

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 2010

Extracts from this report for announcement to the market

\$A Million

Revenue	Up	9.0%	To	3,488.0
Profit after tax attributable to shareholders (Statutory)	Up	30.4 %	To	239.6
Underlying Profit after tax attributable to shareholders	Down	3.7 %	To	226.2
Dividends		Amount per ordinary share		Franked amount per ordinary share
Interim dividend		29.0¢		0¢
Prior interim dividend		29.0¢		29.0¢
Record date for determining entitlements to the dividend:				
Interim dividend: 24 March 2011 and payable on 14 April 2011				
Brief explanation of Underlying Profit:				
Statutory Profit after tax of \$239.6 million included a loss after tax of \$16.8 million from significant items and a gain after tax of \$30.2 million from the changes in the fair value of financial instruments. Excluding these items, the Underlying Profit was \$226.2 million, down 3.7% on the prior corresponding period.				
Underlying Profit is reported to give information to shareholders that provides a greater understanding of the performance of AGL's operations. An analysis of these results is in the Directors' Report attached to this announcement.				

AGL Energy Limited and Subsidiaries
Half Year Report
For the half year ended 31 December 2010

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Directors' Report for the half year ended 31 December 2010 (incorporating the commentary by Directors and dividend announcement made to the Australian Securities Exchange Limited on 23 February 2011)

The Directors report on the AGL Energy Limited (AGL) consolidated entity for the half year ended 31 December 2010 in accordance with the Corporations Act 2001.

1. Results

	Half year ended 31 December 2010 \$m	Half year ended 31 December 2009 \$m
Operating EBIT	344.1	358.9
Net finance costs	(22.1)	(26.8)
Underlying Profit before tax	322.0	332.1
Income tax expense	(95.8)	(97.3)
Underlying Profit	226.2	234.8

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

Underlying Profit has been prepared with reference to the guidance issued by the Australian Institute of Company Directors (AICD) and the Financial Services Institute of Australasia (Finsia). AGL's policy for reporting Underlying Profit is consistent with this guidance and the Directors have had the consistency of the application of the policy independently assessed.

The following table reconciles Statutory Profit to Underlying Profit.

	Half year ended 31 December 2010 \$m	Half year ended 31 December 2009 \$m
Profit after tax attributable to shareholders (Statutory)	239.6	183.7
Adjust for the following after tax items:		
Significant items ⁽¹⁾	16.8	14.7
Changes in fair value of financial instruments ⁽²⁾	(30.2)	36.4
Underlying Profit	226.2	234.8

⁽¹⁾ Section 1.1

⁽²⁾ Section 1.2

1.1 Significant Items

	Half year ended 31 December 2010		Half year ended 31 December 2009	
	Pre-tax	PAT	Pre-tax	PAT
	\$m	\$m	\$m	\$m
Merger and acquisition related costs	(16.1)	(12.3)	(2.6)	(1.8)
Redundancy, termination and restructuring costs	(6.5)	(4.5)	(3.6)	(2.5)
Phoenix change program costs*	-	-	(11.7)	(8.2)
Other	-	-	-	(2.2)
Total significant items	(22.6)	(16.8)	(17.9)	(14.7)

* Project Phoenix rationalised and redesigned core Retail Energy operating processes and systems.

1.1.1 Merger and acquisition related costs

Acquisition related costs of \$16.1 million before tax and \$12.3 million after tax were incurred on activities associated with submitting a bid for the privatisation of certain energy assets in New South Wales and the acquisition of Mosaic Oil NL.

1.1.2 Redundancy, termination and restructuring costs

Redundancy, termination and restructuring costs of \$6.5 million before tax and \$4.5 million after tax related mainly to the transitioning of Retail Operations back-office functions (mainly non-customer facing billing and sales fulfilment) offshore.

1.2 Changes in Fair Value of Derivative Financial Instruments

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

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

All other economic hedges are deemed to be “ineffective” hedges. During periods of volatile prices these hedges can create substantial volatility in AGL’s earnings.

The change in fair value of financial instruments recognised in profit and loss for the half year was a gain of \$45.7 million before tax and \$30.2 million after tax.

A reconciliation of the balance sheet movement in the derivative balances to the amount included in the income statement is presented in the following table:

	Net Assets (Liabilities)		
	31 December 2010	30 June 2010	Change
	\$m	\$m	\$m
Electricity derivative contracts	(348.1)	(474.3)	126.2
Cross currency interest rate swap, interest rate swap and foreign currency derivative contracts	(135.8)	(7.2)	(128.6)
Total net liabilities for derivative contracts	(483.9)	(481.5)	(2.4)
Change in derivative net liability	(2.4)		
Premiums paid	(126.0)		
Equity accounted Loy Yang fair value	(6.0)		
Premium roll off	39.6		
Total change in fair value	(94.8)		
Recognised in equity hedge reserve	(86.6)		
Recognised in borrowings	(53.9)		
Recognised in profit and loss	45.7		
Total change in fair value	(94.8)		

2. Earnings per Share

Earnings per share calculated on the profit after tax attributable to shareholders (Statutory) were 52.8 cents compared with 41.0 cents in the prior corresponding period.

Earnings per share calculated on the Underlying Profit attributable to shareholders were 49.9 cents compared with 52.4 cents in the prior corresponding period.

3. Dividend

Following the Directors satisfying themselves that the:

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

An interim dividend of 29.0 cents per share for the half year has been declared, the same as the prior corresponding period's interim dividend. The interim dividend will be paid on 14 April 2011. The record date to determine shareholders' entitlements to the interim dividend is 24 March 2011 and shares will commence trading ex-dividend on 18 March 2011.

The interim dividend will be unfranked due to the anticipated receipt of a significant taxation refund. For taxation purposes, the dividend will be taken to be paid entirely from conduit foreign income. This is relevant only for non-resident shareholders. The effect is that the dividend will not be subject to Australian dividend withholding tax.

The AGL Dividend Reinvestment Plan (DRP) will be in operation and shares will be allotted at a 1.5% discount to the simple average of the daily weighted average market price at which AGL's ordinary shares are traded on ASX during each of the 10 trading days commencing on 28 March 2011.

4. Review of Operations

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

Operating EBIT for the half year ended 31 December 2010 was \$344.1 million compared with \$358.9 million for the prior corresponding period. The Statutory and Operating EBIT by segment is presented in the following table:

	EBIT (Statutory)		EBIT (Operating)	
	Half year ended 31 December 2010 \$m	Half year ended 31 December 2009 \$m	Half year ended 31 December 2010 \$m	Half year ended 31 December 2009 \$m
Retail Energy ⁽¹⁾	191.9	170.7	193.8	183.5
Merchant Energy ⁽²⁾	237.8	139.9	186.1	195.1
Upstream Gas	16.9	2.9	16.9	3.0
Energy Investments ⁽³⁾	9.1	40.8	20.4	43.4
Centrally managed expenses ⁽⁴⁾	(94.1)	(71.6)	(73.1)	(66.1)
Total	361.6	282.7	344.1	358.9
Depreciation and amortisation			71.9	66.8
Operating EBITDA			416.0	425.7

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

- ⁽¹⁾ Section 4.1
- ⁽²⁾ Section 4.2
- ⁽³⁾ Section 4.4
- ⁽⁴⁾ Section 4.5

4.1 Retail Energy Operating EBIT: Increased 5.6% to \$193.8 million from \$183.5 million

	Half year ended 31 December 2010 \$m	Half year ended 31 December 2009 \$m
Statutory EBIT	191.9	170.7
Significant items	1.6	12.2
Finance income included in EBIT	0.3	0.6
Operating EBIT	193.8	183.5
Add back:		
Depreciation and amortisation	20.9	20.4
Operating EBITDA	214.7	203.9

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

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

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

4.1.1 Analysis of Operating EBIT

Retail Energy contributed \$193.8 million to Operating EBIT for the half year, up 5.6% on the prior corresponding period. The main factors contributing to the increase in Operating EBIT are summarised in the table below.

	\$m
Operating EBIT for the half year ended 31 December 2009	183.5
Increase in gas and electricity gross margin	13.1
Increase in depreciation and amortisation	(0.5)
Increase in net operating costs	(2.3)
Operating EBIT for the half year ended 31 December 2010	193.8

4.1.1.1 Gross Margin

Gross margin, excluding fees and charges, increased by \$13.1 million, or 3.8% compared with the prior corresponding period. Of this increase, \$12.7 million related to mass market gross margin and \$0.4 million to C&I gross margin.

Mass market gross margin increases were primarily driven by regulatory and contract outcomes in all states. Electricity volumes were in line with the prior corresponding period, as the benefit of higher customer numbers was offset by a mild start to summer. Gas volumes were higher driven by a colder winter in 2010. Offsetting the higher gas volumes was an increase in haulage costs.

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

	Half year ended 31 December 2010 \$m	Half year ended 31 December 2009 \$m	Movement %
Mass market electricity	200.0	185.9	7.6
Mass market gas	104.3	105.7	(1.3)
C&I electricity	30.9	27.7	11.6
C&I gas	20.1	22.9	(12.2)
Fees and charges	34.4	31.1	10.6
Total gross margin	389.7	373.3	4.4
Gross margin excluding fees and charges	355.3	342.2	3.8

4.1.1.2 Depreciation and Amortisation

Depreciation and amortisation increased by \$0.5 million, or 2.5% compared with the prior corresponding period.

4.1.1.3 Net Operating Costs

Retail Energy's net operating costs increased by \$2.8 million, or 1.8%, during the half year compared with the prior corresponding period. The following table provides the breakdown of the material increases in net operating costs:

	Half year ended 31 December 2010 \$m	Half year ended 31 December 2009 \$m	Movement %
Labour and contractor services	(73.1)	(70.3)	4.0
Bad and doubtful debt	(29.8)	(26.9)	10.8
Campaigns and advertising	(30.1)	(32.2)	(6.5)
Other expenditure	(42.0)	(40.0)	5.0
Total excluding depreciation and amortisation	(175.0)	(169.4)	3.3
Depreciation and amortisation	(20.9)	(20.4)	2.5
Fees and charges	34.4	31.1	10.6
Net operating costs	(161.5)	(158.7)	1.8

Labour and contractor services costs increased by \$2.8 million, or 4.0%, to \$73.1 million.

Labour and contractor services costs have increased as a result of additional new customer connections and transfers, and the actions taken to further reduce unbilled levels (there were 24,421 unbilled accounts at 31 December 2010, a decrease of 5% since 30 June 2010). Labour rates have also increased in line with CPI.

The increase in bad and doubtful debt expense was largely in line with increases in mass market revenue for the six months. Total revenue increased \$199.6 million, or 12.4%, compared with the prior corresponding period.

Campaign and advertising expenditure decreased by \$2.1 million mainly due to improved sales conversion rates as a result of more effective and accurate SAP processing capabilities.

Market churn continued to be at high levels. In the six months to 31 December 2010, industry market churn increased by 1.7 percentage points (ppts), from 18.7% to 20.4%. AGL churn across all markets was 15.9% (14.7% in the prior corresponding period), 4.5 ppts below the industry average. Victoria continued to lead in customer switching, having been confirmed as the most competitive energy market in the world for the third straight year (Energy Retailers Association of Australian media release, December 2010). In addition to this, energy retailer competition increased significantly in New South Wales in the six months to 31 December 2010.

4.1.2 Dual Fuel Strategy

Retail Energy continued to pursue its dual fuel strategy. AGL now services 1.43 million dual fuel customer accounts, compared with 1.36 million as at 30 June 2010, a 5.1% increase.

4.1.3 Customer Profitability

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

4.1.3.1 Mass Market Gross Margin per Mass Market Customer

	Half year ended 31 December 2010	Half year ended 31 December 2009	Movement %
Mass market gross margin	\$304.3m	\$291.6m	4.4
Average customer numbers	3,245,200	3,190,000	1.7
Mass market gross margin per customer	\$93.77	\$91.41	2.6

The increase in gross margin per mass market customer was due mainly to more appropriate tariff structures that reflect fixed and market based costs and the results of efforts to attract more high value customers.

4.1.3.2 EBIT / Sales Analysis

	Half year ended 31 December 2010 \$m	Half year ended 31 December 2009 \$m	Movement %
Electricity revenue	2,123.2	1,953.1	8.7
Gas revenue	864.9	771.9	12.0
Other fees and charges	34.4	31.1	10.6
Total revenue	3,022.5	2,756.1	9.7
Cost of sales	(2,632.8)	(2,382.8)	10.5
Gross margin	389.7	373.3	4.4
Operating costs (excl D&A)	(175.0)	(169.4)	3.3
EBITDA	214.7	203.9	5.3
Depreciation and amortisation	(20.9)	(20.4)	2.5
EBIT	193.8	183.5	5.6
EBIT / Sales %	6.4%	6.7%	(0.3)ppts

4.1.4 Operating Efficiency

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

4.1.4.1 Net Operating Costs as a Percentage of Gross Margin

	Half year ended 31 December 2010 \$m	Half year ended 31 December 2009 \$m	Movement %
Net operating costs	(161.5)	(158.7)	1.8
Gross margin	389.7	373.3	4.4
Fees and charges	(34.4)	(31.1)	10.5
Gross margin less fees and charges	355.3	342.2	3.8
Net operating costs as percentage of gross margin (less fees and charges)	45.4%	46.4%	1.0ppts

Net operating costs as a percentage of gross margin improved by 1.0 ppts. Gross margin less fees and charges increased by 3.8% primarily as a result of stronger pricing outcomes in mass market. Net operating costs increased by 1.8% mainly due to higher bad debts, labour and contractor services charges.

4.1.4.2 Cost to Serve Analysis

	Half year ended 31 December 2010 \$	Half year ended 31 December 2009 \$	Movement %
Net operating costs	(161.5)m	(158.7)m	1.8
Net operating cost per customer account	(49.49)	(49.51)	0.0
Cost to grow/retain	(38.5)m	(38.6)m	0.3
Cost to grow per account acquired/retained	(81.21)	(84.82)	(4.3)
Cost to serve	(123.0)m	(120.1)m	2.4
Cost to serve per customer account	(37.69)	(37.45)	0.6

Net operating cost per customer account for the half year was \$49.49, which was in line with the prior period. The 2.4% increase in cost to serve for the half year is explained in Section 4.1.1.3.

The cost to grow/retain decreased by 4.3% for the half year, reflecting lower campaigning costs (refer to section 4.1.1.3).

4.1.5 Customer Numbers and Competition

High levels of competitor activity persisted throughout the half year ended 31 December 2010. The following table provides a breakdown of customer numbers by state.

	31 December 2010 (‘000)	30 June 2010 (‘000)	Movement (‘000)	Movement %
Electricity				
Victoria	645	643	2	0.3
South Australia	475	478	(3)	(0.6)
New South Wales	423	381	42	11.0
Queensland	362	371	(9)	(2.4)
	1,905	1,873	32	1.7
Gas				
Victoria	474	468	6	1.3
South Australia	102	97	5	5.2
New South Wales	718	727	(9)	(1.2)
Queensland	75	77	(2)	(2.6)
	1,369	1,369	-	0.0
Total	3,274	3,242	32	1.0

**4.2 Merchant Energy Operating EBIT:
 Decreased 4.6% to \$186.1 million from \$195.1 million**

	Half year ended 31 December 2010 \$m	Half year ended 31 December 2009 \$m
Statutory EBIT	237.8	139.9
Significant items	-	0.1
Change in fair value of financial instruments	(51.7)	55.1
Operating EBIT	186.1	195.1
Add back:		
Depreciation and amortisation	34.2	30.3
Operating EBITDA	220.3	225.4

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

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

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

	Operating EBIT		Operating EBITDA	
	Half year ended 31 December 2010 \$m	Half year ended 31 December 2009 \$m	Half year ended 31 December 2010 \$m	Half year ended 31 December 2009 \$m
Energy Portfolio Management	215.4	229.0	220.6	234.6
Merchant Operations	(57.1)	(50.0)	(32.8)	(29.6)
Energy Services	7.7	6.7	12.4	11.0
Power Development	26.1	14.7	26.1	14.7
Sundry Expenses	(6.0)	(5.3)	(6.0)	(5.3)
Total Merchant Energy	186.1	195.1	220.3	225.4

**4.2.1 Energy Portfolio Management Operating EBIT:
 Decreased 5.9% to \$215.4 million from \$229.0 million**

	Half year ended 31 December 2010 \$m	Half year ended 31 December 2009 \$m
Wholesale Electricity	149.9	179.7
Wholesale Gas	64.0	48.3
Eco-Markets	13.0	13.8
Gross margin	226.9	241.8
Operating costs	(6.3)	(7.2)
Operating EBITDA	220.6	234.6
Depreciation and amortisation	(5.2)	(5.6)
Operating EBIT	215.4	229.0

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

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

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

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

**4.2.1.1 Wholesale Electricity Gross Margin:
 Decreased 16.6% to \$149.9 million from \$179.7 million**

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

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

Lower electricity prices and volatility, compared with the prior corresponding period, reduced the contribution from Torrens Island Power Station. Lower than anticipated sales volumes, due to the mild start to summer, limited the opportunity to increase gross margin by taking advantage of these low pool prices.

**4.2.1.2 Wholesale Gas Gross Margin:
Increased 32.5% to \$64.0 million from \$48.3 million**

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

The half year ended 31 December 2010 benefited from a number of favourable conditions which drove the improved gross margin.

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

The wholesale gas component of regulatory price determinations increased gross margin compared with the prior corresponding period. Active management of the gas portfolio resulted in a better mix of supply contracts which also delivered increased gross margin. Furthermore, improved sales within the C&I segment delivered increased gross margin.

Finally, recovery of gas haulage costs increased compared with the prior corresponding period.

**4.2.1.3 Eco-Markets Gross Margin:
Decreased 5.8% to \$13.0 million from \$13.8 million**

Eco-Markets is responsible for managing the liabilities for both voluntary and mandatory green schemes. The largest of the schemes Eco-Markets participates in is the Mandatory Renewable Energy Target.

The small reduction in first half year results were due to timing differences in matching transfer revenues with obligations costs.

**4.2.2 Merchant Operations Operating Expense:
Increased 14.2% to \$57.1 million from \$50.0 million**

Merchant Operations is responsible for managing and maintaining both owned and third party generation assets. AGL's thermal and renewable generation portfolio includes the 1,280MW gas fired Torrens Island Power Station, the 150MW gas fired Somerton Power Station and 796MW of hydro generation. AGL is also responsible for managing Wattle Point, Hallett 1 and Hallett 2 wind farms.

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

The increase in Merchant Operations operating expense for the period was due to increased labour costs, the impact of new plant coming on line and an increase in maintenance costs following the expiration of the warranty periods. Higher depreciation costs were recognised as a result of the completion of capital projects, new plant brought on line and increased generation from Hydro assets to manage dam levels.

During the period 4 September 2010 to 6 September 2010 the Kiewa, Dartmouth and Eildon catchment areas received torrential rain with falls of up to 180mm resulting in significant additional inflows across all catchments. The additional inflows in conjunction with continued

above average rainfall have resulted in dam levels at Eildon and Dartmouth increasing from 31% and 30% respectively, as at 1 January 2010, to 68% and 53% respectively as at 31 December 2010. During the half year Dartmouth Power Station was progressively re-commissioned to enable generation to occur in anticipation of water levels exceeding minimum operating levels. Commissioning was completed in September 2010 with current operational capacity of 132MW.

4.2.3 Energy Services Operating EBIT: Increased 14.9% to \$7.7 million from \$6.7 million

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

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

The increase in earnings compared with the prior corresponding period was due to improved earnings from new sites reaching full commercial operation partially offset by volume reductions at HC Extractions largely due to a major shutdown during the period.

4.2.4 Power Development Operating EBIT: Increased 77.6% to \$26.1 million from \$14.7 million

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

Development profits of \$27.0 million were recognised in the half year compared with \$16.0 million in the prior corresponding period. Development profits for both periods related to Hallett 4.

Construction of Hallett 4, Oaklands Hill and Hallett 5 wind farm projects continued. Development of the Macarthur Wind Farm in a joint venture with Meridian Energy commenced.

4.3 Upstream Gas Operating EBIT: Increased by 463.3% to \$16.9 million from \$3.0 million

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

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

	Operating EBIT		Operating EBITDA	
	Half year ended 31 December 2010 \$m	Half year ended 31 December 2009 \$m	Half year ended 31 December 2010 \$m	Half year ended 31 December 2009 \$m
Queensland / South Australia	17.5	3.4	22.7	9.1
New South Wales	3.1	2.0	7.6	6.9
Equity investments	(0.1)	(0.1)	(0.1)	(0.1)
Sundry	(3.6)	(2.3)	(3.0)	(2.1)
Total Upstream Gas	16.9	3.0	27.2	13.8

4.3.1 Queensland/South Australia Operating EBIT: Increased by 414.7% to \$17.5 million from \$3.4 million

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

Operating EBIT contribution from the combined MGP and NOE joint ventures was \$2.6 million compared to \$0.2 million in the prior corresponding period driven by improvements in operating cost efficiencies. Gas sales decreased by 10% from 4.0 PJ to 3.6 PJ as production in the current period was adversely affected by wet weather.

Operations at Silver Springs acquired from Mosaic in October 2010 contributed storage fee income of \$15 million during the half year from the development of the depleted Silver Springs and Renlim gas fields as gas storage reservoirs. While it is unlikely there will be any additional storage fee income in the second half of the year, income from the development and injection phase of the project is expected to be approximately \$8 million to \$10 million per annum over the next three years.

The gas market development services agreement with QGC expired in March 2010 and therefore did not contribute to earnings in this half year. The agreement generated Operating EBIT of \$3.8 million in the prior corresponding period.

4.3.2 New South Wales Operating EBIT:
Increased 55.0% to \$3.1 million from \$2.0 million

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

Operating EBIT contribution from the Camden Gas Project was \$3.1 million compared with \$2.0 million in the prior corresponding period. Gas sales increased by 3.4% from 2.9 PJ to 3.0 PJ.

4.3.3 Equity Investments Operating EBIT:
Level at a loss of \$0.1 million

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

AGL has a 35% shareholding in CSME, an unlisted public company. The Operating EBIT contribution from this investment was a loss of \$0.1 million compared with a loss of \$0.1 million in the prior corresponding period.

4.3.4 Sundry Operating EBIT:
Decreased 56.5% to (\$3.6 million) from (\$2.3 million)

The Sundry category includes Upstream Gas overheads and, following the acquisition of Mosaic on 20 October 2010, additional exploration interests in the Carnarvon Basin of Western Australia and in New Zealand. These interests did not contribute to Operating EBIT during the half year. The prior corresponding period included a \$1.2 million Operating EBIT contribution in relation to tariff income for the Berwyndale to Wallumbilla pipeline which was subsequently sold in April 2010 and therefore did not contribute to Operating EBIT in the half year.

4.3.5 Gas Sales and Reserves Position

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

AGL share of operations	Half year ended 31 December 2010	Half year ended 31 December 2009
Gas sales volume (PJ)		
Queensland / South Australia*	3.6	4.0
New South Wales	3.0	2.9
Total gas sales	6.6	6.9
Sales revenue (\$m)		
Queensland / South Australia**	8.3	9.2
New South Wales	10.5	10.3
Total sales revenue	18.8	19.5
Average gas price (\$/GJ)	2.85	2.83

* Excludes any contribution from gas sales arising from the acquisition of Mosaic on 20 October 2010.

** Includes revenue attributable to AGL's 50% interest in the Moranbah Gas Project and its Gas Supply Agreement with the North Queensland Energy joint venture.

AGL's share of proved plus probable (2P) and proved plus probable plus possible (3P) coal seam gas (CSG) reserves by project is summarised in the table below:

AGL share of CSG reserves (PJ)	31 December 2010		30 June 2010	
	2P	3P	2P	3P
Gloucester Gas Project (100%)	669	832	669	832
Moranbah Gas Project (50%)	372	703	501	1,022
Camden Gas Project (100%)	151	198	154	201
Hunter Gas Project (100%)	142	271	-	-
Spring Gully Project (various)	8	10	8	10
Sub-Total	1,342	2,014	1,332	2,065
ATP 1103 back-in rights (50%) ⁽¹⁾	687	1,495	246	1,307
Total	2,029	3,509	1,578	3,372

⁽¹⁾ Under a 50-year project agreement that commenced in 2000, AGL has no effective exploration rights (or ongoing cost obligations) within exploration tenement ATP 1103 (previously designated ATP 364P) as these were assigned to Arrow Energy Limited. However, AGL is entitled to participate up to a 50% interest in any commercial development by contributing its share of past costs. Past costs are anticipated to be less than \$0.05/GJ.

Gas reserves for the Moranbah Gas Project and ATP 1103 as at 31 December 2010 have been reassessed by independent reserves auditor Netherland Sewell & Associates, Inc (NSAI). AGL's entitlement of 2P reserves within the ATP was increased by 441 PJ (179.3%) as a result of exploration and appraisal activities during the past 12 months. AGL's share of 2P reserves within the MGP area was reduced by 129 PJ (25.7%) following a review based on the latest production data. NSAI revised the calculation of recovery factors taking into account coal permeability based on production results from deeper areas. Therefore, AGL's combined 2P gas reserves entitlement, net of production over the half year, increased by 312 PJ (41.8%) to 1,059 PJ.

As a result of exploration activities, initial gas reserves estimates for the Hunter Gas Project were announced during the half year. The fall in gas reserves at Camden was due solely to gas production during the half year.

**4.4 Energy Investments Operating EBIT:
 Decreased 53.0% to \$20.4 million from \$43.4 million**

	Half year ended 31 December 2010 \$m	Half year ended 31 December 2009 \$m
Statutory EBIT	9.1	40.8
Significant items	-	-
Finance income from Loy Yang investment	5.3	4.9
Change in fair value of financial instruments (Loy Yang)	6.0	(2.3)
Operating EBIT	20.4	43.4
Add back:		
Depreciation and amortisation	-	-
Operating EBITDA	20.4	43.4

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

	Half year ended 31 December 2010 \$m	Half year ended 31 December 2009 \$m
ActewAGL	17.6	17.5
Loy Yang	0.4	22.8
Other	2.4	3.1
Operating EBIT	20.4	43.4

**4.4.1 ActewAGL (50% AGL Ownership) Operating EBIT:
 Increased 0.6% to \$17.6 million from \$17.5 million**

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

ActewAGL Retail partnership contributed an equity share of profits of \$17.6 million for half the year ended compared with \$17.5 million for the prior corresponding period. This increase was driven mainly by higher gas and electricity consumption.

4.4.2 Loy Yang Investment Operating EBIT:
Decreased 98.2% to \$0.4 million from \$22.8 million

Operating EBIT of \$0.4 million comprised an equity share of loss of \$4.9 million compared with a profit of \$17.9 million for the corresponding prior period and interest income of \$5.3 million compared with \$4.9 million for the prior corresponding period.

Loy Yang's reduction in operating result has been largely driven by a significant reduction in the pool price, as shown in the following table.

Average Victorian Reference Pool Price and Loy Yang Generation

	\$/MWh	Generation Volumes GWh
1H10	25.60	7,775
1H11	21.97	7,677

Loy Yang also experienced higher labour, general operations and maintenance costs of 8.0% plus an increase of 4.4% in interest expense.

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

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

**4.5 Centrally Managed Expenses:
 Increased 10.6% to \$73.1 million from \$66.1 million**

	Half year ended 31 December 2010 \$m	Half year ended 31 December 2009 \$m
Statutory EBIT	(94.1)	(71.6)
Significant items	21.0	5.5
Operating EBIT	(73.1)	(66.1)
Add back:		
Depreciation and amortisation	6.5	5.3
Operating EBITDA	(66.6)	(60.8)

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

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

	Half year ended 31 December 2010 \$m	Half year ended 31 December 2009 \$m
Labour	(23.7)	(17.6)
Office leases	(8.3)	(8.2)
Hardware and software costs	(16.5)	(19.5)
Consultants and contractor fees	(4.3)	(3.0)
Insurance premiums	(4.9)	(2.0)
Depreciation and amortisation	(6.5)	(5.3)
Other	(8.9)	(10.5)
Total	(73.1)	(66.1)

Hardware and software costs decreased due to lower infrastructure costs and application support costs. Cash labour costs increased by \$1.6 million, the balance of \$4.5 million related to movements in provisions associated with long service leave and employee incentives. Insurance premiums increased largely due to the transfer from Merchant Energy of insurance costs associated with Torrens Island Power Station.

5. Net Finance Costs
Decreased 17.5% to \$22.1 million from \$26.8 million

	Half year ended 31 December 2010 \$m	Half year ended 31 December 2009 \$m
Statutory finance costs	(37.1)	(38.5)
Statutory finance income	20.6	17.2
Remove finance income included in EBITDA	(5.6)	(5.5)
Net financing costs	(22.1)	(26.8)

Net financing costs decreased by \$4.7 million to \$22.1 million for the half year compared with \$26.8 million from the prior corresponding period. The decrease in net financing costs was mainly due to a lower average net interest rate which decreased from 7.88% to 6.63%. Average net debt for the half year was \$575.0 million compared with \$445.0 million for the prior corresponding period.

6. Tax Expense
Decreased 1.5% to \$95.8 million from \$97.3 million

	Half year ended 31 December 2010 \$m	Half year ended 31 December 2009 \$m
Statutory income tax expense	(105.5)	(77.7)
Income tax (benefit) / expense from significant items	(5.8)	(3.2)
Income tax (benefit) from fair value movements	15.5	(16.4)
Underlying tax expense	(95.8)	(97.3)

The underlying effective tax rate was 29.8% compared with 29.3% for the prior corresponding period. The effective tax rate increased due primarily to a lower contribution from Loy Yang, which is equity accounted on an after tax basis.

7. Operating Cash Flow

7.1 Reconciliation of Operating EBITDA to Operating Cash Flow before Tax:

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

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

7.2 Operating Cash Flow before Tax: Decreased 67.3% to \$101.0 million from \$308.7 million

The movement in receivables of \$50.1 million was primarily due to the timing of receipts for wind farm development fees and gas storage fees totalling \$59.7 million.

The movement in green assets / liabilities of \$91.6 million was primarily due to accelerated purchases of Renewable Energy Certificates to meet future compliance obligations of AGL. Purchases of green products increased by \$97.3 million during the half year. This increased purchasing activity was largely to take advantage of lower priced Renewable Energy Certificates, which will be used to meet future compliance obligations.

AGL posts deposits with the Australian Securities Exchange at the inception of a futures contract in relation to electricity. Depending on market movements, AGL subsequently pays or receives cash. The net payment for the half year was \$19.4 million compared with a net receipt of \$14.5 million for the prior corresponding period.

The movement in derivative premiums paid / roll-offs of \$55.5 million was due to the purchase of weather derivatives for the summer period, increased use of caps and, finally, premium payments for caps purchased in prior periods.

Directors in Office

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

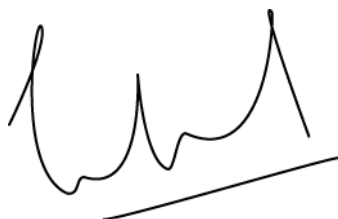
	<i>First Appointed</i>
Jeremy Charles Roy Maycock - Chairman	9 October 2006 (chairman since 21 October 2010)
Mark Roderick Granger Johnson	17 February 2006 (retired 21 October 2010)
Michael Anthony Fraser – Managing Director	22 October 2007
Maxwell Gilbert Ould	17 February 2006
Sandra Veronica McPhee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

Rounding of Amounts to Nearest \$0.1 Million

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

Auditor's Independence Declaration

The auditor's independence declaration is on page 48.



Jeremy Maycock
Chairman

AGL Energy Limited and Subsidiaries
Condensed consolidated Income Statement
For the half year ended 31 December 2010

	Note	Half year ended	
		31 Dec 2010	31 Dec 2009
		\$m	\$m
Revenue	3	3,488.0	3,200.8
Other income	4	-	1.0
Expenses	5	(3,061.2)	(2,890.2)
Share of profits of associates and jointly controlled entities accounted for using the equity method	12	6.7	37.9
Profit before net financing costs, depreciation and amortisation		433.5	349.5
Depreciation and amortisation	6	(71.9)	(66.8)
Profit before net financing costs		361.6	282.7
Finance income		20.6	17.2
Finance costs		(37.1)	(38.5)
Net financing costs	7	(16.5)	(21.3)
Profit before tax		345.1	261.4
Income tax expense	9	(105.5)	(77.7)
Profit for the period attributable to owners of AGL Energy Limited		239.6	183.7
Statutory earnings per share			
Basic (cents per share)	16	52.8	41.0
Diluted (cents per share)	16	52.8	40.9

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

AGL Energy Limited and Subsidiaries
Condensed consolidated Statement of Financial Position
As at 31 December 2010

		As at	
		31 Dec 2010	30 June 2010
	Note	\$m	\$m
Current assets			
Cash and cash equivalents		467.5	480.4
Trade and other receivables		1,213.0	1,234.5
Inventories		93.4	94.2
Other financial assets		321.6	225.3
Other assets		322.6	174.1
Total current assets		2,418.1	2,208.5
Non-current assets			
Trade and other receivables		0.5	0.6
Investments accounted for using the equity method		284.1	200.8
Exploration and evaluation assets		683.6	607.5
Oil and gas assets		392.7	333.4
Property, plant and equipment		2,198.6	2,056.2
Intangible assets	13	3,139.6	3,149.0
Other financial assets		112.1	106.5
Other assets		24.3	28.4
Total non-current assets		6,835.5	6,482.4
Total assets		9,253.6	8,690.9
Current liabilities			
Trade and other payables		784.7	859.6
Borrowings	14	886.7	-
Provisions		53.4	47.8
Current tax liabilities		80.3	42.5
Other financial liabilities		575.9	582.0
Other liabilities		1.4	0.6
Total current liabilities		2,382.4	1,532.5
Non-current liabilities			
Borrowings	14	297.7	900.8
Provisions		186.2	183.4
Deferred tax liabilities		135.0	165.6
Other financial liabilities		128.2	42.1
Other liabilities		52.1	66.6
Total non-current liabilities		799.2	1,358.5
Total liabilities		3,181.6	2,891.0
Net assets		6,072.0	5,799.9
Equity			
Issued capital	15	4,201.0	4,066.7
Reserves		(146.6)	(159.4)
Retained earnings		2,017.6	1,892.6
Total equity attributable to owners of AGL Energy Limited		6,072.0	5,799.9

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

AGL Energy Limited and Subsidiaries
Condensed consolidated Statement of Comprehensive Income
For the half year ended 31 December 2010

	Half year ended	
	31 Dec 2010	31 Dec 2009
	\$m	\$m
Profit for the period attributable to owners of AGL Energy Limited	239.6	183.7
Other comprehensive income		
Cash flow hedges		
(Loss)/gain in fair value of cash flow hedges	(234.0)	42.2
Reclassification adjustments transferred to profit or loss	144.4	(36.5)
Reclassification adjustments transferred to the initial carrying amounts of hedged items	3.0	-
Available-for-sale financial assets		
Gain on revaluation of available-for-sale financial assets	-	0.5
Actuarial gain on defined benefit plans	8.4	15.4
Share of other comprehensive income of an associate	92.2	8.6
Income tax relating to components of other comprehensive income	23.4	(6.3)
Other comprehensive income for the period, net of income tax	37.4	23.9
Total comprehensive income for the period attributable to owners of AGL Energy Limited	277.0	207.6

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

AGL Energy Limited and Subsidiaries
Condensed consolidated Statement of Changes in Equity
For the half year ended 31 December 2010

	Attributable to owners of AGL Energy Limited						
	Issued capital	Investments revaluation reserve	Employee equity benefits reserve	Hedging reserve	Other reserve	Retained earnings	Total equity
	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Balance at 1 July 2010	4,066.7	-	4.7	(163.6)	(0.5)	1,892.6	5,799.9
Profit for the period	-	-	-	-	-	239.6	239.6
Other comprehensive income for the period	-	-	-	17.2	(0.2)	20.4	37.4
Total comprehensive income for the period	-	-	-	17.2	(0.2)	260.0	277.0
Transactions with owners in their capacity as owners:							
Shares issued	134.3	-	-	-	-	-	134.3
Dividends paid	-	-	-	-	-	(135.0)	(135.0)
Share-based payment transactions	-	-	(4.2)	-	-	-	(4.2)
Balance at 31 December 2010	4,201.0	-	0.5	(146.4)	(0.7)	2,017.6	6,072.0
Balance at 1 July 2009	4,030.3	(1.1)	2.0	12.2	(0.1)	1,802.4	5,845.7
Profit for the period	-	-	-	-	-	183.7	183.7
Other comprehensive income for the period	-	0.5	-	12.0	(0.3)	11.7	23.9
Total comprehensive income for the period	-	0.5	-	12.0	(0.3)	195.4	207.6
Transactions with owners in their capacity as owners:							
Shares issued	18.3	-	-	-	-	-	18.3
Dividends paid	-	-	-	-	-	(125.5)	(125.5)
Share-based payment transactions	-	-	(0.8)	-	-	-	(0.8)
Balance at 31 December 2009	4,048.6	(0.6)	1.2	24.2	(0.4)	1,872.3	5,945.3

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

AGL Energy Limited and Subsidiaries
Condensed consolidated Statement of Cash Flows
For the half year ended 31 December 2010

	Half year ended	
	31 Dec 2010	31 Dec 2009
Note	\$m	\$m
Cash flows from operating activities		
Receipts from customers	4,022.3	3,792.8
Payments to suppliers and employees	(3,911.6)	(3,471.7)
Dividends received	15.6	16.5
Finance income received	10.7	16.9
Finance costs paid	(36.0)	(45.8)
Income taxes paid	(75.0)	(181.9)
Net cash provided by operating activities	26.0	126.8
Cash flows from investing activities		
Payments for property, plant and equipment	(204.3)	(141.6)
Payments for exploration and evaluation assets	(21.1)	(20.5)
Payments for oil and gas assets	(24.0)	(33.8)
Payments for businesses and subsidiaries, net of cash acquired:		
acquisitions in current period	18 (5.1)	(7.0)
acquisitions in prior period	-	(1.2)
Proceeds from sale of property, plant and equipment	-	1.0
Proceeds from sale of subsidiary, net of cash disposed	19 -	157.1
Loans advanced to related parties	(0.1)	-
Proceeds from repayment of related party loans	-	0.3
Net cash used in investing activities	(254.6)	(45.7)
Cash flows from financing activities		
On-market share purchases	(6.0)	(2.4)
Proceeds from borrowings	338.4	1.9
Repayment of borrowings	-	(20.0)
Dividends paid	10 (116.7)	(107.2)
Net cash provided by/(used in) financing activities	215.7	(127.7)
Net decrease in cash and cash equivalents	(12.9)	(46.6)
Cash and cash equivalents at the beginning of the period	480.4	623.1
Cash and cash equivalents at the end of the period	467.5	576.5

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

AGL Energy Limited and Subsidiaries
Notes to the condensed consolidated Financial Statements
For the half year ended 31 December 2010

Note 1 - Summary of significant accounting policies

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

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

(a) Statement of compliance

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

The half year financial report does not include all notes of the type normally included in an annual financial report. Accordingly, this report should be read in conjunction with the annual financial report for the year ended 30 June 2010 and any public announcements made by AGL Energy Limited during the half year ended 31 December 2010 in accordance with the continuous disclosure requirements of the Corporations Act 2001 and the ASX Listing Rules.

(b) Basis of preparation

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

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

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

(c) Adoption of new and revised standards

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

- AASB 2009-5 *Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project* [AASB 5, 8, 101, 107, 117, 118, 136 and 139]
- AASB 2009-8 *Amendments to Australian Accounting Standards - Group Cash-settled Share-based Payment Transactions* [AASB 2]
- AASB 2009-10 *Amendments to Australian Accounting Standards - Classification of Rights Issues* [AASB 132]
- AASB 2010-3 *Amendments to Australian Accounting Standards arising from the Annual Improvements Project* [AASB 3, 7, 121, 128, 131, 132 and 139]
- Interpretation 19 *Extinguishing Financial Liabilities with Equity Instruments* and AASB 2009-13 *Amendments to Australian Accounting Standards arising from Interpretation 19* [AASB 1]

The adoption of these amendments has not resulted in any changes to the consolidated entity's accounting policies and have no effect on the amounts reported for the current or prior periods.

AGL Energy Limited and Subsidiaries
Notes to the condensed consolidated Financial Statements
For the half year ended 31 December 2010

Note 2 - Segment information

Operating segments

The consolidated entity reports segment information on the same basis as the internal management reporting structure, which drives how the consolidated entity is organised and managed.

The consolidated entity has identified its operating segments based on the internal reports that are regularly reviewed and used by the Board of Directors (the chief operating decision maker) in assessing performance and in determining the allocation of resources.

Management has determined the operating segments based on the manner in which products are sold, whether retail or wholesale, and the nature of the services provided. The consolidated entity has four reportable operating segments as follows:

- **Retail Energy** is responsible for selling natural gas, electricity and energy-related products and services to residential, small business and commercial and industrial customers.
- **Merchant Energy** is responsible for developing, operating and maintaining power generation assets and managing the risks associated with the procurement and delivery of gas and electricity for its wholesale portfolio and for the Retail Energy segment. Merchant Energy also provides energy efficiency and carbon management services.
- **Upstream Gas** is responsible for exploration, development and production of coal seam gas and also exploration and development of geothermal renewable energy sources.
- **Energy Investments** includes equity accounted investments in the ActewAGL Retail Partnership and Greater Energy Alliance Corporation Pty Limited.

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

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

Segment financial results

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

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

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

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

AGL Energy Limited and Subsidiaries
Notes to the condensed consolidated Financial Statements
For the half year ended 31 December 2010

Note 2 - Segment information (cont'd)

	Retail Energy \$m	Merchant Energy \$m	Upstream Gas \$m	Energy Investments \$m	Other	Total \$m
Half year ended 31 December 2010						
Revenue						
Total segment revenue	3,026.0	2,033.2	48.8	2.5	-	5,110.5
Inter-segment revenue	(18.4)	(1,582.4)	(21.7)	-	-	(1,622.5)
External revenue	3,007.6	450.8	27.1	2.5	-	3,488.0
Earnings before interest, tax, depreciation and amortisation (EBITDA)						
Depreciation and amortisation	(20.9)	(34.2)	(10.3)	-	(6.5)	(71.9)
Operating EBIT	193.8	186.1	16.9	20.4	(73.1)	344.1
Net financing costs						(22.1)
Underlying profit before income tax						322.0
Income tax expense						(95.8)
Underlying profit						226.2
Other segment information						
Share of profits of associates and jointly controlled entities	-	-	-	6.7	-	6.7
Additions to non-current assets	41.5	104.6	178.1	-	12.2	336.4
Half year ended 31 December 2009						
Revenue						
Total segment revenue	2,754.1	1,956.7	39.7	3.1	-	4,753.6
Inter-segment revenue	(15.3)	(1,511.8)	(25.7)	-	-	(1,552.8)
External revenue	2,738.8	444.9	14.0	3.1	-	3,200.8
Earnings before interest, tax, depreciation and amortisation (EBITDA)						
Depreciation and amortisation	(20.4)	(30.3)	(10.8)	-	(5.3)	(66.8)
Operating EBIT	183.5	195.1	3.0	43.4	(66.1)	358.9
Net financing costs						(26.8)
Underlying profit before income tax						332.1
Income tax expense						(97.3)
Underlying profit						234.8
Other segment information						
Share of profits of associates and jointly controlled entities	-	-	0.2	37.7	-	37.9
Additions to non-current assets	11.3	120.8	61.7	-	10.1	203.9
Segment assets						
As at 31 December 2010	3,449.7	3,431.8	1,202.8	391.2	90.4	8,565.9
As at 30 June 2010	3,472.8	3,210.7	1,008.3	300.0	76.1	8,067.9
Segment liabilities						
As at 31 December 2010	285.7	636.2	52.6	-	103.3	1,077.8
As at 30 June 2010	322.9	682.5	43.1	0.6	108.9	1,158.0

AGL Energy Limited and Subsidiaries
Notes to the condensed consolidated Financial Statements
For the half year ended 31 December 2010



Note 2 - Segment information (cont'd)

	31 Dec 2010	31 Dec 2009
	\$m	\$m
Segment Operating EBIT reconciliation to the income statement		
Reconciliation of segment Operating EBIT to profit before tax is as follows:		
Operating EBIT for reportable segments	417.2	425.0
Other	(73.1)	(66.1)
	344.1	358.9
Amounts excluded from underlying results:		
- gain/(loss) in fair value of financial instruments	45.7	(52.8)
- significant expense items	(22.6)	(17.9)
Finance income included in Operating EBIT	(5.6)	(5.5)
Finance income	20.6	17.2
Finance costs	(37.1)	(38.5)
Profit before tax	345.1	261.4
Segment assets reconciliation to the statement of financial position		
Reconciliation of segment assets to total assets is as follows:		
Segment assets for reportable segments	8,475.5	7,991.8
Other	90.4	76.1
	8,565.9	8,067.9
Cash and cash equivalents	467.5	480.4
Derivative financial instruments	220.2	142.6
Total assets	9,253.6	8,690.9
Segment liabilities reconciliation to the statement of financial position		
Reconciliation of segment liabilities to total liabilities is as follows:		
Segment liabilities for reportable segments	974.5	1,049.1
Other	103.3	108.9
	1,077.8	1,158.0
Borrowings	1,184.4	900.8
Current tax liabilities	80.3	42.5
Deferred tax liabilities	135.0	165.6
Derivative financial instruments	704.1	624.1
Total liabilities	3,181.6	2,891.0

AGL Energy Limited and Subsidiaries
Notes to the condensed consolidated Financial Statements
For the half year ended 31 December 2010

	Half year ended	
	31 Dec 2010	31 Dec 2009
	\$m	\$m
Note 3 - Revenue		
Revenue from sale of goods	3,395.1	3,141.1
Revenue from rendering of services	92.5	59.7
Other revenue		
Royalties	0.4	-
	3,488.0	3,200.8
Note 4 - Other income		
Net foreign exchange gains	-	0.6
Other	-	0.4
	-	1.0
Note 5 - Expenses		
Cost of sales	2,784.3	2,529.0
(Gain)/loss in fair value of electricity derivatives - economic hedges	(45.7)	52.8
	2,738.6	2,581.8
Administration expenses	70.8	74.2
Employee benefits expense	166.1	154.7
Other expenses		
Impairment of trade receivables (net of bad debts recovered)	26.5	25.1
Redundancy, termination and restructure costs	6.5	3.6
Merger and acquisition related costs	16.1	2.6
Phoenix change program costs	-	11.7
Net loss on disposal of property, plant and equipment	-	1.0
Operating lease rental expenses	10.7	9.9
Other	25.9	25.6
	3,061.2	2,890.2
Note 6 - Depreciation and amortisation		
Property, plant and equipment	51.1	43.6
Oil and gas assets	8.4	9.2
Intangible assets	9.5	11.1
Other	2.9	2.9
	71.9	66.8

AGL Energy Limited and Subsidiaries
Notes to the condensed consolidated Financial Statements
For the half year ended 31 December 2010

	Half year ended	
	31 Dec 2010	31 Dec 2009
	\$m	\$m
Note 7 - Net financing costs		
Finance income		
Interest income		
Associates	5.3	4.9
Other entities	15.3	12.3
	20.6	17.2
Finance costs		
Interest expense		
Other entities	34.9	38.3
Less finance costs capitalised	(5.9)	(12.9)
Unwinding of discounts on provisions	5.8	6.0
Other finance costs	2.3	7.1
	37.1	38.5
	16.5	21.3
Note 8 - Significant expense items		
Significant expense items before income tax		
Gain on disposal of subsidiary	-	-
Redundancy, termination and restructure costs	(6.5)	(3.6)
Merger and acquisition related costs	(16.1)	(2.6)
Phoenix change program costs	-	(11.7)
	(22.6)	(17.9)
Income tax income/(expense) applicable:		
Gain on disposal of subsidiary	-	(2.2)
Redundancy, termination and restructure costs	2.0	1.1
Merger and acquisition related costs	3.8	0.8
Phoenix change program costs	-	3.5
	5.8	3.2
	(16.8)	(14.7)

AGL Energy Limited and Subsidiaries
Notes to the condensed consolidated Financial Statements
For the half year ended 31 December 2010

Half year ended
31 Dec 2010 31 Dec 2009
\$m \$m

Note 9 - Income tax expense
Numerical reconciliation between tax expense and pre-tax accounting profit

The prima facie income tax expense on pre-tax accounting profit reconciles to the income tax expense in the financial statements as follows:

Profit before tax	345.1	261.4
Income tax expense calculated at the Australian tax rate of 30%	103.5	78.4
Non-deductible expenses	4.1	3.4
Gain on disposal of businesses and subsidiaries	-	2.2
Share of profits of associates and jointly controlled entities	3.2	(6.2)
Other	-	(0.1)
Adjustments in relation to current tax of prior years	(5.3)	-
Income tax recognised in the income statement	105.5	77.7

Note 10 - Dividends

Recognised amounts

Final dividend

Final dividend for 2010 of 30.0 cents per share, unfranked, paid 30 September 2010 (2009: Final dividend for 2009 of 28.0 cents per share, fully franked at 30%, paid 30 September 2009)

135.0 125.5

Total dividends

135.0 125.5

Dividends satisfied by the issue of shares under the AGL Dividend Reinvestment Plan (Note 15)

(18.3) (18.3)

Dividends paid as per the statement of cash flows

116.7 107.2

Unrecognised amounts

Since the end of the financial period, the Directors have declared an unfranked interim dividend for 2011 of 29.0 cents per share (2010: 29.0 cents fully franked), payable 14 April 2011

132.9 130.2

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

Dividend reinvestment plan

The AGL Dividend Reinvestment Plan (DRP) will be in operation and shares will be allotted at a 1.5% discount to the simple average of the daily weighted average market price at which AGL's ordinary shares are traded on ASX during each of the 10 trading days commencing on 28 March 2011.

As at
31 Dec 2010 30 June 2010
\$ \$

Note 11 - Net tangible asset backing

Net tangible asset backing per ordinary share

6.40 5.89

AGL Energy Limited and Subsidiaries
Notes to the condensed consolidated Financial Statements
For the half year ended 31 December 2010

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

Name of entity	Ownership interest		Contribution to net profit	
	As at		Half year ended	
	31 Dec 2010	31 Dec 2009	31 Dec 2010	31 Dec 2009
	%	%	\$m	\$m
Associates				
Greater Energy Alliance Corporation Pty Limited	32.5	32.5	(10.9)	20.2
Gascor Pty Ltd	33.3	33.3	-	-
CSM Energy Limited	35.0	35.0	(0.1)	(0.1)
Jointly controlled entities				
ActewAGL Retail Partnership	50.0	50.0	17.6	17.5
Energy Infrastructure Management Pty Ltd	50.0	50.0	0.1	0.3
Central Queensland Pipeline Pty Ltd	50.0	50.0	-	-
			6.7	37.9
Interest				
			31 Dec 2010	31 Dec 2009
			%	%
Jointly controlled operations and assets				
Bowen Basin - Queensland				
Moranbah Gas Project - PL 191, PL 196, PLA 222, PL 223, PL 224 & ATP 1103P			50.0	50.0
Spring Gully Project - ATP 592P, PL 195 & PL 203			0.75	0.75
Spring Gully Project - PL 204			0.0375	0.0375
Galilee Basin - Queensland				
Galilee Gas Project - ATP 529P			50.0	50.0
Cooper / Eromanga Basin - South Australia				
PEL 101			35.0	35.0
PEL 103, PEL 103A, PRL 14, PRL 17 & PRL 18			37.5	37.5
Surat Basin - Queensland				
ATP 471P (Bainbilla Block)			75.252	-
ATP 471P (Spring Grove #2 sole risk)			52.752	-
ATP 471P (Weribone)			28.71	-
PL 1 (Cabawin)			15.0	-
PL 15 (excl. Boxleigh Field)			75.0	-
PL 30 (Riverslea)			10.0	-
PL 74 (Major)			16.0	-
PL 119 (Downlands)			75.252	-
PL 119 (Downlands East #1 sole risk)			75.252	-
Wungoona Joint Venture - LPG plant & pipeline			50.0	-
Cooper / Eromanga Basin - Queensland				
ATP 934P (under application)			20.0	-
ATP 1056P			40.0	-
Carnarvon Basin - Western Australia				
WA 208P			6.0	-
Taranaki Basin - New Zealand				
PEP 51149			18.575	-
PEP 51151			50.0	-
PEP 52181			15.0	-
PEP 53247			75.0	-
Others				
North Queensland Energy Joint Venture			50.0	50.0
Macarthur Wind Farm Joint Venture			50.0	-
Lytton Joint Venture - Crude oil terminal			33.333	-

AGL Energy Limited and Subsidiaries
Notes to the condensed consolidated Financial Statements
For the half year ended 31 December 2010

	As at	
	31 Dec 2010	31 Dec 2009
	\$m	\$m
Note 13 - Intangible assets - Goodwill		
Balance at 1 July, net of accumulated impairment	2,624.8	2,624.4
Acquisitions through business combinations (Note 18)	-	-
Impairment loss	-	-
Balance at 31 December, net of accumulated impairment	2,624.8	2,624.4
Balance at 1 July		
Cost (gross carrying amount)	2,624.8	2,624.4
Accumulated impairment losses	-	-
Net carrying amount	2,624.8	2,624.4
Balance at 31 December		
Cost (gross carrying amount)	2,666.3	2,624.4
Accumulated impairment losses	-	-
Net carrying amount	2,666.3	2,624.4

	As at	
	31 Dec 2010	30 June 2010
	\$m	\$m
Note 14 - Borrowings		
Current		
Bank loans - unsecured (a)	886.7	-
Non-current		
Senior notes - unsecured (b)	282.7	-
Bank loans - unsecured	-	886.7
Finance lease liabilities - secured	11.4	10.6
Other loans - unsecured	3.6	3.5
	297.7	900.8
Total borrowings	1,184.4	900.8

(a) Bank loans are repayable on maturity in October 2011.

(b) In September 2010, the consolidated entity issued US\$300 million unsecured senior notes, comprising two tranches of 12 year and 15 year maturities for US\$165 million and US\$135 million, respectively. To manage the foreign exchange risk arising from the future principal and interest payments required on the US\$300 million, the consolidated entity uses cross currency interest rate swaps. As at 31 December 2010, the fair value of the senior notes was \$282.7 million

AGL Energy Limited and Subsidiaries
Notes to the condensed consolidated Financial Statements
For the half year ended 31 December 2010

Note 15 - Issued capital

	31 Dec 2010		30 June 2010	
	Number of shares	\$m	Number of shares	\$m
Movement in fully paid ordinary shares				
Balance at beginning of financial year	450,076,509	4,066.7	447,536,000	4,030.3
Shares issued under AGL Dividend Reinvestment Plan (a)	1,162,779	18.3	2,540,509	36.4
Shares issued for acquisition of subsidiary (b)	6,984,172	116.0	-	-
Balance at end of financial period	458,223,460	4,201.0	450,076,509	4,066.7

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

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

Note 16 - Earnings per share (EPS)

Statutory earnings per share

	Half year ended	
	31 Dec 2010	31 Dec 2009
	Cents	Cents
Basic earnings per share	52.8	41.0
Diluted earnings per share	52.8	40.9

Underlying earnings per share

Basic earnings per share	49.9	52.4
Diluted earnings per share	49.8	52.3

Earnings used in calculating basic and diluted earnings per share

	31 Dec 2010	31 Dec 2009
	\$m	\$m
Profit for the period attributable to owners of AGL Energy Limited	239.6	183.7
Statutory earnings used to calculate basic and diluted EPS	239.6	183.7
Significant expense items after income tax	16.8	14.7
(Gain)/loss in fair value of financial instruments after income tax	(30.2)	36.4
Underlying earnings used to calculate basic and diluted EPS	226.2	234.8

Weighted average number of ordinary shares

	31 Dec 2010	31 Dec 2009
	No. millions	No. millions
Weighted average number of ordinary shares used in the calculation of basic EPS	453.4	448.2
Effect of dilution - LTIP share performance rights	0.5	0.5
Weighted average number of ordinary shares used in the calculation of diluted EPS	453.9	448.7

AGL Energy Limited and Subsidiaries
Notes to the condensed consolidated Financial Statements
For the half year ended 31 December 2010

Note 17 - Contingent liabilities

Details of contingent liabilities which Directors consider should be disclosed are set out below. The Directors are of the opinion that provisions are not required in respect of these matters, as it is either not probable that a future sacrifice of economic benefits will be required or the amount is not capable of reliable measurement.

- (a) The consolidated entity has various contingent liabilities arising in connection with the sale of certain subsidiaries and a jointly controlled entity. Under the various sale agreements the consolidated entity has given warranties and indemnities in relation to tax related matters, environmental and other specific liabilities.
- (b) Pursuant to ASIC Class Order 98/1418 (as amended), the Parent Entity and certain wholly-owned Australian subsidiaries have entered in to a Deed of Cross Guarantee. The effect of the Deed is that the Parent Entity guarantees to each creditor, payment in full of any debt in the event of winding up of any of the subsidiaries under certain provisions of the Corporations Act 2001. The subsidiaries have also given a similar guarantee in the event that the Parent Entity is wound up. No liabilities subject to the Deed of Cross Guarantee at 31 December 2010 are expected to arise.
- (c) Certain entities in the consolidated entity are party to various other legal actions and claims which have arisen in the ordinary course of business. Any liabilities arising from such legal actions and claims are not expected to have a material adverse effect on the consolidated entity.

AGL Energy Limited and Subsidiaries
Notes to the condensed consolidated Financial Statements
For the half year ended 31 December 2010

Note 18 - Acquisition of subsidiaries and businesses

Half year ended 31 December 2010

Acquisition of Mosaic Oil NL

On 14 July 2010, AGL Energy Limited (AGL) and Mosaic Oil NL (Mosaic) entered into a Scheme Implementation Deed, under which AGL proposed to acquire all of the issued shares in Mosaic by way of a Scheme of Arrangement (Scheme). Under the Scheme, Mosaic shareholders could elect to receive either \$0.15 cash per Mosaic share or 1.01 AGL shares for every 100 Mosaic shares.

The Scheme was implemented on 20 October 2010, on which date AGL acquired 100% of the voting shares in Mosaic and obtained control. The consideration paid was \$142.6 million, and comprised an issue of equity instruments and cash. The fair value of shares issued was determined using the published price at the date of exchange. 6,984,172 ordinary shares in AGL were issued on 20 October 2010 at a closing price of \$16.61.

Mosaic's principal activities are the production of, and development and exploration for, oil and gas. Mosaic's main producing assets are located in the Surat-Bowen Basin in south-east Queensland. Mosaic operates fields and discoveries in 10 petroleum leases, owns and operates the Silver Springs processing facility, and holds a 50% interest in the Wallumbilla LPG plant and associated pipeline. Mosaic holds varying interests in exploration permits in the Surat-Bowen Basin, Carnarvon Basin offshore Western Australia, Cooper-Eromanga Basin south-west Queensland and New Zealand's Taranaki Basin. Mosaic also has a 33.3% interest in a oil storage tank and unloading facility at Lytton in Brisbane.

AGL is currently developing a gas storage facility at Mosaic's depleted Silver Springs/Renlim gas fields in the Surat Basin.

AGL is in the process of carrying out a comprehensive review of Mosaic's businesses and assets to determine which are core and non-core to AGL's integrated energy strategy going forward.

Acquisition-related costs amounting to \$3.5 million have been excluded from the consideration paid and have been recognised as an expense in the period, within the 'other expenses' line item in the income statement.

From the date of acquisition, the consolidated entity has not recognised any revenue or profit and loss from Mosaic.

Half year ended 31 December 2009

Acquisition of wind farm development projects

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

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

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

AGL Energy Limited and Subsidiaries
Notes to the condensed consolidated Financial Statements
For the half year ended 31 December 2010

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

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

	Wind farm development projects	
	Half year ended	
	31 Dec 2010	31 Dec 2009
	\$m	\$m
Net assets acquired		
Assets		
Cash and cash equivalents	21.5	-
Trade and other receivables	3.4	-
Inventories	2.9	-
Other assets	0.9	-
Exploration and evaluation assets	63.0	-
Oil and gas assets	54.2	-
Property, plant and equipment	8.8	-
Intangible assets	-	9.0
Liabilities		
Trade and other payables	(3.8)	-
Borrowings	(0.3)	-
Provisions	(7.6)	-
Other liabilities	(0.4)	-
Fair value of identifiable net assets	142.6	9.0
Goodwill arising on acquisition	-	-
	142.6	9.0
Consideration transferred		
Fair value of shares issued	116.0	-
Consideration paid in cash	26.6	7.0
Consideration paid in cash in prior year	-	2.0
	142.6	9.0

The initial accounting for the above acquisition has only been provisionally determined at the reporting date. Subject to the finalisation of the provisional acquisition accounting, all identifiable intangible assets have been recognised separately from goodwill. In accordance with the requirements of AASB 3 *Business Combinations*, the consolidated entity has 12 months from the date of acquisition to finalise its acquisition accounting, and therefore the information presented should be considered provisional.

	Half year ended	
	31 Dec 2010	31 Dec 2009
	\$m	\$m
Net cash outflow on acquisitions		
Consideration paid in cash	26.6	7.0
Cash and cash equivalent balances acquired	(21.5)	-
	5.1	7.0

AGL Energy Limited and Subsidiaries
Notes to the condensed consolidated Financial Statements
For the half year ended 31 December 2010

Note 19 - Disposal of subsidiaries

Half year ended 31 December 2010

Nil

Half year ended 31 December 2009

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

On 30 September 2009, the consolidated entity disposed of 100% of the issued capital in Hallett 4 Pty Ltd and on 1 October 2009, the consolidated entity disposed of 100% of the issued capital in Brown Hill North Pty Ltd. The proceeds on disposal of \$157.1 million were received in cash.

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

	Half year ended	
	31 Dec 2010	31 Dec 2009
	\$m	\$m
Assets		
Property, plant and equipment	-	157.1
Net assets disposed	-	157.1
Consideration received		
Consideration received in cash	-	157.1
Gain on disposal of subsidiaries		
Consideration received	-	157.1
Net assets disposed	-	(157.1)
	-	-
Net cash inflow on disposal of subsidiaries		
Consideration received in cash	-	157.1

AGL Energy Limited and Subsidiaries
Notes to the condensed consolidated Financial Statements
For the half year ended 31 December 2010

Note 20 - Subsequent events

There has not been any other matter or circumstance, other than that referred to in the financial statements or notes thereto, that has arisen since the end of the financial period, that has significantly affected, or may significantly affect, the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in future financial periods other than:

FY 2011 underlying NPAT forecast

On 7 February 2011, AGL Energy Limited (AGL) advised that recent extreme weather events in Queensland, New South Wales, Victoria and South Australia are expected to reduce forecast 2011 underlying net profit after tax (NPAT) by \$30 million to \$35 million.

Recent weather events which have affected the national electricity market include:

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

These events have resulted in:

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

These events exposed AGL to increased customer demand for electricity during a period of higher underlying pool prices of up to \$12,500 per MW hour (compared with recent wholesale electricity pool prices of below \$40 per MW hour).

The estimated cumulative impact to underlying NPAT for the financial year ending 30 June 2011 is \$30 million to \$35 million.

AGL has previously advised that underlying NPAT for FY2011 would be in the range of \$450 million to \$480 million. In light of the above events, and a relatively flat preliminary first half result, 2011 underlying NPAT earnings guidance has been revised to between \$415 million and \$440 million.

Interim dividend

On 23 February 2011, the Directors of AGL resolved to pay an unfranked interim dividend of 29.0 cents per share, amounting to \$132.9million. The record date for the interim dividend is 24 March 2011 with payment to be made on 14 April 2011. Shares will commence trading ex-dividend on 18 March 2011.

The AGL Dividend Reinvestment Plan (DRP) will be in operation and shares will be allotted at a 1.5% discount to the simple average of the daily weighted average market price at which AGL's ordinary shares are traded on ASX during each of the 10 trading days commencing on 28 March 2011.

AGL Energy Limited and Subsidiaries
Notes to the condensed consolidated Financial Statements
For the half year ended 31 December 2010

Note 21 - Information on audits or review

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

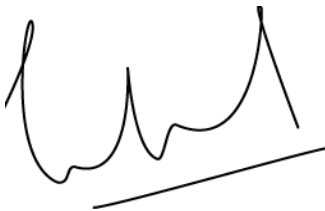
The accounts have been audited.

The accounts have been subject to review.

The accounts are in the process of being audited or subject to review.

The accounts have not yet been audited or reviewed.

5. The entity has a formally constituted Audit and Risk Management committee.



Jeremy Maycock
Chairman

23 February 2011

AGL Energy Limited and Subsidiaries

Directors' Declaration For the half year ended 31 December 2010

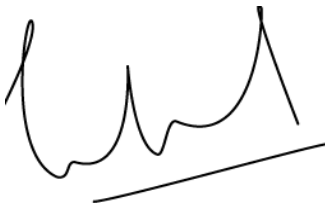
The Directors of AGL Energy Limited declare that, in their opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including:

- (a) giving a true and fair view of the financial position as at 31 December 2010 and of the performance for the half year ended on that date of the consolidated entity; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001.

The Directors also declare that, in their opinion:

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

Signed in accordance with a resolution of the Directors



Jeremy Maycock
Chairman

Sydney, 23 February 2011

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

23 February 2011

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 audit of the financial statements of AGL Energy Limited for the half- year ended 31 December 2010, 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 audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely



DELOITTE TOUCHE TOHMATSU



J A Leotta
Partner
Chartered Accountant

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

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of AGL Energy Limited, which comprises the condensed statement of financial position as at 31 December 2010, and the condensed income statement, the condensed statement of comprehensive income, the condensed statement of cash flows and the condensed statement of changes in equity for the half-year ended on that date, selected explanatory notes and, the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the end of the half-year or from time to time during the half-year as set out on pages 26 to 47.

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 the AGL Energy Limited's financial position as at 31 December 2010 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of AGL Energy Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Auditor's Independence Declaration

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

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 company's financial position as at 31 December 2010 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



J A Leotta
Partner
Chartered Accountants
Sydney, 23 February 2011