electricity pool sales in the statutory accounts has been reallocated to cost of sales (net portfolio management) in the Portfolio Review where it is combined with pool purchase costs and derivatives to reflect AGL's net position.
- Wholesale Markets other revenue in the statutory accounts has been reallocated to cost of sales (generation running costs) in the Portfolio Review including ancillary services revenue, brown coal sales and wind farm asset management fees.
- Within Wholesale Markets, derivatives from certain wholesale contracts are recognised within cost of sales in the statutory accounts. In the Portfolio Review the revenue and costs have been separately disclosed.
- Intra-segment and inter-segment eliminations include: Gas sales from Wholesale Gas to Wholesale Electricity; gas sales from Group Operations (Natural Gas) to Wholesale Markets; electricity sales from Group Operations (National Assets) to Wholesale Markets; and metering sales from Group Operations (Active Stream) to Customer Markets. Elimination adjustment also includes the reallocation of green costs from Wholesale Markets (Eco-Markets) to Consumer and Business customer other cost of sales.

## Operating and Financial Review

For the half-year ended 31 December 2018

Table 1.7.3: Reconciliation of Portfolio Margin Reporting to Segmental Reporting

Restated 31 Dec 2017 \$m	Electricity Portfolio	Gas Portfolio	Other AGL	Adjustments (a)	Total Group
Wholesale Markets	439	366	-	1,649	2,454
Customer Markets	2,837	1,037	55	(22)	3,907
Group Operations	52	-	68	(31)	89
<b>Revenue</b>	<b>3,328</b>	<b>1,403</b>	<b>123</b>	<b>1,596</b>	<b>6,450</b>
Wholesale Markets	(467)	(673)	-	(1,845)	(2,985)
Customer Markets	(1,522)	(339)	(18)	242	(1,637)
Group Operations	-	-	(16)	7	(9)
<b>Cost of sales</b>	<b>(1,989)</b>	<b>(1,012)</b>	<b>(34)</b>	<b>(1,596)</b>	<b>(4,631)</b>
Other income/(loss)	-	-	23	-	23
<b>Gross margin</b>	<b>1,339</b>	<b>391</b>	<b>112</b>	<b>-</b>	<b>1,842</b>
Operating costs (excluding depreciation and amortisation)	(274)	-	(484)	-	(758)
Depreciation and amortisation	(180)	-	(90)	-	(270)
<b>Portfolio Margin / Underlying EBIT</b>	<b>885</b>	<b>391</b>	<b>(462)</b>	<b>-</b>	<b>814</b>

Table 1.7.4: Reconciliation of Portfolio Margin Revenue to Note 4 – Revenue

Restated 31 Dec 2017 \$m	Electricity	Gas	Pool revenue	Other	Total Group
Portfolio Margin Reporting	3,328	1,403	1,930	-	6,661
Revenue reclass	(185)	-	(10)	-	(195)
Intragroup	1	(147)	-	(36)	(182)
Other	(102)	26	-	242	166
<b>Note 4 - Revenue</b>	<b>3,042</b>	<b>1,282</b>	<b>1,920</b>	<b>206</b>	<b>6,450</b>

### Notes

(a) Key adjustments include:

- Wholesale Markets electricity pool sales in the statutory accounts has been reallocated to cost of sales (net portfolio management) in the Portfolio Review where it is combined with pool purchase costs and derivatives to reflect AGL's net position.
- Wholesale Markets other revenue in the statutory accounts has been reallocated to cost of sales (generation running costs) in the Portfolio Review including ancillary services revenue, brown coal sales and wind farm asset management fees.
- Within Wholesale Markets, derivatives from certain wholesale contracts are recognised within cost of sales in the statutory accounts. In the Portfolio Review the revenue and costs have been separately disclosed.
- Intra-segment and inter-segment eliminations include: Gas sales from Wholesale Gas to Wholesale Electricity; gas sales from Group Operations (Natural Gas) to Wholesale Markets; electricity sales from Group Operations (National Assets) to Wholesale Markets; and metering sales from Group Operations (Active Stream) to Customer Markets. Elimination adjustment also includes the reallocation of green costs from Wholesale Markets (Eco-Markets) to Consumer and Business customer other cost of sales.

## Operating and Financial Review

For the half-year ended 31 December 2018

### 1.8 Impact of adopting AASB 9 and AASB 16

Table 1.8.1: Group financial performance

	31 Dec 2017 \$m	AASB 9	AASB 16	Restated 31 Dec 2017 \$m
Revenue	6,450	-	-	<b>6,450</b>
Cost of sales	(4,628)	(3)	-	<b>(4,631)</b>
Other income/(loss)	23	-	-	<b>23</b>
<b>Gross margin</b>	<b>1,845</b>	<b>(3)</b>	<b>-</b>	<b>1,842</b>
Operating costs (excluding depreciation and amortisation)	(761)	(5)	8	<b>(758)</b>
<b>Underlying EBITDA</b>	<b>1,084</b>	<b>(8)</b>	<b>8</b>	<b>1,084</b>
Depreciation and amortisation	(265)	-	(5)	<b>(270)</b>
<b>Underlying EBIT</b>	<b>819</b>	<b>(8)</b>	<b>3</b>	<b>814</b>
Net finance costs	(116)	-	(3)	<b>(119)</b>
Underlying Profit before tax	703	(8)	-	<b>695</b>
Income tax expense	(210)	2	-	<b>(208)</b>
<b>Underlying Profit after tax</b>	<b>493</b>	<b>(6)</b>	<b>-</b>	<b>487</b>

Table 1.8.2: Summary statement of group financial position

	30 June 2018 \$m	AASB 9	AASB 16	Restated 30 June 2018 \$m
<b>Assets</b>				
Cash and cash equivalents	463	-	-	<b>463</b>
Other current assets	3,343	(116)	-	<b>3,227</b>
Property, plant and equipment	6,685	-	72	<b>6,757</b>
Intangible assets	3,271	-	-	<b>3,271</b>
Other non-current assets	877	35	3	<b>915</b>
<b>Total assets</b>	<b>14,639</b>	<b>(81)</b>	<b>75</b>	<b>14,633</b>
<b>Liabilities</b>				
Borrowings	2,841	-	122	<b>2,963</b>
Other liabilities	3,408	-	(39)	<b>3,369</b>
<b>Total liabilities</b>	<b>6,249</b>	<b>-</b>	<b>83</b>	<b>6,332</b>
<b>Net assets / total equity</b>	<b>8,390</b>	<b>(81)</b>	<b>(8)</b>	<b>8,301</b>

Refer to Note 1(c) in the Half-Year Financial Report for a full summary of the overall impact of adoption of new and revised Standards and Interpretations.

## Half-Year Financial Report

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## Condensed Consolidated Statement of Profit or Loss

for the half-year ended 31 December 2018

	Note	31 Dec 2018 \$m	Restated 31 Dec 2017 \$m <sup>1</sup>
<b>Continuing operations</b>			
Revenue	4	6,337	6,450
Other income	5	56	28
Expenses	6	(5,603)	(5,234)
Share of profits of associates and joint ventures	12	19	18
Profit before net financing costs, depreciation and amortisation		809	1,262
Depreciation and amortisation		(295)	(270)
<b>Profit before net financing costs</b>		<b>514</b>	992
Finance income	7	5	4
Finance costs	7	(105)	(121)
<b>Net financing costs</b>		<b>(100)</b>	(117)
<b>Profit before tax</b>		<b>414</b>	875
Income tax expense	8	(124)	(259)
<b>Profit for the period attributable to the shareholders of AGL Energy Limited</b>		<b>290</b>	616
<b>Earnings per share</b>			
Basic earnings per share	16	44.2 cents	93.9 cents
Diluted earnings per share	16	44.2 cents	93.8 cents

1. Comparatives have been restated for the adoption of AASB 9 Financial Instruments and AASB 16 Leases. Refer to Note1(c).

The Condensed Consolidated Statement of Profit or Loss should be read in conjunction with the notes to the financial statements.



## Condensed Consolidated Statement of Comprehensive Income

for the half-year ended 31 December 2018

	Note	31 Dec 2018 \$m	Restated 31 Dec 2017 \$m <sup>1</sup>
<b>Profit for the period</b>		<b>290</b>	616
<b>Other comprehensive income</b>			
<i>Items that will not be reclassified subsequently to profit or loss</i>			
Remeasurement loss on defined benefit plans		(23)	-
Fair value gain on the revaluation of equity instruments financial assets		13	-
Cost of hedging subject to basis adjustment		8	-
Income tax relating to items that will not be reclassified subsequently	8	3	-
		1	-
<i>Items that may be reclassified subsequently to profit or loss</i>			
Cash flow hedges			
Gain in fair value of cash flow hedges		56	2
Reclassification adjustments transferred to profit or loss		31	(39)
Income tax relating to items that may be reclassified subsequently	8	(26)	11
		61	(26)
<b>Other comprehensive income for the period, net of income tax</b>		<b>62</b>	(26)
<b>Total comprehensive income for the period attributable to the shareholders of AGL Energy Limited</b>		<b>352</b>	590

1. Comparatives have been restated for the adoption of AASB 9 Financial Instruments and AASB 16 Leases. Refer to Note1(c).

The Condensed Consolidated Statement of Comprehensive Income should be read in conjunction with the notes to the financial statements.

## Condensed Consolidated Statement of Financial Position

for the half-year ended 31 December 2018

	Note	31 Dec 2018 \$m	Restated 30 June 2018 \$m <sup>1</sup>
<b>Current assets</b>			
Cash and cash equivalents		428	463
Trade and other receivables	10	1,643	1,775
Inventories		415	370
Current tax assets		144	147
Other financial assets		1,101	600
Other assets		448	261
		<b>4,179</b>	<b>3,616</b>
Assets classified as held for sale	11	-	74
<b>Total current assets</b>		<b>4,179</b>	<b>3,690</b>
<b>Non-current assets</b>			
Inventories		10	10
Other financial assets		417	448
Investments in associates and joint ventures	12	139	100
Property, plant and equipment	13	6,890	6,757
Intangible assets		3,247	3,271
Deferred tax assets		277	280
Other assets		59	77
<b>Total non-current assets</b>		<b>11,039</b>	<b>10,943</b>
<b>Total assets</b>		<b>15,218</b>	<b>14,633</b>
<b>Current liabilities</b>			
Trade and other payables		1,613	1,579
Borrowings	14	41	34
Provisions		212	233
Current tax liabilities		99	81
Other financial liabilities		965	394
Other liabilities		2	2
<b>Total current liabilities</b>		<b>2,932</b>	<b>2,323</b>
<b>Non-current liabilities</b>			
Borrowings	14	3,003	2,929
Provisions		500	509
Other financial liabilities		378	432
Other liabilities		167	139
<b>Total non-current liabilities</b>		<b>4,048</b>	<b>4,009</b>
<b>Total liabilities</b>		<b>6,980</b>	<b>6,332</b>
<b>Net assets</b>		<b>8,238</b>	<b>8,301</b>
<b>Equity</b>			
Issued capital	15	6,223	6,223
Reserves		(26)	(102)
Retained earnings		2,041	2,180
<b>Total equity attributable to owners of AGL Energy Limited</b>		<b>8,238</b>	<b>8,301</b>

1. Comparatives have been restated for the adoption of AASB 9 Financial Instruments and AASB 16 Leases. Refer to Note1(c).

The Condensed Consolidated Statement of Financial Position should be read in conjunction with the notes to the financial statements.

## Condensed Consolidated Statement of Changes in Equity

for the half-year ended 31 December 2018

	Attributable to owners of AGL Energy Limited						
	Issued capital \$m	Investment revaluation reserve \$m	Employee equity benefits reserve \$m	Hedge reserve \$m	Other reserve \$m	Retained earnings \$m	Total equity \$m
<b>Balance at 1 July 2018 (restated)<sup>1</sup></b>	<b>6,223</b>	<b>(3)</b>	<b>(3)</b>	<b>(96)</b>	<b>-</b>	<b>2,180</b>	<b>8,301</b>
Profit for the period	-	-	-	-	-	290	290
Other comprehensive income for the period, net of income tax	-	11	-	61	6	(16)	62
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>11</b>	<b>-</b>	<b>61</b>	<b>6</b>	<b>274</b>	<b>352</b>
<b>Transactions with owners in their capacity as owners:</b>							
Payment of dividends	-	-	-	-	-	(413)	(413)
Share-based payments	-	-	(2)	-	-	-	(2)
<b>Balance at 31 December 2018</b>	<b>6,223</b>	<b>8</b>	<b>(5)</b>	<b>(35)</b>	<b>6</b>	<b>2,041</b>	<b>8,238</b>
<b>Balance at 1 July 2017 (restated)</b>	<b>6,223</b>	<b>-</b>	<b>1</b>	<b>15</b>	<b>-</b>	<b>1,251</b>	<b>7,490</b>
Profit for the period	-	-	-	-	-	616	616
Other comprehensive (loss)/income for the period, net of income tax	-	-	-	(26)	-	-	(26)
<b>Total comprehensive (loss)/income for the period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(26)</b>	<b>-</b>	<b>616</b>	<b>590</b>
<b>Transactions with owners in their capacity as owners:</b>							
Payment of dividends	-	-	-	-	-	(328)	(328)
Share-based payments	-	-	(6)	-	-	-	(6)
<b>Balance at 31 December 2017 (restated)</b>	<b>6,223</b>	<b>-</b>	<b>(5)</b>	<b>(11)</b>	<b>-</b>	<b>1,539</b>	<b>7,746</b>

1. Comparatives have been restated for the adoption of AASB 9 Financial Instruments and AASB 16 Leases. Refer to Note1(c).

The Condensed Consolidated Statement of Changes in Equity should be read in conjunction with the notes to the financial statements.

## Condensed Consolidated Statement of Cash Flows

for the half-year ended 31 December 2018

	Note	31 Dec 2018 \$m	Restated 31 Dec 2017 \$m <sup>1</sup>
<b>Cash flows from operating activities</b>			
Receipts from customers		7,033	7,075
Payments to suppliers and employees		(6,162)	(6,089)
Dividends received		8	12
Finance income received		6	4
Finance costs paid		(82)	(91)
Income taxes paid		(125)	(110)
<b>Net cash provided by operating activities</b>		<b>678</b>	<b>801</b>
<b>Cash flows from investing activities</b>			
Payments for property, plant and equipment and other assets		(378)	(318)
Payments for investments in associates and joint ventures		(29)	-
Payments for equity instrument financial assets		(6)	(13)
Proceeds from the sale of property, plant and equipment		5	24
Proceeds from the sale of subsidiaries and businesses, net of transaction costs	17	129	160
<b>Net cash used in investing activities</b>		<b>(279)</b>	<b>(147)</b>
<b>Cash flows from financing activities</b>			
Purchase of shares on-market for equity based remuneration		(5)	(10)
Proceeds from borrowings		39	465
Repayment of borrowings		(55)	(852)
Dividends paid	9	(413)	(328)
<b>Net cash used in financing activities</b>		<b>(434)</b>	<b>(725)</b>
<b>Net decrease in cash and cash equivalents</b>			
Cash and cash equivalents at the beginning of the financial period		463	154
<b>Cash and cash equivalents at the end of the financial period</b>		<b>428</b>	<b>83</b>

1. Comparatives have been restated for the adoption of AASB 9 Financial Instruments and AASB 16 Leases. Refer to Note1(c).

The Condensed Consolidated Statement of Cash Flows should be read in conjunction with the notes to the financial statements.

**AGL Energy Limited and controlled entities****Notes to the Financial Statements**

for the half-year ended 31 December 2018

**1. Summary of significant accounting policies**

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

The half-year financial report includes the condensed consolidated financial statements which comprise the Parent Entity and its controlled entities (together referred to as AGL).

**(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*. 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 equity instrument 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 Corporations Instrument 2016/191, dated 24 March 2016, and in accordance with that Instrument, amounts in the half-year financial report are rounded off to the nearest million dollars, unless otherwise indicated.

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in AGL's 2018 annual financial report for the year ended 30 June 2018, except for the update to 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 and Interpretations**

AGL has applied the required amendments to Standards and Interpretations that are relevant to its operations and effective for the current reporting period for the first time for the financial year commencing 1 July 2018:

- AASB 9 *Financial Instruments*

- AASB 15 *Revenue from Contracts with Customers*.

The following standard was early adopted:

- AASB 16 *Leases* (AGL has voluntarily elected to early adopt AASB 16 from 1 July 2018).

Disclosures with respect to the application of these new Standards and Interpretations are provided in this note.

There were a range of other new or amended Standards and Interpretations applicable from 1 July 2018, however these did not have any material impact on the disclosures or on the amounts recognised in AGL's consolidated financial statements.

With the exception of AASB 16 *Leases*, AGL has not early adopted any other accounting standards, interpretations or amendments that have been issued, but are not yet effective.

**AASB 9 Financial Instruments (AASB 9)**

AASB 9 *Financial Instruments* replaces AASB 139 *Financial Instruments: Recognition and Measurement* (AASB 139) bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting. With the exception of hedge accounting, which AGL applied prospectively, AGL has applied AASB 9 retrospectively, with the initial application date of 1 July 2018 and adjusting the comparative information for the period beginning 1 July 2017.

**Classification and measurement of financial assets and liabilities**

Financial assets and liabilities are classified and measured in accordance with one of the following categories pursuant to AASB 9:

- Amortised cost (AC);
- Fair value through other comprehensive income (that will not be reclassified subsequently to profit or loss) (FVTOCI-NR);
- Fair value through other comprehensive income (FVOCI);
- Fair value through profit or loss (FVTPL).

The classification of financial assets is based on two criteria: AGL's business model for managing the assets and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' (SPPI) on the principal amount outstanding.

On 1 July 2018, the date of initial application of AASB 9, AGL assessed which business models apply to the financial assets and liabilities held and classified its financial instruments into the appropriate AASB 9 categories. There was no change in the carrying value of AGL's financial instruments as a result of the adoption of this element of AASB 9.

## AGL Energy Limited and controlled entities

**Notes to the Financial Statements**

for the half-year ended 31 December 2018

	Measurement category	
	Original (AASB 139)	New (AASB 9)
<b>Current financial assets</b>		
Trade and other receivables	Amortised cost	Amortised cost
Derivatives	FVTPL	FVTPL
Unlisted equity securities and investment funds	Available-for-sale	FVTOCI-NR
<b>Non-current financial assets</b>		
Derivatives	FVTPL	FVTPL
<b>Current financial liabilities</b>		
Trade and other payables	Amortised cost	Amortised cost
Borrowings	Amortised cost	Amortised cost
Derivatives	FVTPL	FVTPL
Deferred consideration	Amortised cost	Amortised cost
<b>Non-current financial liabilities</b>		
Borrowings	Amortised cost	Amortised cost
Derivatives	FVTPL	FVTPL
Deferred consideration	Amortised cost	Amortised cost

*Equity investments previously classified as available-for-sale*

AGL elected to present in other comprehensive income changes in the fair value of all its equity investments previously classified as available-for-sale, because these investments are held as long-term strategic investments that are not expected to be sold in the short to medium term.

**Hedge accounting**

AGL applied hedge accounting prospectively. At the date of the initial application, all of AGL's existing hedging relationships were eligible to be treated as continuing hedging relationships. The currency basis adjustment relating to the hedge instrument applied to AGL's US dollar denominated borrowings has been recognised in other comprehensive income and an associated cost of hedging reserve. The adoption of the hedge accounting requirements of AASB 9 had no significant impact on AGL's financial statements.

**Impairment for financial assets**

The adoption of AASB 9 has changed AGL's accounting for impairment losses by replacing AASB 139's incurred loss approach with a forward-looking expected credit loss approach.

AASB 9 requires AGL to record an allowance for expected credit losses for all loans and other debt financial assets not held at fair value through profit or loss. Expected credit losses are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the AGL expects to receive.

AGL has applied AASB 9's simplified approach and has calculated expected credit losses based on lifetime expected credit losses. AGL has refined the existing segmentation of debt and identified forward-looking factors to apply to those profiles. Some of the key factors considered in the forward-looking information include wholesale electricity forward prices, commodity fuel forward prices, national GDP growth outlook and interest rate forward curves.

The impact of applying an expected credit loss model was a restated cumulative retained earnings decrease of \$77 million, a restated decrease in profit for the year ended 30 June 2018 of \$4 million, a restated decrease in trade and other receivables of \$116 million,

and a restated increase in deferred tax assets of \$35 million at 30 June 2018.

**AASB 15 Revenue from Contracts with Customers (AASB 15)**

AASB 15 and its associated amendments supersede AASB 111 *Construction Contracts*, AASB 118 *Revenue* and related Interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. AASB 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

AASB 15 requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires new disclosures.

AGL adopted AASB 15 using the full retrospective method of adoption with the date of initial application of 1 July 2018. In accordance with this method, to the extent the impact is material, AGL is required to restate comparative information for the 2018 financial period. The effect of the transition on the current period has not been disclosed as the standard provides an optional practical expedient which AGL has applied. AGL did apply other available optional practical expedients as set out below.

While the retrospective adoption of AASB 15 resulted in changes in accounting policies which are discussed below, it did not result in material adjustments to the current or preceding financial reporting years which is why there are no adjustments shown in the tables below relating to the impact of AASB 15 on comparative financial information.

**Impact on adoption**

AGL undertook a comprehensive analysis of the impact of the new revenue standard with the primary focus being to understand whether the timing, amount and nature of revenue recognised could differ pursuant to AASB 15.

**AGL Energy Limited and controlled entities****Notes to the Financial Statements**

for the half-year ended 31 December 2018

Based on this assessment, the application of AASB 15 did not have a material impact on the recognition, timing or measurement of AGL's revenue.

**AASB 16 Leases (AASB 16)**

AASB 16 *Leases* is effective for annual reporting periods commencing on or after 1 January 2019, with early application permitted for entities that also apply AASB 15.

AGL elected to early adopt AASB 16 for the reporting period beginning 1 July 2018 using the full retrospective method of transition. Consequently, the impact of the new standard has been calculated as if the standard had always applied, subject to the practical expedients permitted on transition (outlined below). The cumulative retrospective impact has been recognised as at 1 July 2017, being the beginning of the earliest comparative period presented. The comparative information has been restated for the effects of the new accounting policy.

Previously, AGL accounted for leases in accordance with AASB 117 *Leases* and AASB Interpretation 4 *Determining whether an arrangement contains a lease*. The new accounting policy for leases in accordance with AASB 16 is provided at note 1(e). Detailed disclosures of the impact of transition are provided below.

AGL has elected to apply the grandfathering practical expedient on transition to AASB 16. This means that for arrangements entered into before 1 July 2018, AGL has not reassessed whether it is, or contains, a lease in accordance with the new AASB 16 lease definition. Consequently, existing contracts as at 1 July 2018 continued to be assessed per the previous accounting policy described below in accordance with AASB 117 and AASB Interpretation 4. Given this, the transition and new requirements of AASB 16 per the new accounting leases policy described at note 1(e), have only been applied to arrangements entered into, or modified after, 1 July 2018.

**AGL as lessee**

In accordance with previous lease standards, assets held pursuant to finance leases were initially recognised as assets of AGL at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments.

The corresponding liability to the lessor was included in the Consolidated Statement of Financial Position as a finance lease liability. Lease payments were apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges were recognised immediately in profit or loss.

Assets held pursuant to finance leases were depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

Operating leases were not recognised on the Consolidated Statement of Financial Position. Instead, operating lease payments were recognised as an expense on a straight-line basis over the lease term. Contingent rentals arising pursuant to operating leases were recognised as an expense in the period in which they were incurred.

Lease incentives received to enter into operating leases were recognised as a liability. The aggregate benefit of incentives was recognised as a reduction of rental expense on a straight-line basis.

In accordance with AASB 16, there is no distinction between operating and finance leases. Instead, practically all leases are accounted for using a single on-balance sheet model similar to finance leases pursuant to AASB 117. At the inception date of a lease, a liability is recognised representing an obligation to make future lease payments (i.e. the lease liability) and an asset is recognised representing the right to use the underlying asset for the lease term (i.e. right-of-use (ROU) asset). Interest expense on the lease liability and depreciation expense on the ROU asset is recognised in the statement of profit or loss. The lease expense recognition pattern is generally accelerated as compared to the pattern under previous accounting standards. AASB 16 includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less).

Lease liabilities are remeasured upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The amount of the remeasurement of the lease liability is generally recognised as an adjustment to the ROU asset.

**AGL as lessor**

Lessor accounting in accordance with AASB 16 is substantially unchanged from the requirements pursuant the previous standard. Lessors continue to classify all leases using the same classification principles pursuant to the previous standards and distinguish between two types of leases: operating and finance leases. The limited changes in accounting for lessors do not impact AGL.

**Overall impact of adopting AASB 9, AASB 15 and AASB 16**

The following tables summarise the adjustments recognised against each individual line item within the relevant primary statements for all standards. Line items that were not affected by the changes have not been included in the table below. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided. The specifics of the adjustments for each standard are explained in more detail below. AASB 15 did not have a material impact on adoption.

## AGL Energy Limited and controlled entities

**Notes to the Financial Statements**

for the half-year ended 31 December 2018

## Consolidated Statements of Profit or Loss and Other Comprehensive Income

	31 Dec 2017 \$m	AASB 9	AASB 16	Restated 31 Dec 2017 \$m
<b>Continuing operations</b>				
Revenue	6,450	-	-	6,450
Other income	28	-	-	28
Expenses	(5,234)	(8) <sup>1</sup>	8 <sup>2</sup>	(5,234)
Share of profits of associates and joint ventures	18	-	-	18
Profit before net financing costs, depreciation and amortisation	1,262	(8)	8	1,262
Depreciation and amortisation	(265)	-	(5) <sup>3</sup>	(270)
<b>Profit before net financing costs</b>	997	(8)	3	992
Finance income	4	-	-	4
Finance costs	(118)	-	(3) <sup>4</sup>	(121)
<b>Net financing costs</b>	(114)	-	(3)	(117)
<b>Profit before tax</b>	883	(8)	-	875
Income tax expense	(261)	2 <sup>5</sup>	-	(259)
<b>Profit for the period attributable to the shareholders of AGL Energy Limited</b>	622	(6)	-	616
<b>Profit for the period</b>	622	(6)	-	616
<b>Other comprehensive income</b>				
<i>Items that will not be reclassified subsequently to profit or loss</i>				
Remeasurement gain on defined benefit plans	-	-	-	-
Income tax relating to items that will not be reclassified subsequently	-	-	-	-
	-	-	-	-
<i>Items that may be reclassified subsequently to profit or loss</i>				
Cash flow hedges				
Gain in fair value of cash flow hedges	2	-	-	2
Reclassification adjustments transferred to profit or loss	(39)	-	-	(39)
Income tax relating to items that may be reclassified subsequently	11	-	-	11
	(26)	-	-	(26)
<b>Other comprehensive (loss)/income for the period, net of income tax</b>	(26)	-	-	(26)
<b>Total comprehensive income for the period attributable to the shareholders of AGL Energy Limited</b>	596	(6)	-	590
<b>Earnings per share</b>				
Basic earnings per share	94.8 cents	(0.9 cents)	-	93.9 cents
Diluted earnings per share	94.7 cents	(0.9 cents)	-	93.8 cents

1. The additional credit loss on trade receivables recognised pursuant to the simplified expected credit loss model.

2. The reduction in rental expenses on the adoption of AASB 16 Leases.

3. The depreciation expense on the right-of-use asset recognised on the adoption of AASB 16 Leases.

4. The interest expense on the lease liability recognised on the adoption of AASB 16 Leases.

5. The tax effect of accounting standard adjustments.



## AGL Energy Limited and controlled entities

**Notes to the Financial Statements**

for the half-year ended 31 December 2018

## Consolidated Statement of Financial Position

	30 June 2018 \$m	AASB 9	AASB 16	Restated 30 June 2018 \$m
<b>Current assets</b>				
Cash and cash equivalents	463	-	-	463
Trade and other receivables	1,891	(116) <sup>1</sup>	-	1,775
Inventories	370	-	-	370
Current tax assets	147	-	-	147
Other financial assets	600	-	-	600
Other assets	261	-	-	261
	3,732	(116)	-	3,616
Assets classified as held for sale	74	-	-	74
<b>Total current assets</b>	3,806	(116)	-	3,690
<b>Non-current assets</b>				
Inventories	10	-	-	10
Other financial assets	448	-	-	448
Investments in associates and joint ventures	100	-	-	100
Property, plant and equipment	6,685	-	72 <sup>2</sup>	6,757
Intangible assets	3,271	-	-	3,271
Deferred tax assets	242	35 <sup>3</sup>	3 <sup>3</sup>	280
Other assets	77	-	-	77
<b>Total non-current assets</b>	10,833	35	75	10,943
<b>Total assets</b>	14,639	(81)	75	14,633
<b>Current liabilities</b>				
Trade and other payables	1,579	-	-	1,579
Borrowings	19	-	15 <sup>4</sup>	34
Provisions	233	-	-	233
Current tax liabilities	81	-	-	81
Other financial liabilities	394	-	-	394
Other liabilities	2	-	-	2
<b>Total current liabilities</b>	2,308	-	15	2,323
<b>Non-current liabilities</b>				
Borrowings	2,822	-	107 <sup>5</sup>	2,929
Provisions	509	-	-	509
Other financial liabilities	432	-	-	432
Other liabilities	178	-	(39) <sup>6</sup>	139
<b>Total non-current liabilities</b>	3,941	-	68	4,009
<b>Total liabilities</b>	6,249	-	83	6,332
<b>Net assets</b>	8,390	(81)	(8)	8,301
<b>Equity</b>				
Issued capital	6,223	-	-	6,223
Reserves	(102)	-	-	(102)
Retained earnings	2,269	(81)	(8)	2,180
<b>Total equity attributable to owners of AGL Energy Limited</b>	8,390	(81)	(8)	8,301
Retained earnings at 1 July 2017	1,335	(77)	(7)	1,251

1. The remeasurement of the expected credit loss allowance recognised pursuant to the simplified expected credit loss model.

2. The recognition of the right-of-use asset on the adoption of AASB 16 Leases .

3. The tax effect of the accounting standards adjustments.

4. The lease liability obligations due within a 12 month period from the balance date.

5. The non-current element of lease liabilities recognised on the adoption of AASB 16.

6. The derecognition of the straight line lease liability previously recognised pursuant to AASB 117 Leases .

**AGL Energy Limited and controlled entities****Notes to the Financial Statements**

for the half-year ended 31 December 2018

**(d) Standards and Interpretations in issue not yet adopted**

The following accounting standards, accounting standard amendments and interpretations are due for adoption for the year ending 30 June 2020:

- AASB Interpretation 23 *Uncertainty Over Income Tax Treatment*;
- AASB 2018-1 *Annual Improvements 2015-2017*
- AASB 2018-2 *Amendments to AASB 19 – plan amendments, curtailment or settlement*

The standards and interpretations listed above will not have a material impact on AGL's financial results or financial position on adoption.

**(e) Summary of new significant accounting policies****Revenue from contracts with customers**

AGL's primary revenue streams relate to the retail sale of electricity and gas to residential and business customers in Australia, and the sale of generated electricity to the National Electricity Market in Australia. Revenue from contracts with customers is recognised when control of the goods or services is transferred to a customer at an amount that reflects the consideration to which AGL expects to be entitled to receive in exchange for those goods or services.

The majority of contractual energy supply arrangements with customers have no fixed duration, generally require no minimum consumption by the customer and are able to be terminated by either party at any time without incurring significant penalty. Given this, the enforceable contracts are considered short term (less than 12 months) in nature. There are some longer term contracts particularly those with business and wholesale customers.

AGL has generally concluded that it is the principal in its revenue arrangements because it controls the goods or services before transferring them to the customer. AGL's primary performance obligations are the supply of energy (gas or electricity) over the contractual term. There are either individual contracts representing separate purchasing decisions of customers, or the units of supply of energy represent a series of distinct goods that are substantially the same and have the same pattern of transfer to the customer and hence is considered one performance obligation satisfied over time. For the shorter term contracts, the performance obligations are considered to be satisfied, and revenue is recognised, as and when the units of energy are delivered. Additionally, in relation to AGL's longer term contracts, AGL determines that the right-to-invoice approach to measure the progress towards completion of the performance obligation is most appropriate as it depicts AGL's performance. AGL uses the units of energy delivered to the customer as estimated as part of the unbilled process (and later verified by meter readings) or as indicated by the customer's energy meter (where these are known more frequently).

In most instances, the transaction price is determined by the unbilled process. For some wholesale contracts, AGL also considers the effects of variable consideration and for some business sales, there is non-cash consideration and consideration payable to the customer relating to renewable energy certificates ("RECs").

**Residential electricity and gas sales**

Residential energy sales relate to the sales of energy (gas and electricity) to retail customers. Residential sales are classified as individual, short term, day-by-day contracts and are recognised as revenue on a day-by-day basis upon delivery of energy to customers.

Where the customers are eligible to receive additional discounts (e.g. pay on time discounts to encourage timely payment of outstanding energy invoices), AGL considers this to be variable consideration which is estimated as part of the unbilled process.

**Portfolio approach for residential electricity and gas sales**

AGL recognises revenue from contracts with its residential customers at the electricity and gas portfolio levels. Furthermore, AGL has elected to apply the portfolio approach in accounting for the fair valuing of RECs, accounting for connection fees and sales commissions. AGL considers that applying the requirements of AASB 15 at the portfolio level would not differ materially from applying the standard on a contract-by-contract basis.

**Business electricity and gas sales**

Business sales represent the sale of energy to business customers. The nature and accounting treatment of this revenue stream is largely consistent with residential sales. These are longer term in nature and represent a series of distinct goods that are substantially the same and have the same pattern of transfer to the customer and are treated as one performance obligation satisfied over time based on the output delivered to the customer. For a large majority of its business sales customers, AGL recognises revenue when it has the 'right to invoice' the customer for consideration that has been determined to correspond directly with the value of units of energy delivered to that customer.

Some business sales arrangements also include the transfer of RECs to the customer which can, in some instances, represent a separate performance obligation.

**Material right applicable to residential and business sales**

Where a fixed fee (e.g. connection fee, distribution fee, capacity reservation charge, etc.) received from a customer does not represent a transfer of a good or service to a customer, but the customer is charged an upfront amount, the customer contract contains a material right in that the customer is effectively able to buy additional units of energy at a lower effective per unit cost.

The material right is valued based on its relative standalone selling price. If standalone selling prices are not directly observable, AGL estimates this by taking into consideration the discount the customer would receive in a standalone transaction and the likelihood that the customer would exercise the option.

Revenue from a material right is recognised as and when the right is exercised by the customer or the right expires, whichever is earlier.

**Wholesale energy sales**

Wholesale energy sales represent the sale of gas and electricity to wholesale customers. These involve a high volume of energy usually over an extended period of time. Supply of energy represents a series of distinct goods that are substantially the same and have the same pattern of transfer to the customer and is the major performance obligation. It is treated as one performance obligation which is satisfied over time. In some instances, there is an additional performance obligation in these contracts by way of a material right.

**AGL Energy Limited and controlled entities****Notes to the Financial Statements**

for the half-year ended 31 December 2018

Revenue is recognised for these arrangements when AGL has the 'right to invoice' the customer for consideration that has been determined to correspond directly with the value of units of energy delivered to that customer.

Some wholesale electricity arrangements may involve the transfer of RECs to the customer which can represent a separate performance obligation.

**Renewable energy certificates (RECs) applicable to business and wholesale sales**

There are two main instances where RECs pass between AGL and its customers including those transferred under a self-surrender arrangement as part of the consideration for energy and those which are sold by AGL to its customers.

*Received from customer (self-surrender)*

As a retailer, AGL incurs costs in relation to its renewable energy obligations for which it must surrender RECs to the government. For most customers, the costs associated with AGL in meeting these renewable energy obligations is factored into the cost of energy (i.e., there is a REC cost component built into the price paid). For some of AGL's customers, instead of paying for the cost of the energy they purchased in cash, they have the option to elect to pay for their energy usage in the form of cash and by self-surrendering RECs. The obligation to remit RECs to the regulator remains with AGL, but the customer is choosing to meet part of its payment by way of surrendering its own RECs to AGL rather than paying AGL for the cost of the REC as part of the overall cost of the energy.

The transfer of RECs as consideration to AGL in exchange for energy is a form of non-cash consideration. AGL measures non-cash consideration at its fair value at the date of surrender (i.e., the date of transfer by the customer to AGL).

*Transferred to the customer*

For some customer contracts, AGL sells both energy and RECs to the customer. A customer may purchase RECs from AGL to meet its own REC obligations and/or where it wants actual title to the RECs.

The RECs sold to a customer represent a separate performance obligation, i.e., a good, as the customer can benefit from the REC on its own and the promise to transfer RECs to the customer is separately identifiable from the other promises in the contract (e.g., promise to deliver energy).

AGL determines the portion of the transaction price that it allocates to the RECs using the relative standalone selling price method.

In accordance with this method, the transaction price is allocated to each performance obligation based on the proportion of the standalone selling price of each performance obligation to the sum of the stand-alone selling prices of all of the performance obligations in the contract.

Revenue is recognised as and when the control of the RECs are transferred to the customer which occurs at a point in time. Where the customer is entitled to all the RECs generated at a specified power plant (e.g. in cases where power plants are located at the customer's site), transfer of control to the customer occurs as and when the RECs are generated. In other cases where the RECs are transferred to the customer from AGL's inventory, control of the RECs transfers upon receipt by the customer.

**Pool generation sales**

Pool generation sales and pool purchase costs relate to sales by AGL's generation assets to the grid and purchases of energy by AGL wholesale on behalf of AGL's retail business. AGL has assessed it is acting as the principal in relation to such sales to the pool and purchases of energy and therefore the transactions are recognised on a 'gross' basis. Revenue from these arrangements is recognised at the spot price achieved when control of the energy passes to the grid.

**Variable consideration**

If the consideration in a contract includes a variable amount, AGL estimates the amount of consideration to which it will be entitled in exchange for transferring the goods to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

**Significant financing component**

AGL applies the practical expedient in that it does not adjust the promised amount of consideration for the effects of a significant financing component if it expects, at contract inception, that the period between the transfer of the promised good or service to the customer and when the customer pays for that good or service will be one year or less.

**Costs to obtain a contract**

AGL pays a range of sales commissions in relation to the securing of new customer contracts. These include those paid to internal sales teams, call centres, third party/brokers (e.g., comparison sites) and aggregators. These costs are recognised as an asset if the costs are incremental, material and if AGL expects to recover them and are amortised over the life of the customer contract or customer relationship, where material. AGL has elected to apply the optional practical expedient for costs to obtain a contract which allows AGL to immediately expense such costs because the amortisation period of the asset that AGL otherwise would have used is one year or less.

Costs that are incurred regardless of whether a contract is obtained are expensed as incurred, unless those costs are explicitly chargeable to the customer. Discretionary bonuses paid to sales staff based on meeting annual sales targets, overall profitability and individual performance evaluations are expensed as incurred as they are not directly attributable to identifiable contracts and do not meet the criteria for capitalisation.

**Costs to fulfil**

The costs incurred by AGL to fulfil a contract with a customer which may qualify for capitalisation include connection fees paid/incurred by AGL (including those charged by distribution businesses to provide such network services, or those incurred directly by AGL in connecting a customer). These costs do not fall within the scope of any other standard (i.e., the cost is not part of inventory, an intangible asset or property, plant and equipment). Therefore, these costs are capitalised as a contract cost (cost to fulfil) asset and amortised over the life of the customer contract or customer relationship, where material.

**Completed contracts**

AGL has applied the practical expedient in that it has not restated contracts that:

**AGL Energy Limited and controlled entities****Notes to the Financial Statements**

for the half-year ended 31 December 2018

- begin and end within the same annual reporting period; or
- are completed contracts at the beginning of the earliest period presented.

**Cost sharing arrangements**

AGL enters into cost sharing arrangements whereby the costs to operate and maintain assets that are shared with parties outside the AGL Group are recharged to the parties in accordance with their beneficial interest. These recharged amounts are recognised as revenue when the associated costs to which they relate impact the statement of profit or loss. Revenue is measured with reference to the fair value of the consideration received.

**Leases**

At inception of a contract, AGL assesses whether a contract is, or contains a lease. A contract is, or contains a lease if the contract conveys to the customer a right to control the use of an identified asset for a period of time in exchange for consideration.

AGL assesses whether:

- The contract involves the use of an identified asset – the asset may be explicitly or implicitly specified in the contract. Capacity portions of larger assets would be considered an identified asset if the portion is physically distinct or if the portion represents substantially all of the capacity of the asset. An asset is not considered an identified asset if the supplier has the substantive right to substitute the asset throughout the period of use.
- The customer in the contract has the right to obtain substantially all of the economic benefits from the use of the asset throughout the period of use.
- The customer in the contract has the right to direct the use of the asset throughout the period of use – the customer is considered to have the right to direct the use of the asset only if either:
  - The customer has the right to direct how and for what purpose the identified asset is used throughout the period of use; or
  - The relevant decisions about how and for what purposes the asset is used are predetermined and the customer has the right to operate the asset, or the customer designed the asset in a way that predetermines how and for what purpose the asset will be used throughout the period of use.

AGL has applied the above approach in identifying leases in contracts entered into, or modified, on or after 1 July 2018. For contracts entered into before 1 July 2018, AGL has elected to apply the grandfathering practical expedient on transition to AASB 16 as discussed above at note 1(c). Consequently, the transition and measurement requirements of AASB 16 only apply to arrangements that were identified as leases pursuant to the previous leases standards as at and subsequent to 1 July 2018.

**AGL as lessee**

In contracts where AGL is a lessee, AGL recognises a right-of-use asset and a lease liability at the commencement date of the lease for all leases other than short-term or low-value asset leases.

**Right-of-use assets (ROU assets)**

A ROU asset is recognised in relation to each lease and is initially measured at cost comprising the initial measurement of the lease liability adjusted for any lease payments made before

the commencement date (reduced by lease incentives received), plus initial direct costs incurred in obtaining the lease and an estimate of costs to be incurred in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories.

A ROU asset is subsequently measured using the cost model less any accumulated depreciation and any accumulated impairment losses; and adjusted for any remeasurement of the lease liability. AGL does not apply the revaluation model but instead carries all ROU assets at cost. The ROU asset is depreciated over its useful life. The useful life of a ROU asset for depreciation purposes is the shorter of the useful life of the asset and the lease term. Where the ROU is adjusted due to changes in the lease liability, the depreciation for the ROU asset is adjusted on a prospective basis.

The following estimated useful lives are used in the calculation of depreciation on ROU assets:

- Plant and equipment – ROU assets: the lesser of contract length and asset useful life.

ROU assets are presented as part of property, plant and equipment in the statement of financial position .

**Lease liabilities**

A lease liability is recognised in relation to each lease and is initially measured at the present value of future lease payments at the commencement date. To calculate the present value, the future lease payments are discounted using the interest rate implicit in the lease (IRIL), if the rate is readily determinable. If the IRIL cannot be readily determined, the incremental borrowing rate (IBR) at the commencement date is used. Lease payments included in the measurement of the lease liability comprise the following:

- Fixed payments, including in-substance fixed payments;
- Variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date (e.g. payments which vary due to changes in CPI, or commodity prices); and
- Amounts expected to be payable by the lessee under residual value guarantees, purchase options and termination penalties (where relevant).

Variable payments other than those included in the measurement of the lease liability above (i.e., those not based on an index or rate) are recognised in the statement of profit or loss in the period in which the event or condition that triggers those payments occur.

For contracts containing lease and non-lease components, AGL accounts for each lease component separately from the non-lease components of the contract, where material. The consideration in the contract is allocated to the components based on their relative stand-alone prices.

Subsequently, the lease liability is measured in a manner similar to other financial liabilities, i.e., at amortised cost using the effective interest rate method. Effectively this means the liability is:

- Increased to reflect interest on the lease liability;
- Decreased to reflect lease payments made; and

**AGL Energy Limited and controlled entities****Notes to the Financial Statements**

for the half-year ended 31 December 2018

- Remeasured to reflect any reassessment of lease payments or lease modifications, or to reflect revised in-substance fixed lease payments.

After commencement date, the following amounts are recognised in profit or loss with respect to the payments pursuant to the lease:

- interest expense: recognised as finance cost; and
- variable lease payments not based on an index or a rate: recognised in the statement of profit or loss in the period in which the event or condition that triggers those payments occurs.

Lease liabilities are presented as part of borrowings on the face of the statement of financial position.

**Short-term and low value leases**

AGL has elected to apply the practical expedients available for short-term leases (i.e. where the lease term is less than 12 months) and low-value asset leases. As a result of application of these practical expedients, the measurement requirements of AASB 16 do not apply and the expense for these leases is recognised on a straight-line basis.

**AGL as lessor**

In contracts where AGL is a lessor, AGL determines whether the lease is an operating lease or finance lease at the inception of the lease. The lease is a finance lease if it transfers substantially all of the risks and rewards incidental to ownership of the underlying asset to the lessee in the contract. If not, the lease is classified as an operating lease. AGL assesses the classification of a lease considering the following indications of finance leases:

- the lease transfers ownership of the underlying asset to the lessee by the end of the lease term;
- the lessee has the option to purchase the underlying asset at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception date, that the option will be exercised;
- the lease term is for the major part of the economic life of the underlying asset even if title is not transferred;
- at the inception date, the present value of the lease payments amounts to at least substantially all of the fair value of the underlying asset; and
- the underlying asset is of such a specialised nature that only the lessee can use it without major modifications.

**Finance leases**

Amounts due from lessees pursuant to finance leases are recognised as receivables at the amount of AGL's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on AGL's net investment outstanding in respect of the leases.

**Operating leases**

Amounts due from lessees pursuant to operating leases are recognised as lease income on a straight-line basis over the lease term.

**Non-derivative financial assets****Classification**

AGL classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income, or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on AGL's business model for managing financial assets and the contractual terms of the cash flows. For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in debt instruments, this will depend on the business model in which the investment is held. For investments in equity instruments that are not held for trading, this will depend on whether AGL has made an irrevocable election at the time of initial recognition to account for the equity instrument at fair value through other comprehensive income. AGL reclassifies debt investments when and only when its business model for managing those assets changes.

**Measurement**

At initial recognition, AGL measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

**Debt instruments**

Subsequent measurement of debt instruments depends on AGL's business model for managing the asset and the cash flow characteristics of the asset. There are two measurement categories into which AGL classifies its debt instruments:

- **Amortised cost:** Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. A gain or loss on a debt instrument that is subsequently measured at amortised cost and is not part of a hedging relationship is recognised in profit or loss when the asset is derecognised or impaired. Interest income from these financial assets is included in finance income using the effective interest rate method.
- **Fair value through other comprehensive income ("FVOCI"):** Assets that are held for collecting contractual cash flows and through sale on specified dates. A gain or loss on a debt investment that is subsequently measured at FVOCI is recognised in other comprehensive income.
- **Fair value through profit or loss ("FVTPL"):** Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognised in profit or loss and presented net in the statement of profit or loss within other gains/(losses) in the period in which it arises.

**Equity instruments**

On initial recognition, AGL elects to classify each equity instrument as FVTPL or FVOCI. AGL subsequently measures all equity investments at fair value. Where AGL has elected to present fair value gains or losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains or losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when AGL's right to receive payments is established. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from



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for the half-year ended 31 December 2018

other changes in fair value. Changes in the fair value of equity instrument financial assets classified as FVTPL are recognised in expenses in the statement of profit or loss as applicable.

**Impairment**

AGL assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, contract assets and lease receivables, AGL applies the simplified approach, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

AGL uses an allowance matrix to measure expected credit losses of trade receivables and unbilled revenue from its customers. Trade receivable amounts are disaggregated into customer segments.

Loss rates are estimated in each age category and are based on the probability of a receivable progressing through to write-off. Factors to estimate the loss rate are based on risk assessment performed per customer segment and economic factors such as wholesale electricity forward curves, commodity fuel forward curves and prevailing macro-economic information.

Trade debtors are derecognised either on disconnection, a predetermined time period after disconnection or a predetermined time period after a failed disconnection, dependent on the customer type.

**Non-derivative financial liabilities****Interest bearing liabilities**

All loans and borrowings are initially recognised at fair value, being the amount received less attributable transaction costs. After initial recognition, interest bearing liabilities are stated at amortised cost with any difference between cost and redemption value being recognised in the statement of profit or loss over the period of the borrowings on an effective interest basis.

**Trade and other payables**

Liabilities are recognised for amounts to be paid for goods or services received. Trade payables are settled on normal commercial terms.

**Derivative financial instruments**

Derivative financial instruments are stated at fair value, with changes in fair value recognised in the statement of profit or loss. Where derivative financial instruments qualify for hedge accounting, recognition of changes in fair value depends on the nature of the item being hedged. Hedge accounting is discontinued when the hedging relationship is revoked, the hedging instrument expires, is sold, terminated, exercised, or no longer qualifies for hedge accounting.

AGL documents at the inception of the hedging transaction the economic relationship between hedging instruments and hedged items including whether the instrument is expected to offset changes in cash flows of hedged items. AGL documents its risk management objective and strategy for undertaking various hedge transactions at the inception of each hedge relationship.

**Cash flow hedge**

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in the cash flow hedge reserve within equity, limited to the cumulative change in fair value of the hedged item on a present value basis from

the inception of the hedge. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, within other expenses.

When option contracts are used to hedge forecast transactions, AGL may elect to designate only the intrinsic value of the option contract as the hedging instrument. Gains or losses relating to the effective portion of the change in intrinsic value of the option contracts are recognised in the cash flow hedge reserve in equity. The changes in the time value of the option contracts that relate to the hedged item ('aligned time value') are recognised within other comprehensive income in the costs of hedging reserve within equity.

When cross-currency contracts are used to hedge forecast transactions, AGL may elect to designate only the change in fair value of the cross-currency contract related to the spot component as the hedging instrument. Gains or losses relating to the effective portion of the change in the spot component of the cross-currency contracts are recognised in the cash flow hedge reserve in equity. The change in the currency basis spread element of the contract that relates to the hedged item is recognised within other comprehensive income in the costs of hedging reserve within equity. In some cases, AGL may designate the full change in fair value of the cross-currency contract (including currency basis spread) as the hedging instrument. In such cases, the gains or losses relating to the effective portion of the change in fair value of the entire cross-currency contract are recognised in the cash flow hedge reserve within equity.

Amounts accumulated in equity are reclassified in the periods when the hedged item affects profit or loss, as follows:

- The gain or loss relating to the effective portion of hedge contracts are ultimately recognised in profit or loss as the hedged item affects profit or loss within expenses.
- The gain or loss relating to the effective portion of the interest rate swaps hedging variable rate borrowings is recognised in profit or loss within 'finance costs'.

When a hedging instrument expires, or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative deferred gain or loss and deferred costs of hedging in equity at that time remains in equity until the forecast transaction occurs. When the forecast transaction is no longer expected to occur, the cumulative gain or loss and deferred costs of hedging that were reported in equity are immediately reclassified to profit or loss. Hedge ineffectiveness is recognised in profit or loss within other expenses.

**AGL Energy Limited and controlled entities****Notes to the Financial Statements**

for the half-year ended 31 December 2018

**2. Significant accounting judgements, estimates and assumptions****Expected credit loss on trade receivables and unbilled revenue**

AGL uses an allowance matrix to measure expected credit losses of trade receivables and unbilled revenue from its customers. Trade receivable amounts are disaggregated into customer segments.

Loss rates are estimated in each age category and are based on the probability of a receivable progressing through to write-off. Factors to estimate the loss rate are based on risk assessment performed for each customer segment and economic factors such as wholesale electricity forward curves, commodity fuel forward curves and prevailing macro-economic information.

**Unbilled revenue**

AGL recognises revenue from gas and electricity sales once the gas and/or electricity has been consumed by the customer. Management estimates customer consumption between the last invoice date and the end of the reporting period when determining gas and electricity revenue for the financial period. Various assumptions and financial models are used to determine the estimated unbilled consumption.

Some of the assumptions and estimates include:

- Volume and timing of energy consumed by the customers
- Various pricing plans and allocation of the estimated volume to such pricing plans
- Loss factors
- Behavioural discounts

**Variable consideration and constraints**

AGL includes variable consideration in the transaction price as estimated at the inception of a contract. However, if it is considered 'highly probable' that a significant reversal of revenue recognised will occur in the future, the variable consideration is constrained and not included in the transaction price.

AGL's contractual arrangements contain a number of variable pricing elements including pay-on-time discounts, payment plans, and escalations. Some of these variable elements are resolved during the reporting periods. Where they are not, management estimates the likelihood of the variable pricing element eventuating and recognises the variable pricing element to the extent it is not highly probable that it will reverse.

**Pool sales**

The Australian Energy Market Operator (AEMO) facilitates a price setting and market settlement mechanism between suppliers (generators) and customers (retailers). AGL considers AEMO a market intermediary (and not AGL's customer) in a process that enables sales to AGL's customers. Management considers AEMO's role is more akin to an agent and hence sales to AEMO (by AGL wholesale) and purchases from AEMO (by AGL retail) are recognised as gross sales and purchases.

**Lease term**

Where lease arrangements contain options to extend the term or terminate the contract, AGL assesses whether it is 'reasonably certain' that the option to extend or terminate the contract will be made. Consideration is given to the prevalence of other contractual arrangements and or the economic circumstances relevant to the lease contract, that may indicate the likelihood of the option being exercised. Lease liabilities and ROU assets are measured using the reasonably certain contract term.

**Lease discount rates**

The discount rate applicable to a lease arrangement is determined at the inception of the contract or when certain modifications are made to the contract. The discount rate applied is the rate implicit in the arrangement, or if unknown, AGL's incremental borrowing rate. The incremental borrowing rate is determined with reference to AGL's borrowing portfolio at the inception of the arrangement or the time of the modification, and the amount and nature of the lease arrangement. If the arrangement relates to a specialised asset, incremental project financing assumptions are considered.

**AGL Energy Limited and controlled entities****Notes to the Financial Statements**

for the half-year ended 31 December 2018

**3. Segment information****Operating segments**

AGL reports segment information on the same basis as the internal management reporting structure. The operating segments reflect the manner in which products are sold, whether retail or wholesale, and the nature of the services provided.

AGL views the business as four interrelated segments collectively servicing our customer's needs. AGL's segments are:

- **Customer Markets** comprises the Consumer and Large Business customer portfolios and is responsible for the retailing of electricity, gas, solar and energy efficiency products and services to residential, small and large business customers. Customer Markets sources its energy from Wholesale Markets at a transfer price based on methodologies that reflect the prevailing wholesale market conditions and other energy costs in each state.
- **Wholesale Markets** comprises Wholesale Electricity, Wholesale Gas and Eco Markets and is responsible for managing the price risk associated with procuring electricity and gas for AGL's customers and for managing AGL's obligations in relation to renewable energy schemes. Wholesale Markets also controls the dispatch of AGL's owned and contracted generation assets and associated portfolio of energy hedging products.
- **Group Operations** comprises AGL's power generation portfolio and other key sites and operating facilities.
- **Investments** comprises AGL's interests in the ActewAGL Retail Partnership, Powering Australian Renewables Fund, Digital Energy Exchange and New Energy Investments: Advanced Microgrid Solutions Inc, Energy Impact Partners' Fund, Activate Capital Partners, Solar Analytics Pty Limited, Sunverge Energy Inc and Ecobee Inc.

In the segment financial results, the 'Other' category consists of the various Corporate activities which includes head office and central support functions. These are not considered to be reportable segments.

**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 'Underlying EBIT contribution' to AGL. 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.

AGL operates as an integrated business and uses a portfolio approach to manage the operations and assets to drive value and efficiency. AASB 8 *Operating Segments* requires AGL to report segment information on the same basis as the internal management structure. As a result, the Customer Markets and Wholesale Markets segments report the revenue and margin associated with satisfying the gas and electricity requirements of AGL's wholesale, consumer and business customer portfolio. In contrast, the Group Operations segment reports the majority of expenses associated with these operations and is therefore a cost centre.

For the purposes of reviewing the carrying values of AGL assets the segments impute a revenue transfer between Customer Markets and Wholesale Markets and Group Operations. Revenues are derived to approximate prices similar to transactions with third parties.



## AGL Energy Limited and controlled entities

**Notes to the Financial Statements**

for the half-year ended 31 December 2018

Period ended 31 December 2018	Customer Markets \$m	Wholesale Markets \$m	Group Operations \$m	Investments \$m	Other \$m	Total \$m
<b>Revenue</b>						
Total segment revenue	3,860	4,293	89	-	1	8,243
Inter-segment revenue	(8)	(1,876)	(22)	-	-	(1,906)
<b>External revenue</b>	<b>3,852</b>	<b>2,417</b>	<b>67</b>	<b>-</b>	<b>1</b>	<b>6,337</b>
<b>Underlying earnings before interest, tax, depreciation and amortisation (Underlying EBITDA)</b>						
	141	1,403	(274)	18	(131)	1,157
Depreciation and amortisation	(48)	(5)	(231)	-	(11)	(295)
<b>Underlying EBIT</b>	<b>93</b>	<b>1,398</b>	<b>(505)</b>	<b>18</b>	<b>(142)</b>	<b>862</b>
Net financing costs						(100)
Underlying profit before tax						762
Income tax expense						(225)
<b>Underlying profit after tax</b>						<b>537</b>
<b>Other segment information</b>						
Share of profits of associates and joint ventures	-	-	1	18	-	19
Investments in associates and joint ventures	-	-	3	136	-	139
Additions to non-current assets	69	21	299	34	40	463
<b>Period ended 31 December 2017 (restated)</b>						
	Customer Markets \$m	Wholesale Markets \$m	Group Operations \$m	Investments \$m	Other \$m	Total \$m
<b>Revenue</b>						
Total segment revenue	3,930	4,275	122	-	-	8,327
Inter-segment revenue	(23)	(1,821)	(33)	-	-	(1,877)
<b>External revenue</b>	<b>3,907</b>	<b>2,454</b>	<b>89</b>	<b>-</b>	<b>-</b>	<b>6,450</b>
<b>Underlying earnings before interest, tax, depreciation and amortisation (Underlying EBITDA)</b>						
	192	1,238	(231)	16	(131)	1,084
Depreciation and amortisation	(46)	(4)	(206)	-	(14)	(270)
<b>Underlying EBIT</b>	<b>146</b>	<b>1,234</b>	<b>(437)</b>	<b>16</b>	<b>(145)</b>	<b>814</b>
Net financing costs						(119)
Underlying profit before tax						695
Income tax expense						(208)
<b>Underlying profit after tax</b>						<b>487</b>
<b>Other segment information</b>						
Share of profits of associates and joint ventures	-	-	-	18	-	18
Investments in associates and joint ventures	-	-	3	63	-	66
Additions to non-current assets	77	6	203	13	42	341

## AGL Energy Limited and controlled entities

**Notes to the Financial Statements**

for the half-year ended 31 December 2018

Segment assets and liabilities	Customer Markets \$m	Wholesale Markets \$m	Group Operations \$m	Investments \$m	Other \$m	Total \$m
<b>Segment assets</b>						
At 31 December 2018	<b>2,480</b>	<b>3,068</b>	<b>7,458</b>	<b>219</b>	<b>199</b>	<b>13,424</b>
At 30 June 2018 (restated)	2,690	2,599	7,444	162	208	13,103
<b>Segment liabilities</b>						
At 31 December 2018	<b>509</b>	<b>984</b>	<b>739</b>	-	<b>181</b>	<b>2,413</b>
At 30 June 2018 (restated)	575	862	823	-	202	2,462

**Segment Underlying EBIT reconciliation to the Condensed Consolidated Statement of Profit or Loss**

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

	31 Dec 2018 \$m	31 Dec 2017 \$m
Underlying EBIT for reportable segments	<b>1,004</b>	959
Other	<b>(142)</b>	(145)
	<b>862</b>	814
Amounts excluded from underlying results:		
- (Loss)/gain in fair value of financial instruments	<b>(358)</b>	183
- Significant items <sup>1</sup>	<b>10</b>	(3)
Finance income included in Underlying EBIT	-	(2)
Finance income	<b>5</b>	4
Finance costs	<b>(105)</b>	(121)
<b>Profit before tax</b>	<b>414</b>	875

1. Further details are contained in the Operating &amp; Financial Review attached to and forming part of the Directors' Report.

**4. Revenue**

Revenue by product and customer type is disaggregated below:

Period ended 31 December 2018	Consumer \$m	Business \$m	Wholesale \$m	Other \$m	Total \$m
Sale of electricity	<b>2,015</b>	<b>840</b>	<b>132</b>	<b>2</b>	<b>2,989</b>
Pool revenue	-	-	<b>1,864</b>	-	<b>1,864</b>
Sale of gas	<b>846</b>	<b>104</b>	<b>337</b>	<b>16</b>	<b>1,303</b>
Rendering of services	<b>19</b>	<b>3</b>	<b>23</b>	<b>26</b>	<b>71</b>
Other revenue	-	-	<b>61</b>	<b>49</b>	<b>110</b>
	<b>2,880</b>	<b>947</b>	<b>2,417</b>	<b>93</b>	<b>6,337</b>

Period ended 31 December 2017	Consumer \$m	Business \$m	Wholesale \$m	Other \$m	Total \$m
Sale of electricity	2,076	761	199	6	3,042
Pool revenue	-	-	1,919	1	1,920
Sale of gas	825	195	237	25	1,282
Rendering of services	-	-	34	52	86
Other revenue	-	-	65	55	120
	2,901	956	2,454	139	6,450

**5. Other income**

	Note	31 Dec 2018 \$m	31 Dec 2017 \$m
Net gain on disposal of property, plant and equipment		<b>4</b>	3
Gain on disposal of subsidiaries and businesses	17	<b>52</b>	25
		<b>56</b>	28

## AGL Energy Limited and controlled entities

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for the half-year ended 31 December 2018

**6. Expenses**

	31 Dec 2018 \$m	Restated 31 Dec 2017 \$m
Cost of sales	4,435	4,631
Administrative expenses	134	128
Employee benefits expense	288	314
Other expenses		
Loss/(gain) on fair value of financial instruments	358	(183)
Impairment loss on trade receivables (net of bad debts recovered)	66	54
Impairment of inventory on exit of business	9	-
Derecognition of property, plant and equipment on exit of business	14	-
Derecognition of intangible assets on exit of business	15	-
Other costs associated with exit of business	9	-
Impairment loss on investment in an associate and other related assets	-	28
Other	275	262
	<b>5,603</b>	<b>5,234</b>

**7. Net financing costs**

	31 Dec 2018 \$m	Restated 31 Dec 2017 \$m
<b>Finance income</b>		
Interest income	5	4
	<b>5</b>	<b>4</b>
<b>Finance costs</b>		
Interest expense <sup>1</sup>	68	86
Lease interest expense	5	3
Unwinding of discounts on provisions and other liabilities	17	16
Unwinding of discount on deferred consideration	11	12
Other finance costs	4	4
	<b>105</b>	<b>121</b>
<b>Net financing costs</b>	<b>100</b>	<b>117</b>

1. Interest expense for the half-year ended 31 December 2018 is presented net of capitalised interest of \$9 million (31 December 2017: \$4 million).

**8. Income tax****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:

	31 Dec 2018 \$m	Restated 31 Dec 2017 \$m
Profit before tax	414	875
Income tax expense calculated at the Australian tax rate of 30% (31 Dec 2017: 30%)	124	263
Capital losses on disposal of business	1	2
Non-deductible expenses	3	7
Recognition of previously unrecognised capital losses	(2)	(17)
Adjustments in relation to current tax of prior years	(2)	4
	<b>124</b>	<b>259</b>

## AGL Energy Limited and controlled entities

**Notes to the Financial Statements**

for the half-year ended 31 December 2018

**Income tax recognised in other comprehensive income**

	31 Dec 2018 \$m	Restated 31 Dec 2017 \$m
<i>Deferred tax</i>		
Cash flow hedges	26	(11)
Equity instruments measured at fair value	2	-
Remeasurement loss on defined benefit plans	(7)	-
Cost of hedging subject to basis adjustment	2	-
	23	(11)

**9. Dividends****Recognised amounts**

	31 Dec 2018 \$m	31 Dec 2017 \$m
<b>Final dividend</b>		
Final dividend for 2018 of 63.0 cents per share, franked to 80%, paid 21 September 2018 (2018: Final dividend for 2017 of 50.0 cents per share, franked to 80%, paid 22 September 2017)	413	328
<b>Dividends paid as per the Condensed Consolidated Statement of Cash Flows</b>	413	328

**Unrecognised amounts**

Since the end of the financial year, the Directors have declared an interim dividend for 2019 of 55.0 cents per share, franked to 80% (2018: 54.0 cents per share, franked to 80%), payable 22 March 2019.	361	354
--	-----	-----

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

**Dividend reinvestment plan**

The AGL Dividend Reinvestment Plan (DRP) will operate in respect of the 2019 interim dividend. AGL will acquire shares on market and allot them to DRP participants at no discount to the simple average of the daily weighted average price at which AGL's ordinary shares trade during each of the 10 trading days commencing 25 February 2019. The last date for shareholders to elect to participate in the DRP for the 2019 interim dividend is 22 February 2019.

**10. Trade and other receivables**

	31 Dec 2018 \$m	Restated 30 June 2018 \$m
<b>Current</b>		
Trade receivables	981	1,004
Unbilled revenue	785	938
Allowance for expected credit loss	(188)	(232)
	1,578	1,710
Other receivables	65	65
	1,643	1,775

**AGL Energy Limited and controlled entities****Notes to the Financial Statements**

for the half-year ended 31 December 2018

**Expected credit loss assessment**

The following table provides information about the exposure to credit risk and expected credit losses for trade receivables and unbilled revenue:

	31 Dec 2018		Restated 30 June 2018	
	Total \$m	Allowance \$m	Total \$m	Allowance \$m
Unbilled revenue	<b>785</b>	<b>(42)</b>	938	(65)
Not past due	<b>528</b>	<b>(10)</b>	494	(6)
Past due 0 - 30 days	<b>157</b>	<b>(12)</b>	189	(14)
Past due 31 - 60 days	<b>57</b>	<b>(11)</b>	62	(11)
Past due 61 - 90 days	<b>46</b>	<b>(13)</b>	41	(10)
Past 90 days	<b>193</b>	<b>(100)</b>	218	(126)
	<b>1,766</b>	<b>(188)</b>	1,942	(232)

**11. Assets and liabilities classified as held for sale**

	31 Dec 2018 \$m	30 June 2018 \$m
Assets of disposal groups held for sale	-	74

**Disposal groups held for sale****North Queensland gas assets**

On 25 August 2017, AGL agreed to sell its North Queensland gas assets to a consortium of Shandong Order Gas Co. Ltd and Orient Energy Pty Ltd. The sale remains subject to a number of conditions precedent including regulatory approval. The carrying value of non-current assets relating to the North Queensland gas assets is nil (Dec 2017: nil) primarily due to previous impairment losses.

**Disposal groups sold****National Assets portfolio**

On 11 September 2018, AGL completed the divestment of its portfolio of small generation and compressed natural gas refuelling assets, National Assets, for consideration of \$136 million.

Refer to Note 17 for further information.

## AGL Energy Limited and controlled entities

**Notes to the Financial Statements**

for the half-year ended 31 December 2018

**12. Investments in associates and joint ventures**

	31 Dec 2018 \$m	30 June 2018 \$m
Investments in associates - unlisted	-	-
Investments in joint ventures - unlisted	139	100
	<b>139</b>	<b>100</b>

Name of entity	Principal activities	Ownership interest		Contribution to profit	
		31 Dec 2018 %	30 June 2018 %	31 Dec 2018 \$m	31 Dec 2017 \$m
<b>Associates</b>					
CSM Energy Limited	Coal mine methane gas extraction	35	35	-	-
Matter Technology Ltd	Energy management services	19.9	19.9	-	-
Solar Analytics Pty Ltd	Solar PV monitoring	37.2	37.2	-	-
Sunverge Energy Inc	Energy storage and management services	22	22	-	-
<b>Joint ventures</b>					
ActewAGL Retail Partnership	Gas and electricity retailer	50	50	16	18
Energy Infrastructure Management Pty Ltd	Pipeline management services	50	50	1	-
Central Queensland Pipeline Pty Ltd	Gas pipeline development	50	50	-	-
Powering Australian Renewables Fund	Development and owner of renewable energy generation projects	20	20	2	-
				<b>19</b>	<b>18</b>

**13. Property, plant and equipment**

The disaggregation of property, plant and equipment between purchased assets and right-of-use assets is as follows:

	31 Dec 2018 \$m	Restated 30 June 2018 \$m
<b>Property, plant and equipment</b>		
Property, plant and equipment	6,799	6,685
Right-of-use property, plant and equipment	91	72
	<b>6,890</b>	<b>6,757</b>

## AGL Energy Limited and controlled entities

**Notes to the Financial Statements**

for the half-year ended 31 December 2018

**14. Borrowings**

	31 Dec 2018 \$m	Restated 30 June 2018 \$m
<b>Current - at amortised cost</b>		
CPI bonds - unsecured	7	8
Other loans - unsecured	12	11
Finance lease liabilities	22	15
	<b>41</b>	<b>34</b>
<b>Non-current - at amortised cost</b>		
USD senior notes - unsecured	995	931
Subordinated notes - unsecured	650	650
Medium term notes - unsecured	599	598
Bank loans - unsecured	410	410
CPI bonds - unsecured	77	80
Other loans - unsecured	128	133
Finance lease liabilities	155	139
Deferred transaction costs	(11)	(12)
	<b>3,003</b>	<b>2,929</b>

**15. Issued capital**

	31 Dec 2018 \$m	30 June 2018 \$m
655,825,043 fully-paid ordinary shares (30 June 2018: 655,825,043)	<b>6,223</b>	6,223

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding-up of the Parent Entity in proportion to the number of shares held. Every ordinary Shareholder present at a meeting of the Parent Entity, in person or by proxy, is entitled to one vote per share.

## AGL Energy Limited and controlled entities

**Notes to the Financial Statements**

for the half-year ended 31 December 2018

**16. Earnings per share**

	31 Dec 2018	Restated 31 Dec 2017
<b>Statutory earnings per share</b>		
Basic earnings per share	<b>44.2 cents</b>	93.9 cents
Diluted earnings per share	<b>44.2 cents</b>	93.8 cents
<b>Underlying earnings per share</b>		
Basic earnings per share	<b>81.9 cents</b>	74.3 cents
Diluted earnings per share	<b>81.8 cents</b>	74.1 cents

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

	31 Dec 2018 \$m	Restated 31 Dec 2017 \$m
Profit for the period attributable to owners of AGL Energy Limited	<b>290</b>	616
<b>Statutory earnings used to calculate basic and diluted EPS</b>	<b>290</b>	616
Significant income items after income tax	<b>(4)</b>	(2)
Loss/(gain) in fair value of financial instruments after income tax	<b>251</b>	(127)
<b>Underlying earnings used to calculate basic and diluted EPS</b>	<b>537</b>	487

**Weighted average number of ordinary shares**

	31 Dec 2018 Number	31 Dec 2017 Number
<b>Number of ordinary shares used in the calculation of basic EPS</b>	<b>655,825,043</b>	655,825,043
Effect of dilution - LTIP share performance rights	<b>897,051</b>	1,055,431
<b>Number of ordinary shares used in the calculation of diluted EPS</b>	<b>656,722,094</b>	656,880,474



**AGL Energy Limited and controlled entities****Notes to the Financial Statements**

for the half-year ended 31 December 2018

**17. Acquisition, incorporation and disposal of subsidiaries and businesses****31 December 2018****Acquisition and incorporation of entities**

During this period, the following entities were incorporated: AGL Shipping Pty Limited (17 August 2018), AGL LNG Pty Limited (17 August 2018) and GRCI Australia Pte Limited (5 October 2018). Each of these entities is 100% owned by the AGL Group and with the exception of the Singaporean incorporated GRCI Australia Pte Limited, incorporated in Australia.

**Disposal of National Assets**

On 11 September 2018, AGL completed the divestment of its portfolio of small generation and compressed natural gas refuelling assets, National Assets, for consideration of \$136 million.

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

	\$m
<b>Assets</b>	
Trade and other receivables	41
Prepayments	1
Property, plant and equipment	33
Other assets	2
<b>Net assets disposed</b>	<b>77</b>
<b>Consideration</b>	
Consideration received in cash	136
Costs directly attributable to the disposal	(7)
	<b>129</b>
<b>Gain on disposal of subsidiaries and businesses</b>	
Consideration	129
Net assets disposed	(77)
	<b>52</b>
<b>Net cash inflow on disposal of subsidiaries and businesses</b>	
Consideration received in cash	136
Costs directly attributable to the disposal paid	(7)
	<b>129</b>

Control was not lost over any entities during the half-year ended 31 December 2018.

**AGL Energy Limited and controlled entities****Notes to the Financial Statements**

for the half-year ended 31 December 2018

**31 December 2017****Acquisition and incorporation of entities**

During this period, the following entities were incorporated: AGL Financial Energy Solutions Pty Limited (24 July 2017), Wellington North Solar Farm Pty Limited (5 September 2017), AGL Barker Inlet Pty Limited (19 October 2017) and AGL New Energy ACP Pty Limited (17 November 2017). Each of these entities is 100% owned by the AGL Group and incorporated in Australia.

**Disposal of Active Stream Pty Limited**

On 30 November 2017, AGL completed the divestment of 100% of the shares in its digital metering subsidiary, Active Stream Pty Ltd, and associated metering assets for consideration of \$165 million.

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

	\$m
<b>Assets</b>	
Trade and other receivables	1
Inventories	18
Property, plant and equipment	115
<b>Liabilities</b>	
Trade and other payables	(4)
<b>Net assets disposed</b>	<b>130</b>
<b>Consideration</b>	
Consideration received in cash	165
Costs directly attributable to the disposal	(5)
Liability assumed	(5)
	<b>155</b>
<b>Gain on disposal of subsidiaries and businesses</b>	
Consideration	155
Net assets disposed	(130)
	<b>25</b>
<b>Net cash inflow on disposal of subsidiaries and businesses</b>	
Consideration received in cash	165
Costs directly attributable to the disposal paid	(5)
	<b>160</b>

**18. Contingent liabilities**

Certain entities in AGL are party to various 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 AGL.

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.

**19. Financial instruments****Fair value measurements**

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

**AGL Energy Limited and controlled entities****Notes to the Financial Statements**

for the half-year ended 31 December 2018

31 December 2018	Carrying Amount \$m	Level 1 \$m	Level 2 \$m	Level 3 \$m	Total \$m
<b>Financial assets</b>					
Equity instruments financial assets					
Unlisted equity securities	16	-	-	16	16
Unlisted investment funds	67	-	-	67	67
Derivative financial instruments					
Cross currency swap contracts - cash flow and fair value hedges	99	-	99	-	99
Forward foreign exchange contracts - cash flow hedges	2	-	2	-	2
Energy derivatives - cash flow hedges	21	-	21	-	21
Energy derivatives - economic hedges	823	66	487	270	823
	<b>1,028</b>	<b>66</b>	<b>609</b>	<b>353</b>	<b>1,028</b>
<b>Financial liabilities</b>					
Derivative financial instruments					
Cross currency swap contracts - cash flow and fair value hedges	(17)	-	(17)	-	(17)
Interest rate swap contracts - cash flow hedges	(41)	-	(41)	-	(41)
Energy derivatives - cash flow hedges	(16)	-	(16)	-	(16)
Energy derivatives - economic hedges	(1,047)	(203)	(569)	(275)	(1,047)
	<b>(1,121)</b>	<b>(203)</b>	<b>(643)</b>	<b>(275)</b>	<b>(1,121)</b>

30 June 2018

<b>Financial assets</b>					
Equity instruments financial assets					
Unlisted equity securities	16	-	-	16	16
Unlisted investment funds	48	-	-	48	48
Derivative financial instruments					
Cross currency swap contracts - cash flow and fair value hedges	72	-	72	-	72
Interest rate swap contracts - cash flow hedges	1	-	1	-	1
Energy derivatives - cash flow hedges	6	-	6	-	6
Energy derivatives - economic hedges	561	34	187	340	561
	<b>704</b>	<b>34</b>	<b>266</b>	<b>404</b>	<b>704</b>
<b>Financial liabilities</b>					
Derivative financial instruments					
Cross currency swap contracts - cash flow and fair value hedges	(59)	-	(59)	-	(59)
Interest rate swap contracts - cash flow hedges	(43)	-	(43)	-	(43)
Energy derivatives - cash flow hedges	(95)	-	(95)	-	(95)
Energy derivatives - economic hedges	(418)	(159)	(70)	(189)	(418)
	<b>(615)</b>	<b>(159)</b>	<b>(267)</b>	<b>(189)</b>	<b>(615)</b>

Management have assessed that the carrying value of financial assets (excluding derivative financial assets) and financial liabilities (excluding derivative financial liabilities) to be comparable to fair value.

**Estimation of fair values**

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments:

1. Receivables / payables with a remaining life of less than 6 months, the notional amount is deemed to reflect the fair value. All other receivables / payables are discounted to determine the fair value if the effect of discounting is material.
2. The fair value of forward foreign exchange contracts and energy derivatives is calculated as the present value of expected future cash flows relating to the difference between the contracted rates and the market forward rates at the end of the reporting period. Interest rate and cross currency swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates that reflect the credit risk of various counterparties.

**AGL Energy Limited and controlled entities****Notes to the Financial Statements**

for the half-year ended 31 December 2018

3. The fair value of borrowings is determined as the present value of future contracted cash flows and credit adjustments. Cash flows are discounted using standard valuation techniques at applicable market yield having regard to timing of cash flows.
4. The fair value of energy derivatives is determined as the present value of future contracted cash flows and credit adjustments. Cash flows are discounted using standard valuation techniques at applicable market yield having regard to timing of cash flows.
5. The fair value of lease liabilities is estimated as the present value of future cash flows discounted where the effect of discounting is material.
6. The fair value of deferred consideration is determined as the present value of future contracted cash flows and credit adjustments. Cash flows are discounted using standard valuation techniques at applicable market yield having regard to timing of cash flows.

The following table provides a reconciliation of fair value movements in Level 3 financial instruments.

	31 Dec 2018 \$m	30 June 2018 \$m
Opening balance	215	(97)
Total gains or losses recognised in profit or loss		
Settlements during the year	68	54
Changes in fair value	(212)	263
Premiums	(12)	(41)
Purchases	6	49
Disposals	-	(13)
Fair value gains recognised in other comprehensive income	13	-
Closing balance	78	215

Fair value gains or losses on energy derivatives are included in other expenses in the line item "Loss/(gain) on fair value of financial instruments" in Note 6.

The sensitivity of Level 3 contracts with significant unobservable inputs, where the inputs are higher by 10 percent is (\$222) million and lower by 10 percent is \$262 million (profit after tax (decrease)/increase). Input changes were applied to forward prices, cost-based indexes, contract volumes and management assumption of long-term curve used.

**20. Subsequent events****North Queensland gas assets**

On 31 January 2019, AGL announced it had terminated its agreement to sell its North Queensland gas assets to Order (Moranbah) Holdings Pty Ltd, originally announced on 24 August 2017. The assets will discontinue to be presented and disclosed as non-current assets held for sale. The carrying value of the assets is nil and therefore there is no impact on the measurement of property, plant and equipment.

**Interim dividend**

On 7 February 2019, the Directors of AGL resolved to pay an interim dividend of 55.0 cents per share, franked to 80% (the unfranked portion will be paid from conduit foreign income). The record date for the interim dividend is 21 February 2019 with payment to be made on 22 March 2019.

The AGL Dividend Reinvestment Plan (DRP) will operate in respect of the 2019 interim dividend. AGL will acquire shares on market and allot them to DRP participants at no discount to the simple average of the daily weighted average price at which AGL's ordinary shares trade during each of the 10 trading days commencing 25 February 2019. The last date for shareholders to elect to participate in the DRP for the 2019 interim dividend is 22 February 2019.

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 AGL, the results of those operations, or the state of affairs of AGL in future financial periods.

## Directors' Declaration

for the half-year ended 31 December 2018

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The Directors of AGL Energy Limited declare that, in their opinion:

- (a) there are reasonable grounds to believe that AGL Energy Limited will be able to pay its debts as and when they become due and payable;
- (b) the attached financial statements and notes of AGL Energy Limited and its controlled entities for the half-year ended 31 December 2018 are in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the financial position and performance of AGL Energy Limited and its controlled entities for the half-year ended 31 December 2018; and
  - (ii) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Signed in accordance with a resolution of the Directors



**Graeme Hunt**

Chairman

Sydney, 7 February 2019

# Deloitte.

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The Board of Directors  
AGL Energy Limited  
200 George Street  
Sydney NSW 2000

7 February 2019

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 2018, 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



Jason Thorne  
Partner  
Chartered Accountants



Deloitte Touche Tohmatsu  
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## 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 2018 and 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, notes comprising a summary of significant accounting policies and other explanatory information, and the Directors' Declaration of the consolidated entity comprising the company and the entities it controlled at the end of the half-year or from time to time during the half-year as set out on pages 27 to 56.

### *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 2018 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.

# Deloitte.

## *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 2018 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*

DELOITTE TOUCHE TOHMATSU



Jason Thorne  
Partner  
Chartered Accountants  
Sydney, 7 February 2019



## Corporate Directory and Financial Calendar

### Directory

AGL Energy Limited

#### Registered Office

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Australia

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**Fax:** +61 2 9921 2552

**Web:** [agl.com.au](http://agl.com.au)

### Financial Calendar

#### 7 February 2019

Interim result and interim dividend announced

#### 21 February 2019

Record date of interim dividend

#### 22 February 2019

Record date of interim DRP

#### 22 March 2019

Payment date of interim dividend

#### 8 August 2019

Full year result announcement

#### 22 August 2019

Record date of final dividend

#### 23 August 2019

Record date of final DRP

#### 20 September 2019

Payment date of final dividend

Please note – The above dates are indicative only and may be subject to change.

