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ASX Release

AGL Energy Limited Financial Results – Half Year Ended 31 December 2015

10 February 2016

Attached are the following documents relating to AGL Energy Limited's results for the half year ended 31 December 2015:

- ASX Appendix 4D
- Directors' Report
- Financial Report



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Company Secretary

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About AGL

AGL is one of Australia's leading integrated energy companies. It is taking action to responsibly reduce its greenhouse gas emissions while providing secure and affordable energy to its customers. Drawing on over 175 years of experience, AGL serves its customers throughout eastern Australia with meeting their energy requirements, including gas, electricity, solar PV and related products and services. AGL has a diverse power generation portfolio including base, peaking and intermediate generation plants, spread across traditional thermal generation as well as renewable sources including hydro, wind, solar, landfill gas and biomass.

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 2015

				2015 \$A million	2014 \$A million
Revenue	Up	8.1%	to	5,601	5,183
Statutory (Loss)/Profit after tax attributable to shareholders	Down	245.8%	to	(449)	308
Underlying Profit after tax attributable to shareholders	Up	24.2%	to	375	302
Statutory Earnings per share	Down	236.8%	to	cents (66.5)	cents 48.6
Underlying Earnings per share	Up	16.6%	to	55.6	47.7
Net tangible asset backing per share	Down	14.7%	to	\$ 7.24	\$ 8.49
Dividends				Amount cents	Franked amount Cents
Interim dividend per ordinary share				32.0	32.0
Prior interim dividend per ordinary share				30.0	30.0
<p>Record date for determining entitlements to the interim dividend: 25 February 2016 and payable 16 March 2016</p> <p>Brief explanation of Underlying Profit and Underlying Earnings per share: Statutory Profit 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.</p> <p>Statutory Loss after tax of \$449 million included a loss of \$656 million after tax treated as significant items and a loss of \$168 million after tax from the changes in the fair value of financial instruments. Excluding these items, the Underlying Profit was \$375 million, 24.2% up on the prior corresponding period.</p> <p>Underlying Profit 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 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.</p> <p>This report should be read in conjunction with the AGL Directors' Report incorporating the Operating and Financial Review and the Interim Financial Report for the half-year ended 31 December 2015 released to the market on 10 February 2016.</p>					



AGL Energy Limited and controlled entities

Directors' Report

For the half-year ended 31 December 2015

(Including the Operating and Financial Review)

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, either during or at the end of the half-year ended 31 December 2015 (the period). Financial comparisons used in this report are of results for the half-year ended 31 December 2014 for statement of profit or loss analysis, and 30 June 2015 for statement of financial position analysis.

1. Principal Activities

AGL is one of Australia's leading integrated energy companies. It is taking action to responsibly reduce its greenhouse gas emissions while providing secure and affordable energy to its customers. Drawing on over 175 years of experience, AGL serves its customers throughout eastern Australia with meeting their energy requirements, including gas, electricity, solar PV and related products and services. AGL has a diverse power generation portfolio including base, peaking and intermediate generation plants, spread across traditional thermal generation as well as renewable sources including hydro, wind, solar, landfill gas and biomass.

Operating Segments

AGL's segment results are reported according to the internal management reporting structure at the reporting date. AGL has four reportable operating segments:

- › **Energy Markets** comprises three business units: Wholesale Markets, Consumer Market and Business Customers. It is responsible for managing the risks associated with satisfying the gas and electricity requirements of AGL's wholesale, consumer and business portfolios. It also sells natural gas, electricity and energy related products and services to Consumer Market and Business Customers, currently servicing over 3.7 million customer accounts.
- › **Group Operations** is a diverse power generation portfolio, spread across traditional thermal generation, natural gas (formerly Upstream Gas), gas storage, and renewable sources including hydro, wind and solar.
- › **New Energy** was formed in 2014 to drive AGL's capabilities in taking new and distributed technologies to market in Australia. The business unit comprises Residential Energy Services, Business Energy Services and Distributed Energy Services, which includes the newly established Digital Metering business, ActiveStream.
- › **Investments** include equity accounted investments in the ActewAGL Retail Partnership and Diamantina Holding Company Pty Limited.

2. Review and Results of Operations

A review of the operations and results of AGL during the period is set out in the Operating and Financial Review, which is attached to and forms part of this Directors' Report.

3. Business Acquisitions and Disposals

There were no acquisitions of subsidiaries and businesses made during the half-year ended 31 December 2015.

On 7 September 2015, AGL completed the disposal of its 50% participating interest in the Macarthur Wind Farm joint venture to H.R.L. Morrison & Co managed funds for a consideration of \$532 million. The divestment included the disposal of 100% of the shares in Macarthur Wind Farm Pty Ltd and MWF Finance Pty Ltd.

4. Subsequent Events

On 18 January 2016, it was announced that Ms Jacqueline Hey will join the Board as a non-executive director with effect from 21 March 2016. Ms Sandra McPhee has also advised that she intends to retire from the Board with effect from 30 June 2016.

On 4 February 2016, it was announced that exploration and production of natural gas assets will no longer be a core business for the company.

Apart from the matters identified above or elsewhere in this Directors' Report and the interim Financial Report, the Directors are not aware of any other matter or circumstance which has arisen since 31 December 2015 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.

5. Dividends

The Directors have declared an interim fully franked dividend of 32.0 cents per share which will be paid on 16 March 2016.

6. Directors in Office

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

	First Appointed
Jeremy Charles Roy Maycock - Chairman	9 October 2006 (chairman since 21 October 2010)
Andy Vesey - Managing Director	12 February 2015
Sandra Veronica McPhee	9 October 2006
Bruce John Phillips	23 August 2007
Leslie Victor Hosking	1 November 2008
John Victor Stanhope	9 March 2009
Belinda Jane Hutchinson	22 December 2010
Graeme Peter Hunt	1 September 2012

7. Non-IFRS Financial Information

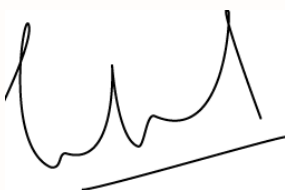
The Operating and Financial Review attached to and forming part of this Directors' Report includes a number of non-IFRS financial measures. These non-IFRS financial measures are used internally by management to assess the performance of AGL's business and make decisions on the allocation of resources.

8. Rounding

AGL 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 million dollars, unless otherwise stated.

9. Auditor's Independence Declaration

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



Jeremy Maycock
Chairman
Sydney, 10 February 2016

AGL Energy Limited

Operating and Financial Review

For the half-year ended 31 December 2015

This report is attached to and forms part of the Directors' Report

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Operating and Financial Review

1. AGL's Half-year Results

1.1. Results Overview

The consolidated loss after tax attributable to shareholders was \$449 million (31 December 2014: \$308 million profit). The underlying profit after tax was \$375 million (31 December 2014: \$302 million).

The following table reconciles Statutory (Loss)/Profit to Underlying Profit:

	Half-year ended 31 December 2015	Half-year ended 31 December 2014
	\$m	\$m
Statutory (Loss)/Profit	(449)	308
Adjust for the following after tax items:		
Significant items ⁽¹⁾	656	128
Changes in fair value of financial instruments ⁽²⁾	168	(134)
Underlying Profit	375	302
	cents	cents
EPS on Statutory (Loss)/Profit	(66.5)	48.6
EPS on Underlying Profit	55.6	47.7

⁽¹⁾ Section 1.3

⁽²⁾ Section 4

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

Underlying Profit and Operating EBIT are useful as they:

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

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

Underlying Profit summary

	Half-year ended 31 December 2015	Half-year ended 31 December 2014
	\$m	\$m
Revenue	5,601	5,183
Operating EBITDA	885	735
Operating EBIT by segment:		
Energy Markets	1,196	993
Group Operations	(437)	(355)
New Energy	(8)	7
Investments	17	12
Centrally Managed Expenses	(118)	(109)
Total Operating EBIT	650	548
Less Net finance costs	(114)	(117)
Underlying Profit before tax	536	431
Less Income tax expense	(161)	(129)
Underlying Profit	375	302

Underlying Profit for the half-year ended 31 December 2015 was 24.2% higher than the prior corresponding period, driven by AGL Macquarie performing above business case, return to more normal weather conditions and increased Queensland wholesale gas sales.

1.2. Segment Restatement

On 29 July 2015, AGL announced that it has changed the basis for segment reporting to align it with the organisational structure announced on 16 April 2015 and the subsequent review and restructure of the Upstream Gas business.

This change is in accordance with Australian Accounting Standard AASB 8: Operating Segments, which requires companies to report segmental information on a similar basis as is used internally by management for reviewing segment performance.

The previous segments were: Retail Energy, Merchant Energy, Upstream Gas, Investments and Centrally Managed Expenses.

The new segments are: Energy Markets, Group Operations, New Energy, Investments and Centrally Managed Expenses.

There is no change to the reported profit in any periods, only movements between segments. To facilitate comparisons with performance in prior periods, AGL has provided the segment reconciliations below.

AGL Group

Half-year ended
31 December 2014
\$m

Revised Structure:

Energy Markets	993
Group Operations	(355)
New Energy	7
Investments	12
Centrally Managed Expenses	(109)
Operating EBIT	548

Previous Structure:

Retail Energy	159
Merchant Energy	522
Upstream Gas	(10)
Investments	4
Centrally Managed Expenses	(127)
Operating EBIT	548

1.3. Significant Items

	Half-year ended 31 December 2015		Half-year ended 31 December 2014	
	Pre-tax \$m	PAT \$m	Pre-tax \$m	PAT \$m
Impairment loss on exploration and evaluation assets	(171)	(125)	-	-
Impairment loss on oil and gas assets	(505)	(432)	-	-
Impairment loss on property, plant and equipment	(119)	(83)	-	-
Macquarie acquisition stamp duty	-	-	(93)	(65)
Macquarie elimination of derivative contracts	-	-	(37)	(37)
Macquarie acquisition and integration costs	-	-	(13)	(10)
Restructuring costs	(23)	(16)	(11)	(8)
Carbon repeal costs	-	-	(12)	(8)
Total significant items	(818)	(656)	(166)	(128)

1.3.1. Impairment charges

Current Period

AGL conducted a detailed review of the carrying amount of natural gas assets classified as exploration and evaluation assets, oil and gas assets, and property, plant and equipment, as at 31 December 2015. As a result of this review, AGL has recognised an impairment charge of \$795 million before tax (\$640 million after tax) in the Group Operations operating segment.

The fall in global oil prices has had a consequent effect on long-term Queensland gas prices and this has resulted in an impairment to AGL's Queensland natural gas assets (including Moranbah, Silver Springs and Spring Gully).

Also, based on forecasted lower than expected production volumes AGL will no longer proceed with the Gloucester Gas Project. Without the Gloucester Gas Project, there are limited opportunities for scale and efficiencies across projects, so AGL will also cease production at the Camden Gas Project by 2023 (12 years earlier than previously proposed).

The impairment loss also includes \$50 million relating to an increase in the provision for environmental rehabilitation, for the gas operations projects and a decrease in inventory value.

	Pre-tax \$m	PAT \$m
Camden	(32)	(23)
Gloucester	(166)	(119)
Silver Springs	(208)	(146)
Spring Gully	(14)	(14)
Moranbah	(375)	(338)
Total impairment charges	(795)	(640)

Prior Corresponding Period

Nil.

1.3.2. Restructuring costs

Current Period

During the period, restructuring costs of \$23 million before tax were recognised mainly in relation to labour costs associated with organisational reviews conducted during the period.

Prior Corresponding Period

For the prior corresponding period, restructuring costs of \$11 million before tax were recognised predominantly in Energy Markets in relation to the closure of the Energy stores and LPG extraction plant (HCE) at Kurnell.

1.3.3. Merger and acquisition costs

Current Period

Nil.

Prior Corresponding Period

Acquisition of Macquarie Generation

AGL completed the acquisition of the Macquarie Generation assets on 2 September 2014. The following items were recognised as significant items in the period:

- Stamp duty included in the purchase price of \$93 million before tax.
- Elimination of derivative contracts between Macquarie Generation and AGL of \$37 million.
- Acquisition and integration costs of \$13 million before tax including adviser fees, redundancies and other transaction costs.

1.4. Earnings per Share

Earnings per share (EPS) has been calculated on the (loss)/profit after tax attributable to shareholders (Statutory) and the Underlying Profit adjusted for significant items and changes in the fair value of financial instruments. Further discussion on the reconciliation between Statutory (Loss)/Profit and Underlying Profit is contained in Section 1.1.

	Half-year ended 31 December 2015	Half-year ended 31 December 2014
	\$m	\$m
Statutory (Loss)/Profit	(449)	308
Underlying Profit	375	302
	cents	cents
EPS on Statutory (Loss)/Profit	(66.5)	48.6
EPS on Underlying Profit	55.6	47.7

The above EPS calculations have been based upon a weighted average number of ordinary shares of 674,712,378 (31 December 2014: 633,752,446).

1.5. Interim Dividend

The Directors have declared an interim dividend of 32.0 cents per share, compared with 30.0 cents per share for the prior corresponding period's interim dividend. The interim dividend will be paid on 16 March 2016. The record date to determine shareholders' entitlements to the interim dividend is 25 February 2016. Shares will commence trading ex-dividend on 23 February 2016.

Before declaring the dividend the Directors satisfied themselves that:

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

The interim dividend will be fully franked. The AGL Dividend Reinvestment Plan (DRP) will operate in respect of the dividend. Shares will be bought on-market and allotted at no discount to the simple average of the daily weighted average market price at which AGL's ordinary shares are traded on the ASX during each of the 10 trading days commencing on 29 February 2016. The last date for shareholders to elect to participate in the DRP for the FY16 interim dividend is 26 February 2016.

2. Review of Operations

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

The following table reconciles Statutory EBIT to Operating EBIT:

	Half-year ended 31 December 2015	Half-year ended 31 December 2014
	\$m	\$m
Statutory EBIT	(410)	571
Significant items	818	166
Change in fair value of financial instruments	240	(191)
Finance income included in Operating EBIT	2	2
Operating EBIT	650	548

Operating EBIT for the half-year ended 31 December 2015 was \$650 million compared with \$548 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		Half-year ended 31 December	
	2015	2014	2015	2014
	\$m	\$m	\$m	\$m
Energy Markets	962	1,142	1,196	993
Group Operations	(1,232)	(452)	(437)	(355)
New Energy	(10)	5	(8)	7
Investments	17	12	17	12
Centrally Managed Expenses	(147)	(136)	(118)	(109)
EBIT	(410)	571	650	548
Add back:				
Depreciation and amortisation	235	187	235	187
EBITDA	175	758	885	735

AGL operates as an integrated business and uses a portfolio approach to manage the operations and assets to drive value and efficiency across the business. AASB 8 requires AGL to report segment information on the same basis as the internal management structure. As a result the Energy Markets segment, which is responsible for AGL's sales and managing risks associated with gas and electricity requirements, reports 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 is responsible for managing and maintaining AGL's portfolio of electricity generation assets, natural gas, gas storage and renewable assets, and reports the majority of expenses associated with these operations.

2.1. Energy Markets Operating EBIT

Increased 20.4% to \$1,196 million from \$993 million

	Half-year ended 31 December 2015 \$m	Half-year ended 31 December 2014 \$m
Statutory EBIT	962	1,142
Significant items	-	49
Changes in fair value of financial instruments	234	(198)
Operating EBIT	1,196	993
Add back:		
Depreciation and amortisation	48	45
Operating EBITDA	1,244	1,038

Energy Markets comprises three business units: Wholesale Markets, Consumer Market and Business Customers. It is responsible for managing the risks associated with satisfying the gas and electricity requirements of AGL's wholesale, consumer and business portfolios. It also sells natural gas, electricity and energy related products and services to Consumer Market and Business Customers, currently servicing over 3.7 million customer accounts.

Consumer Market sources its energy from Wholesale Markets. The transfer price for this energy is calculated based on methodologies traditionally adopted by regulators for determining wholesale energy costs in setting tariffs.

The business utilises its financial hedges and bilateral contracts to ensure adequacy of competitively priced supply.

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

	Operating EBIT		Operating EBITDA	
	Half-year ended 31 December 2015 \$m	Half-year ended 31 December 2014 \$m	Half-year ended 31 December 2015 \$m	Half-year ended 31 December 2014 \$m
Wholesale Markets	966	798	969	805
Consumer Market	200	160	240	194
Business Customers	30	35	35	39
Total Energy Markets	1,196	993	1,244	1,038

	Half-year ended 31 December 2015 \$m	Half-year ended 31 December 2014 \$m	Movement %
Wholesale Markets	980	818	19.8
Consumer Market	415	375	10.7
Business Customers	48	53	(9.4)
Gross margin	1,443	1,246	15.8
Net operating costs excluding D&A	(199)	(208)	(4.3)
Operating EBITDA	1,244	1,038	19.8
Depreciation and amortisation	(48)	(45)	6.7
Operating EBIT	1,196	993	20.4

2.1.1. Wholesale Markets Operating EBIT

Increased 21.1% to \$966 million from \$798 million

	Half-year ended 31 December 2015 \$m	Half-year ended 31 December 2014 \$m	Movement %
Wholesale Electricity	714	588	21.4
Wholesale Gas	236	205	15.1
Eco Markets	30	25	20.0
Gross margin	980	818	19.8
Net operating costs excluding D&A	(11)	(14)	(21.4)
Operating EBITDA	969	804	20.5
Depreciation and amortisation	(3)	(6)	(50.0)
Operating EBIT	966	798	21.1

Wholesale Markets 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 are complemented by a portfolio of electricity hedge products.

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

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

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

2.1.1.1 Wholesale Electricity Gross Margin

Increased 21.4% to \$714 million from \$588 million

Wholesale Electricity is responsible for managing the procurement and hedging of AGL's wholesale electricity requirements, for commercial management of the generation portfolio and for wholesale pricing to support AGL's Consumer Market and Business Customers bases.

The 21.4% increase in gross margin was due to the additional two months of the Macquarie Generation assets (acquired on 2 September 2014) and higher generation in favourable market conditions.

Consumer Market volumes increased 1.4% driven by favourable weather impacts and higher average demand per customer, however the change in portfolio mix resulted in minimal impact to the wholesale gross margin.

2.1.1.2 Wholesale Gas Gross Margin

Increased 15.1% to \$236 million from \$205 million

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

The 15.1% increase in gross margin was due to 4.9 PJ or \$12 million of additional sales to Queensland wholesale customers, oil position management and increased revenue reflecting higher wholesale market prices. The increase was partially offset by lower Business Customers and Consumer Market volumes due to the closure of a number of large customers' operations and a change in the mix across the residential and small business portfolios.

2.1.1.3 Eco Markets Gross Margin

Increased 20.0% to \$30 million from \$25 million

Eco Markets is responsible for managing the liabilities for both voluntary and mandatory green schemes. The largest of the schemes in which Eco Markets participates are the Small-scale Renewable Energy Scheme (SRES) and the Large-scale Renewable Energy Target (LRET).

The increase in gross margin was driven by a lower weighted average Large-scale Generation Certificate (LGC) cost following the commissioning of the Nyngan solar farm and higher hydro generation.

2.1.2 Consumer Market Operating EBIT

Increased 25.0% to \$200 million from \$160 million

	Half-year ended 31 December 2015 \$m	Half-year ended 31 December 2014 \$m	Movement %
Electricity gross margin	244	215	13.5
Gas gross margin	171	160	6.9
Gross margin	415	375	10.7
Net operating costs excluding D&A	(175)	(180)	(2.8)
Operating EBITDA	240	195	23.1
Depreciation and amortisation	(40)	(35)	14.3
Operating EBIT	200	160	25.0

2.1.2.1 Consumer Market Electricity Gross Margin

Increased 13.5% to \$244 million from \$215 million

Electricity gross margin increased due to disciplined and effective price management in highly competitive markets as a part of the customer value strategy, and higher volumes.

Volume increases of 1.3% can be attributed to favourable weather impacts, partially offset by declining average customer numbers and changing customer mix across the residential and small business portfolios.

Total consumer average consumption per customer increased 2.0% for the period, with increased average residential consumption of 4.3% per customer partially offset by small business average consumption declining 1.9% due to the loss of high consuming but low margin multi-site customers.

2.1.2.2 Consumer Market Gas Gross Margin

Increased 6.9% to \$171 million from \$160 million

Gas gross margin increased, although volumes were lower, this was offset by disciplined price management, with price changes maintaining strong gross margins.

The volume decrease of 2.3% is predominantly driven by a reduction of average customers and changing customer mix in both Victoria and New South Wales, partially offset by favourable weather conditions predominately in Victoria. The current period volumes include a prior period adjustment of 339 TJ, of which 197 TJ relates to the prior comparative period. Adjusting for the prior period adjustment, the total gas volume decrease is 0.8%.

2.1.2.3 Consumer Market Net Operating Costs

	Half-year ended 31 December 2015 \$m	Half-year ended 31 December 2014 \$m	Movement %
Labour and contractor services	(63)	(60)	5.0
Bad and doubtful debts	(45)	(48)	(6.3)
Campaigns and advertising	(49)	(50)	(2.0)
Other expenditure	(36)	(40)	(10.0)
Fees and charges	18	18	-
Net operating costs excluding D&A	(175)	(180)	(2.8)
Depreciation and amortisation	(40)	(35)	14.3
Net operating costs	(215)	(215)	-

Net operating costs were in line with the previous corresponding period at \$215 million, with \$16 million of targeted operating cost initiatives achieved in the first half being offset by CPI increases and the absorption of the ConnectNow acquisition (acquired June 2015) which is performing ahead of business case and the continued investment in digital and customer value capability.

Labour and contractor services costs increased by \$3 million, or 5.0%, due to labour and offshore contract inflationary increases, continued growth and investment in digital capability and the additional ConnectNow resources offset by targeted operating cost initiatives.

The decrease in bad and doubtful debts of \$3 million, or 6.3% is driven by improved credit performance in the underlying portfolio.

The Credit Improvement Program continues to deploy key initiatives to further reduce bad and doubtful debts into the second half and FY17.

Campaign and advertising expenditure decreased \$1 million, or 2.0%, with lower investment in brand advertising combined with improved channel mix offsetting a 5.0% increase in the number of acquisitions and retentions to maintain the existing customer base, continued investment in reward and loyalty programs and an increase in third party acquisition and retention costs.

Other expenditure decreased \$4 million, or 10.0%, due to the benefit of targeted operating cost initiatives which includes lower legal fees, recruitment costs and travel expenditure.

Depreciation and amortisation increased by \$5 million, or 14.3% driven by continued investment in digital capability and core systems.

The project to substantially grow AGL's customer base in New South Wales successfully concluded at the end of June 2014. Total capitalised costs during the project were \$125 million with an unamortised balance of \$7.5 million remaining at 31 December 2015. The remaining amortisation will be recognised by 30 June 2016.

2.1.2.4 Consumer Customer Profitability

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

	Half-year ended 31 December 2015	Half-year ended 31 December 2014	Movement %
Consumer gross margin	\$415m	\$375m	10.7
Consumer EBIT	\$200m	\$160m	25.0
Average customer accounts	3,707,559	3,741,263	(0.9)
Consumer gross margin per customer account	\$112	\$100	12.0
Consumer EBIT per customer account	\$54	\$43	25.6

2.1.2.5 Consumer Operating Efficiency

AGL focuses on Consumer Market net operating costs as a percentage of gross margin along with net operating costs per customer as the primary measures of operating efficiency. As a secondary measure, cost to serve is also analysed.

2.1.2.5.1 Net Operating Costs as a percentage of Gross Margin and per Customer Account

	Half-year ended 31 December 2015	Half-year ended 31 December 2014	Movement %
Consumer net operating costs	(\$215m)	(\$215m)	-
Consumer gross margin	\$415m	\$375m	10.7
Average customer accounts	3,707,559	3,741,263	(0.9)
Consumer net operating costs as percentage of gross margin	51.8%	57.5%	5.7ppts
Consumer net operating costs per customer account	\$58	\$58	-

Net operating costs were flat as detailed in section 2.1.2.3. Net operating costs as a percentage of gross margin decreased by 5.7 percentage points ("ppts"). This is due to incremental gross margin through disciplined and effective price management changing customer mix driving improved average value of customers as detailed in sections 2.1.2.1 and 2.1.2.2.

2.1.2.5.2 Cost to Serve Analysis

	Operating costs			Cost per account		
	Half-year ended 2015 \$m	2014 \$m	Movement %	Half-year ended 2015 \$	2014 \$	Movement %
Cost to Serve	(137)	(143)	(4.2)	(37)	(38)	(2.6)
Cost to Grow	(78)	(72)	8.3	(95)	(93)	2.2
Net operating costs	(215)	(215)	-	(58)	(58)	-

Cost to Serve per account decreased by 2.6% predominately due to lower bad and doubtful debts and other operating costs such as legal fees as described in section 2.1.2.3, partially offset by increased depreciation and a slight reduction in average customer numbers.

Cost to Grow has increased \$6 million or 8.3% due to a 5.0% increase in acquisitions and retentions driven by market activity and the acquisition of the ConnectNow business, partially offset by a reduction in brand advertising activity compared to the previous corresponding period. Cost to Grow per account has deteriorated slightly from \$93 to \$95 per account with the increase in costs only partially being offset by increased acquisitions and retentions.

Controllable costs have been well managed and include the benefits of targeted operating cost initiatives which have partially offset rising third party costs across the various acquisition and retention channels. There is a strong focus on improving both the acquisition/retention mix and the internal/external channel mix which is demonstrated through the investment in the ConnectNow business and the focus on lower cost internal channels. Internal acquisitions and retentions have increased to 79% versus 76% in the prior corresponding period.

Net operating costs per customer account remain flat with the prior corresponding period, with net operating costs flat as described in section 2.1.2.3, and average customer numbers declining only 0.9%.

2.1.3 Business Customers Operating EBIT

Decreased 14.3% to \$30 million from \$35 million

	Half-year ended 31 December 2015 \$m	Half-year ended 31 December 2014 \$m	Movement %
Electricity gross margin	17	19	(10.5)
Gas gross margin	31	34	(8.8)
Gross margin	48	53	(9.4)
Net operating costs excluding D&A	(13)	(14)	(7.1)
Operating EBITDA	35	39	(10.3)
Depreciation and amortisation	(5)	(4)	25.0
Operating EBIT	30	35	(14.3)

Business Customers manages AGL's Commercial and Industrial (C&I) gas and electricity customers through an integrated sales and service model.

Electricity gross margin has declined despite marginally higher volumes, due to customer portfolio changes, resulting in lower customer margins in a highly competitive market.

Gas gross margin has declined with lower volumes due to the closure of a number of large customers' operations and customer losses in a competitive market.

2.1.4 Customer Numbers

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

	31 December 2015 ('000)	30 June 2015 ('000)	Movement ('000)	Movement %
Consumer Electricity				
New South Wales	818	806	12	1.5
Victoria	633	646	(13)	(2.0)
South Australia	417	422	(5)	(1.2)
Queensland	391	387	4	1.0
	2,259	2,261	(2)	(0.1)
Consumer Gas				
New South Wales	694	700	(6)	(0.9)
Victoria	538	544	(6)	(1.1)
South Australia	134	132	2	1.5
Queensland	80	79	1	1.3
	1,446	1,455	(9)	(0.6)
Total Consumer Accounts	3,705	3,716	(11)	(0.3)
Total Business Customer Accounts	19	19	-	-
Total Customer Accounts	3,724	3,735	(11)	(0.3)

AGL churn increased by 0.5 ppts to 15.4% (14.9% at 30 June 2015) as strong competition in the market place continues. The Rest of Market churn increased 0.3 ppts to 20.6% (20.3% at 30 June 2015), decreasing the favourable gap between AGL and the rest of the market by 0.2 ppts to 5.2 ppts. This favourable gap is supported by strong product offers and customer satisfaction levels.

2.2. Group Operations Operating EBIT

Decreased 23.1% to (\$437 million) from (\$355 million)

	Half-year ended 31 December 2015	Half-year ended 31 December 2014
	\$m	\$m
Statutory EBIT	(1,232)	(452)
Significant items	795	93
Changes in fair value of financial instruments	-	4
Operating EBIT	(437)	(355)
Add back:		
Depreciation and amortisation	165	126
Operating EBITDA	(272)	(229)

AGL's Group Operations is a diverse power generation portfolio and is spread across traditional thermal generation as well as renewable sources including hydro, wind, solar and natural gas.

Group Operations Business Units

Thermal	Renewables	Natural Gas	Other
<ul style="list-style-type: none"> • AGL Macquarie • Loy Yang • AGL Torrens 	<ul style="list-style-type: none"> • Wind farms • Hydro • Solar plants 	<ul style="list-style-type: none"> • Camden • Moranbah • Silver Springs • Newcastle gas storage facility • Gloucester 	<ul style="list-style-type: none"> • Property & facilities • Technical functions • Safety & environment

The above list includes only major elements and is not all inclusive.

The decrease in Group Operations Operating EBIT is largely attributed to the addition of AGL Macquarie from 2 September 2014, lower sales revenue from Natural Gas, higher depreciation and general CPI increase.

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

	Operating EBIT		Operating EBITDA	
	Half-year ended	Half-year ended	Half-year ended	Half-year ended
	31	31	31	31
	December	December	December	December
	2015	2014	2015	2014
	\$m	\$m	\$m	\$m
Thermal	(338)	(279)	(215)	(184)
Renewables	(37)	(40)	(24)	(19)
Natural Gas	(27)	(10)	(4)	(4)
Other	(35)	(26)	(29)	(22)
Total Group Operations	(437)	(355)	(272)	(229)

2.2.1. Thermal Operating EBIT

Decreased 21.1% to (\$338 million) from (\$279 million)

AGL's thermal energy assets generate electricity from heat derived from gas or coal. Loy Yang and AGL Macquarie generate electricity from coal. AGL Torrens relies on gas and is the largest natural gas power station in Australia.

AGL Macquarie produces approximately 13% of the electricity needed by consumers in eastern Australia. AGL Macquarie's assets include the 2,640 MW Bayswater power station, the 2,000 MW Liddell power station, the 50 MW Hunter Valley gas turbines and the Liddell solar thermal project. AGL Macquarie is the former NSW Government power producer, Macquarie Generation, which AGL acquired the assets of in September 2014.

Loy Yang supplies approximately 30% of Victoria's power requirements. Acquired in June 2012, Loy Yang comprises the 2,210 MW Loy Yang A power station and adjacent Loy Yang coal mine. Loy Yang uses brown coal, supplied exclusively by the open cut mine, as the fuel source to generate electricity. The mine has an annual output of approximately 30 million tonnes of coal.

AGL Torrens, located 18 km from Adelaide CBD, is the largest power station in South Australia and the largest natural gas fired power station in Australia. With a name plate capacity total of 1,280 MW, the station burns natural gas in boilers to generate steam, which then drives the turbines to generate electricity.

The decrease in Thermal Operating EBIT is largely attributed to higher costs incurred as a consequence of the addition of AGL Macquarie from 2 September 2014, CPI and wage escalation, and the absence of AGL Torrens insurance proceeds from prior years and higher depreciation driven by a higher asset base. This is partly offset by cost initiatives implemented throughout the period.

2.2.2. Renewables Operating EBIT

Increased 7.5% to (\$37 million) from (\$40 million)

AGL is the largest ASX listed owner, operator and developer of renewable energy generation in the country. AGL has already invested over \$3 billion in renewable investments and we have recently completed Australia's largest utility-scale solar projects.

AGL operates hydroelectric power stations in Victoria and NSW, with the three primary schemes located in the Kiewa, Dartmouth and Eildon catchments with total installed capacity of 795 MW.

AGL operates seven wind farms spread across South Australia and Victoria with installed capacity of 925 MW of wind generation. The 420 MW Macarthur Wind Farm, made up of 140 3 MW turbines, is currently the largest of its kind in the southern hemisphere. The 50% participating interest in Macarthur Wind Farm was sold in September 2015 for a sale price of \$532 million.

AGL is delivering two large-scale solar photovoltaic (PV) power plants with a total capacity of 155 MW (AC) at Nyngan (102 MW) and Broken Hill (53 MW) in regional NSW. Total capital expenditure for the two projects is approximately \$450 million, with \$167 million being provided by the Federal Government's Australian Renewable Energy Agency (ARENA) and \$65 million from the NSW Government.

The Macarthur Wind Farm was held for sale from 1 April 2015. As a result of this accounting classification, depreciation was suspended, which resulted in 3 months of lower depreciation (\$5 million) at 30 June 2015.

2.2.3. Natural Gas Operating EBIT

Decreased 170.0% to (\$27 million) from (\$10 million)

AGL operates and maintains natural gas assets and investments including the Camden Gas Project, Gloucester Gas Project, Silver Springs underground storage facility, Moranbah, Wallumbilla LPG plant and the recently opened Newcastle Gas Storage Facility. The majority of these assets were included in the Upstream Gas business unit that was merged into Group Operations following a strategic review announced in July 2015.

Following the strategic review a number of assets including the Hunter Gas Project licence interests (PELs 4 and 267) as well as AGL's interests in PEL 2 (adjacent to the Camden Gas Project) have been divested. The Cooper Oil (ATP 1056P), Spring Gully and Hunter related agriculture assets are currently in the process of divestment.

Natural Gas Operating EBIT is lower as a result of reduced oil sales revenue in Silver Springs, reduced gas sales revenue in the North Queensland Energy (NQE) joint venture and increased operating costs, largely due to well workovers and field related expenditure in Moranbah.

2.2.4. Gas Sales

The following table summarises the gas sales volume and associated revenue during the period:

AGL share of operations	Half-year ended 31 December 2015	Half-year ended 31 December 2014	Movement %
Gas sales volume (PJ)	5.3	5.9	(10.2)
Sales revenue (\$m)	20.2	22.3	(9.4)
Average gas price (\$/PJ)	3.81	3.78	0.8

2.2.5. Other Operations EBIT

Decreased 34.6% to (\$35 million) from (\$26 million)

Other Operations includes Property & Facilities, Procurement, Technical Functions, and Safety and Environment.

The decrease in EBIT is mainly attributed to the addition of AGL Macquarie's operational support costs, productivity consultants and building central capabilities in engineering and project management.

2.3. Portfolio Market Reporting

2.3.1. Electricity portfolio

The gross margin for AGL's electricity portfolio is set out in the following table. This analysis combines the Wholesale Markets, Consumer Market, Business Customers and Generation businesses (described in section 2.1 and 2.2) 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.

	Half-year ended 31 December 2015	Half-year ended 31 December 2014	Movement %
Consumer Market (\$m)	244	215	13.5
Business Customers (\$m)	17	19	(10.5)
Wholesale Electricity (\$m)	714	588	21.4
Eco Markets (\$m)	29	24	20.8
Group Operations (Thermal & Renewables) (\$m)	(374)	(319)	17.2
Portfolio margin (\$m)	630	527	19.5
Generation volumes (GWh)	22,620	16,019	41.2
Consumer Market (GWh)	7,308	7,211	1.3
Business Customers & Wholesale Markets (GWh)	11,438	10,335	10.7
Sold volumes (GWh)	18,746	17,546	6.8
Revenue (\$/MWh) ¹	164.8	179.5	(8.2)
Cost of generation (\$/MWh) ²	(34.6)	(38.9)	(11.1)
Net portfolio management (\$/MWh) ¹	2.0	(11.3)	(117.7)
Average Wholesale cost of sales (\$/MWh) ³	(37.4)	(44.6)	(16.1)
Total cost of sales (\$/MWh) ¹	(131.2)	(149.5)	(12.2)
Portfolio margin (\$/MWh)¹	33.6	30.0	12.0

Note: \$/MWh calculated on the basis of: 1) Sold volumes (volume consumed by our customers); 2) Generation volumes (volume generated by our assets); or 3) Demand volumes (volume required to supply our customer base).

The net 19.5% increase in the Electricity portfolio margin is discussed in sections 2.1.1.1 (Wholesale Markets Electricity), 2.1.2.1 (Consumer Market Electricity) and 2.1.3 (Business Customers Electricity).

AGL generated volumes have increased 41.2% due to the additional two months of AGL Macquarie and higher generation in favourable market conditions.

Consumer Market electricity average demand per customer has increased 2.0% driven by average residential demand and favourable weather impact, partially offset by small business demand declining with the loss of higher consuming multi-site customers.

Business Customers and Wholesale Markets volumes increased 10.7% due to the additional two months of large wholesale contracts from the Macquarie Generation acquisition.

The change in the portfolio margin \$ per MWh rate was driven by market price favourability and lower generation costs with the majority of the additional demand generated by AGL Macquarie.

	Half-year ended 31 December 2015 \$m	Half-year ended 31 December 2014 \$m	Movement %
Consumer Market	244	215	13.5
Business Customers	17	19	(10.5)
Wholesale Electricity	714	588	21.4
Eco Markets	29	24	20.8
Group Operations (Thermal & Renewables)	(374)	(319)	17.2
Portfolio margin	630	527	19.5
Revenue			
Consumer Market	1,980	1,999	(1.0)
Business Customers, Wholesale Electricity & Eco Markets	1,063	1,108	(4.1)
Group Operations (Thermal & Renewables)	46	43	7.0
Total revenue	3,089	3,150	(1.9)
Consumer Market network costs	(980)	(1,031)	(4.9)
Consumer Market other cost of sales	(228)	(202)	12.9
Business Customers network costs	(403)	(469)	(14.1)
Business Customers other cost of sales	(104)	(99)	5.1
Fuel	(379)	(249)	52.2
Generation costs	(266)	(257)	3.5
Depreciation & amortisation (Group Operations)	(135)	(117)	15.4
Costs of generation	(780)	(623)	25.2
Pool generation revenue	1,009	578	74.6
Pool purchase costs	(965)	(724)	33.3
Net derivative (cost)/revenue	(8)	(53)	(84.9)
Net portfolio management	36	(199)	(118.1)
Wholesale markets cost of sales	(744)	(822)	(9.5)
Total cost of sales	(2,459)	(2,623)	(6.3)
Portfolio margin	630	527	19.5

The following table provides a volume and rate analysis of the electricity portfolio gross margin.

	Half-year ended 31 December 2015	Half-year ended 31 December 2014	Movement %
Generation volumes (GWh)	22,620	16,019	41.2
Consumer Market	7,308	7,211	1.3
Business Customers & Wholesale Markets	11,438	10,335	10.7
Sold volumes (GWh)	18,746	17,546	6.8
Consumer Market ¹	271.0	277.2	(2.2)
Business Customers & Wholesale Markets ¹	93.0	107.2	(13.2)
Revenue (\$/MWh)¹	164.8	179.5	(8.2)
Consumer Market network costs (\$/MWh) ¹	(134.2)	(142.9)	(6.1)
Consumer Market other cost of sales (\$/MWh) ¹	(31.2)	(28.1)	11.0
Business Customers network costs (\$/MWh) ¹	(62.6)	(73.4)	(14.7)
Business Customers other cost of sales (\$/MWh) ¹	(16.4)	(15.4)	6.5
Fuel ²	(16.8)	(15.5)	8.4
Generation costs ²	(11.8)	(16.1)	(26.7)
Depreciation & amortisation (Group Operations) ²	(6.0)	(7.3)	(17.8)
Cost of generation (\$/MWh)²	(34.6)	(38.9)	(11.1)
Pool generation revenue ²	44.4	36.1	23.0
Pool purchase costs ³	(48.5)	(39.2)	23.7
Net derivative (cost)/revenue ³	(0.4)	(2.9)	(86.2)
Net portfolio management (\$/MWh)¹	2.0	(11.3)	(117.7)
Average Wholesale cost of sales (\$/MWh)³	(37.4)	(44.6)	(16.1)
Total cost of sales (\$/MWh)¹	(131.2)	(149.5)	(12.2)
Portfolio margin (\$/MWh)¹	33.6	30.0	12.0

Note: \$/MWh calculated on the basis of: 1) Sold volumes; 2) Generation volumes; or 3) Demand volumes.

The following table provides a breakdown of supply and demand of volume across the electricity portfolio.

	Half-year ended 31 December 2015 GWh	Half-year ended 31 December 2014 GWh	Movement %
Purchased volumes (GWh)			
Consumer Market	7,850	7,741	1.4
Business Customers & Wholesale Markets	12,043	10,712	12.4
Total demand	19,893	18,453	7.8
AGL generated	22,620	16,019	41.2
Pool sales	(22,620)	(16,019)	41.2
Pool purchases	19,893	18,453	7.8
Total supply	19,893	18,453	7.8
Energy losses	(1,147)	(907)	26.5
Total sold	18,746	17,546	6.8

2.3.2. Gas portfolio

The gross margin for AGL's gas portfolio is set out in the following table. This analysis combines the Wholesale Markets, Consumer Markets and Business Customers businesses (described in section 2.1) to reflect the procurement and hedging of AGL's gas requirements and the margin from external customers.

	Half-year ended 31 December 2015	Half-year ended 31 December 2014	Movement %
Consumer Market	171	160	6.9
Business Customers	31	34	(8.8)
Wholesale Markets	236	205	15.1
Eco Markets	1	1	-
Portfolio margin	439	400	9.8
Consumer Market	33.8	34.6	(2.3)
Business Customers & Wholesale Markets	88.4	91.9	(3.8)
Sold volumes (PJ)	122.2	126.5	(3.4)
Revenue (\$/GJ)	12.1	11.7	3.4
Average Wholesale cost of sales (\$/GJ)	(5.8)	(5.5)	5.5
Total cost of sales (\$/GJ)	(8.5)	(8.6)	(1.2)
Portfolio margin (\$/GJ)	3.6	3.2	12.5

The net 9.8% increase in the Gas portfolio margin is discussed in sections 2.1.1.2, (Wholesale Markets Gas) 2.1.2.2 (Consumer Market Gas) and 2.1.3 (Business Customers Gas).

Consumer gas volumes decreased 0.8 PJ or 2.3% driven by a reduction in average customers and a decrease in average demand per customer due to a change in customer mix partially offset by favourable weather conditions.

Business Customers and Wholesale Markets volumes decreased 3.8% due to the closure of a number of large customers' operations and customer losses in a competitive market, partially offset by higher Wholesale Queensland sales 4.9 PJ.

The change in the portfolio margin \$ per GJ rates was due to higher Queensland wholesale customer margin. The Consumer Market decrease in network costs was offset by increased haulage costs enabling gas supply from southern states to NSW demand centres.

	Half-year ended 31 December 2015	Half-year ended 31 December 2014	Movement %
	\$m	\$m	
Consumer Market	171	160	6.9
Business Customers	31	34	(8.8)
Wholesale Markets	236	205	15.1
Eco Markets	1	1	-
Portfolio margin	439	400	9.8
Revenue			
Consumer Market	756	780	(3.1)
Business Customers, Wholesale Gas & Eco Markets	725	701	3.4
Total revenue	1,481	1,481	-
Consumer Market network costs	(274)	(328)	(16.5)
Consumer Market other cost of sales	(19)	(15)	26.7
Business Customers network costs	(35)	(41)	(14.6)
Business Customers other cost of sales	(7)	(7)	-
Gas purchases	(554)	(558)	(0.7)
Haulage & storage	(153)	(132)	15.9
Average Wholesale cost of sales	(707)	(690)	2.5
Total cost of sales	(1,042)	(1,081)	(3.6)
Portfolio margin	439	400	9.8

The following table provides a volume and rate analysis of the gas portfolio gross margin.

	Half-year ended 31 December 2015	Half-year ended 31 December 2014	Movement %
Consumer Market	33.8	34.6	(2.3)
Business Customers & Wholesale Markets	88.4	91.9	(3.8)
Sold volumes (PJ)	122.2	126.5	(3.4)
Consumer Market	22.4	22.6	(0.9)
Business Customers & Wholesale Markets	8.2	7.6	7.9
Revenue (\$/GJ)	12.1	11.7	3.4
Consumer Market network costs (\$/GJ)	(8.1)	(9.5)	(14.7)
Consumer Market other cost of sales (\$/GJ)	(0.6)	(0.4)	50.0
Business Customers network costs (\$/GJ)	(0.9)	(0.9)	-
Business Customers other cost of sales (\$/GJ)	(0.2)	(0.2)	-
Gas purchases	(4.5)	(4.4)	2.3
Haulage & storage	(1.2)	(1.0)	20.0
Average Wholesale cost of sales (\$/GJ)	(5.8)	(5.5)	5.5
Total cost of sales (\$/GJ)	(8.5)	(8.6)	(1.2)
Portfolio margin (\$/GJ)	3.6	3.2	12.5

The following table provides a breakdown of the supply and demand of volume across the gas portfolio.

	Half-year ended 31 December 2015 PJ	Half-year ended 31 December 2014 PJ	Movement %
Gas volumes			
Consumer Market	33.8	34.6	(2.3)
Business Customers & Wholesale Markets	88.4	91.9	(3.8)
Total demand	122.2	126.5	(3.4)
Gas purchases	(122.5)	(127.4)	(3.8)
Less Energy losses	0.3	0.9	(66.7)
Total supply	(122.2)	(126.5)	(3.4)

2.4. New Energy Operating EBIT

Decreased 214.3% to (\$8 million) from \$7 million

	Half-year ended 31 December 2015	Half-year ended 31 December 2014
	\$m	\$m
Statutory EBIT	(10)	5
Significant items	-	-
Finance income included in Operating EBIT	2	2
Operating EBIT	(8)	7
Add back:		
Depreciation and amortisation	6	5
Operating EBITDA	(2)	12

New Energy was formed in 2014 to drive AGL's capabilities in taking new and distributed technologies to market in Australia, to ensure AGL establishes a market leading position. The business unit comprises Residential Energy Services (residential rooftop Solar PV and associated products and Franchisee management), Business Energy Services (Commercial Solar, Technical Services and Energy Efficiency products and projects) and Distributed Energy Services (AGL's portfolio of low emission and renewable generation assets and the Digital Metering business ActiveStream).

2.4.1. Gross Margin

Decreased 3.2% to \$30 million from \$31 million

	Half-year ended 31 December 2015	Half-year ended 31 December 2014	Movement
	\$m	\$m	%
Revenue	64	64	-
Cost of goods sold	(34)	(33)	3.0
Gross margin	30	31	(3.2)

Gross margin decreased \$1 million predominantly due to the closure of the Kurnell refinery (October 2014), and associated lost revenue; partially offset by an increase in residential and commercial solar sales revenue. Excluding the impact of Kurnell, New Energy revenue increased by \$10 million or 18.5% to \$64 million.

2.4.2. Operating Costs

Increased 58.3% to (\$38 million) from (\$24 million)

	Half-year ended 31 December 2015	Half-year ended 31 December 2014	Movement
	\$m	\$m	%
Labour and contractor services	(21)	(12)	75.0
Campaigns and advertising	(4)	(2)	100.0
Other	(7)	(5)	40.0
Operating costs excluding D&A	(32)	(19)	68.4
Depreciation and amortisation	(6)	(5)	20.0
Operating costs	(38)	(24)	58.3

Operating costs increased by \$14 million, predominantly relating to the creation of the New Energy division and increased investment to unlock growth in this area. Costs included acquiring new resources (capabilities in new technology areas), increased solar marketing and costs relating to Digital Metering business. This investment is forecast to increase into FY16 and beyond as new revenue streams in this area are explored and developed.

2.5. Investments Operating EBIT

Increased 41.7% to \$17 million from \$12 million

	Half-year ended 31 December 2015	Half-year ended 31 December 2014
	\$m	\$m
Statutory EBIT	17	12
Operating EBIT	17	12
Add back:		
Depreciation and amortisation	-	-
Operating EBITDA	17	12

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

	Half-year ended 31 December 2015	Half-year ended 31 December 2014
	\$m	\$m
ActewAGL	19	15
Diamantina Power Station	(2)	(3)
Operating EBIT	17	12

2.5.1. ActewAGL (50% AGL Ownership) Operating EBIT

Increased 26.7% to \$19 million from \$15 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 \$19 million for the period compared with \$15 million for the prior corresponding period. The increase is due to a reduction in energy costs and the acquisition of a significant Government contract in the ACT region.

2.5.2. Diamantina Power Station Joint Venture

On 6 October 2011, AGL entered into a 50:50 joint venture with the APA Group to construct the Diamantina Power Station in Mt Isa. The power station was commissioned in November 2014.

2.6. Centrally Managed Expenses

Increased 8.3 % to (\$118 million) from (\$109 million)

	Half-year ended 31 December 2015	Half-year ended 31 December 2014
	\$m	\$m
Statutory EBIT	(147)	(136)
Significant items	23	24
Change in fair value of financial assets	6	3
Operating EBIT	(118)	(109)
Add back:		
Depreciation and amortisation	16	11
Operating EBITDA	(102)	(98)

Significant items predominately relate to the costs associated with restructuring and AGL's acquisition of the Macquarie Generation assets as described in section 1.3.

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

	Half-year ended 31 December 2015	Half-year ended 31 December 2014
	\$m	\$m
Labour	(40)	(41)
Hardware and software costs	(31)	(27)
Consultants and contractor fees	(5)	(6)
Insurance premiums	(13)	(9)
Depreciation and amortisation	(16)	(11)
Other	(13)	(15)
Total	(118)	(109)

Total Centrally Managed Expenses (CME) increased by \$9 million, which included an additional two months or \$4.3 million of costs associated with the acquisition of AGL Macquarie and the transfer of insurance premiums from Group Operations of \$3 million.

Depreciation and amortisation has increased due to the delivery of IT and CRM projects. This has been offset by a reduction in labour costs associated with organisational reviews conducted during the period.

Operating expenses excluding depreciation and amortisation, the impact of AGL Macquarie and the Group Operations insurance premium are down \$3.3 million or 3.3% reflecting cost savings more than offsetting wage and other inflation.

AGL centrally manages a number of expense items, including information technology, 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.

However, although not formally reallocated for the purposes of reporting Operating EBIT, a substantial proportion of the expenses can be attributed to the business units. The following tables provide further analysis of the centrally managed expenses incurred on behalf of business units during the half-years ended 31 December 2015 and 31 December 2014.

31 December 2015	Centrally Managed Expenses \$m	Reallocate Energy Markets \$m	Reallocate Group Operations \$m	Reallocate New Energy \$m	Unallocated \$m
Labour	(40)	-	-	-	(40)
Hardware and software costs	(31)	18	10	1	(2)
Consultants and contractor fees	(5)	1	1	-	(3)
Insurance premiums	(13)	1	12	-	-
Depreciation and amortisation	(16)	9	6	1	-
Other	(13)	6	5	-	(2)
Total	(118)	35	34	2	(47)

31 December 2014	Centrally Managed Expenses \$m	Reallocate Energy Markets \$m	Reallocate Group Operations \$m	Reallocate New Energy \$m	Unallocated \$m
Labour	(41)	-	-	-	(41)
Hardware and software costs	(27)	16	9	-	(2)
Consultants and contractor fees	(6)	1	1	-	(4)
Insurance premiums	(9)	-	9	-	-
Depreciation and amortisation	(11)	7	4	-	-
Other	(15)	7	6	1	(1)
Total	(109)	31	29	1	(48)

2.7. Net Finance Costs

Decreased 2.6% to (\$114 million) from (\$117 million)

	Half-year ended 31 December 2015	Half-year ended 31 December 2014
	\$m	\$m
Statutory finance costs	(122)	(125)
Statutory finance income	10	10
Remove finance income included in EBITDA	(2)	(2)
Net finance costs	(114)	(117)

The 2.6% decrease in net finance costs was due to an overall decrease in average net debt to \$3,023 million compared with \$3,246 million in the prior corresponding period. Net debt decreased over the period through the repayment of the ANZ \$100 million bridging facility and the higher cash balances maintained. This reduction was further improved by lower AUD average floating interest rate movements.

2.8. Income Tax Benefit/(Expense)

Underlying income tax increased 24.8% to (\$161 million) from (\$129 million)

	Half-year ended 31 December 2015	Half-year ended 31 December 2014
	\$m	\$m
Statutory income tax benefit / (expense)	73	(148)
Income tax benefit from significant items	(162)	(38)
Income tax (benefit) / expense from fair value movements	(72)	57
Underlying tax expense	(161)	(129)

The increase in the underlying tax expense was due to a 24.4% improvement in underlying earnings. The underlying effective tax rate was 30.0% compared with 29.9% for the prior corresponding period.

3. Operating Cash Flow

3.1. Reconciliation of Operating EBITDA to Statutory Cash Flow

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

	Half-year ended 31 December 2015	Half-year ended 31 December 2014
	\$m	\$m
Operating EBITDA	885	735
Equity accounted income (net of dividend received)	(15)	(9)
Accounting for onerous contracts	(22)	(8)
Working capital movements		
(Increase) / decrease in receivables	226	332
Increase / (decrease) in creditors	(196)	(225)
(Increase) / decrease in inventories	31	(5)
Net derivative premiums paid / roll-offs	(35)	8
(Increase) / decrease in futures margin calls	(24)	6
Net movement in green assets/liabilities	8	19
Other	8	26
Total working capital movements	18	161
Operating cash flow before interest, tax & significant items	866	879
Net finance costs paid	(91)	(99)
Income tax paid	(96)	(68)
Underlying operating cash flow	679	712
Cash flow relating to significant items	(21)	(124)
Statutory net cash provided by operating activities	658	588

Operating cash flow before interest, tax & significant items was down \$13 million compared with the prior corresponding period.

The repeal of carbon had a positive impact on working capital of \$118 million in 1H15. This comprises a decrease in receivables of estimated \$132 million and decrease in creditors of estimated \$14 million. Carbon impact was not significant in the full year FY15, and was nil in subsequent periods.

Excluding the impact of carbon on working capital in 1H15 underlying operating cash flow is up \$105 million driven by higher earnings.

The decrease in receivables of \$226 million (31 December 2014: \$332 million), has broadly offset the decrease in trade creditors of \$196 million (31 December 2014: \$225 million).

3.2 Underlying Operating Cash Flow before Interest and Tax

Decreased 1.5% to \$866 million from \$879 million

The statutory net cash flow from operating activities does not take into account a number of material items that affect operating cash flow. AGL has made adjustments to take these items into consideration in calculating the underlying operating cash flow before interest and tax.

	Half-year ended 31 December 2015	Half-year ended 31 December 2014
	\$m	\$m
Statutory net cash provided by operating activities	658	588
Cash flow relating to significant items	21	124
Underlying Operating Cash Flow	679	712
Net finance costs paid	91	99
Income tax paid	96	68
Underlying Operating Cash Flow before interest and tax	866	879

AGL incurred cash expenses in the period relating to redundancy costs. These payments are discussed further in Section 1.3.

4. Changes in Fair Value of Derivative Financial Instruments

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

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

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

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

The change in fair value of derivatives reported in profit and loss for the half-year ended 31 December 2015 was a loss of \$240 million before tax and \$168 million after tax. For the half-year ended 31 December 2014 change in fair value of derivatives was a gain before tax of \$191 million and \$134 million after tax.

A reconciliation of the statement of financial position movement in derivative balances to the amount included in the statement of profit or loss for the half-year ended 31 December 2015 is presented in the following table:

	Net Assets (Liabilities)		
	31 December 2015	30 June 2015	Change
	\$m	\$m	\$m
Energy derivative contracts	202	403	(201)
Cross currency and interest rate swap derivative contracts	29	2	27
Total net assets (liabilities) for derivative contracts	231	405	(174)
Change in derivative net asset	(174)	←	
Premiums paid	(32)		
Premium roll off	36		
Total change in fair value	(170)		
Recognised in equity hedge reserve	38		
Recognised in borrowings	31		
Recognised in profit and loss - pre tax			
- Net finance costs	1		
- Changes in fair value of financial instruments	(240)		
Total change in fair value	(170)		

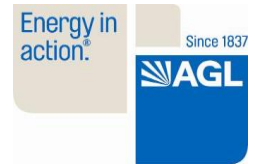
5. Funding and Capital Expenditure

Total borrowings decreased from \$3.9 billion to \$3.1 billion, a decrease of 20.5% mainly due to the retirement of the AGL Loy Yang debt from the Macarthur Wind Farm sale proceeds. Following the repayment of the \$315 million AGL Loy Yang debt, AGL restructured the remaining Bond debt which allowed for the removal of the Security Trust Deed (STD) and the security provisions over the Loy Yang assets. A \$100 million bridging facility was repaid in August 2015 and the facility subsequently cancelled.

AGL engaged Moody's credit rating agency to provide a credit rating to the company and its senior debt facilities. In January 2016, Moody's assigned a Baa2 rating (BBB equivalent) with a stable outlook. This was announced to the market on 8 February 2016.

AGL's Gearing (Net Debt / (Net Debt + Equity)) as at 31 December 2015 is 26.4% (30 June 2015: 28.6%), consistent with the BBB Standard & Poor's credit rating and Baa2 with Moody's.

Total capital expenditure was \$293 million, \$92 million lower than the prior corresponding period. Sustaining capital expenditure was \$204 million (31 December 2014: \$127 million) and included office relocation costs, consistent expenditure on Loy Yang maintenance, and the addition of AGL Macquarie maintenance. Capital expenditure on growth initiatives net of government grants was \$89 million and included \$61 million on solar generation projects for the period to 31 December 2015, less government grant receipts. Other growth expenditure of \$28 million related to New Energy, Gloucester and Moranbah projects. Expenditure on growth projects was \$169 million higher than the prior corresponding period.



AGL Energy Limited and controlled entities

Interim Financial Report

For the half-year ended 31 December 2015

AGL Energy Limited and controlled entities
Condensed consolidated Statement of Profit or Loss
For the half-year ended 31 December 2015

	Note	Half-year ended	
		31 Dec 2015	31 Dec 2014
		\$m	\$m
Continuing operations			
Revenue	3	5,601	5,183
Expenses	4	(5,793)	(4,437)
Share of profits of associates and joint ventures	10	17	12
(Loss)/profit before net financing costs, depreciation and amortisation		(175)	758
Depreciation and amortisation	5	(235)	(187)
(Loss)/profit before net financing costs		(410)	571
Finance income		10	10
Finance costs		(122)	(125)
Net financing costs	6	(112)	(115)
(Loss)/profit before tax		(522)	456
Income tax benefit/(expense)	8	73	(148)
(Loss)/profit for the period		(449)	308
(Loss)/profit attributable to:			
Owners of AGL Energy Limited		(449)	308
Non-controlling interests		-	-
		(449)	308
Earnings per share			
Basic earnings per share	13	(66.5 cents)	48.6 cents
Diluted earnings per share	13	(66.5 cents)	48.6 cents

The condensed consolidated statement of profit or loss should be read in conjunction with the notes to the financial statements.

AGL Energy Limited and controlled entities
Condensed consolidated Statement of Comprehensive Income
For the half-year ended 31 December 2015

	Half-year ended	
	31 Dec 2015	31 Dec 2014
	\$m	\$m
(Loss)/profit for the period	(449)	308
Other comprehensive income		
<i>Items that will not be reclassified subsequently to profit or loss</i>		
Remeasurement loss on defined benefit plans	(36)	(27)
Income tax relating to items that will not be reclassified subsequently	11	8
	(25)	(19)
<i>Items that may be reclassified subsequently to profit or loss</i>		
Cash flow hedges		
Gain/(loss) in fair value of cash flow hedges	14	(33)
Reclassification adjustments transferred to profit or loss	24	87
Share of other comprehensive income of a joint venture	1	-
Income tax relating to items that may be reclassified subsequently	(11)	(16)
	28	38
Other comprehensive income for the period, net of income tax	3	19
Total comprehensive income for the period	(446)	327
Total comprehensive income attributable to:		
Owners of AGL Energy Limited	(446)	327
Non-controlling interests	-	-
	(446)	327

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

AGL Energy Limited and controlled entities
Condensed consolidated Statement of Financial Position
As at 31 December 2015

	Note	31 Dec 2015 \$m	30 June 2015 \$m
Current assets			
Cash and cash equivalents		106	259
Trade and other receivables		1,778	1,894
Inventories		325	396
Other financial assets		234	156
Other assets		334	262
		2,777	2,967
Assets classified as held for sale		1	492
Total current assets		2,778	3,459
Non-current assets			
Trade and other receivables		43	44
Inventories		84	32
Other financial assets		480	596
Investments in associates and joint ventures		107	91
Exploration and evaluation assets		-	130
Oil and gas assets		38	544
Property, plant and equipment		6,904	6,958
Intangible assets		3,249	3,266
Deferred tax assets		891	682
Other assets		21	31
Total non-current assets		11,817	12,374
Total assets		14,595	15,833
Current liabilities			
Trade and other payables		1,387	1,377
Borrowings	11	22	443
Provisions		177	191
Current tax liabilities		125	86
Other financial liabilities		406	269
Other liabilities		9	7
Total current liabilities		2,126	2,373
Non-current liabilities			
Borrowings	11	3,107	3,439
Provisions		490	456
Other financial liabilities		332	387
Other liabilities		404	363
Total non-current liabilities		4,333	4,645
Total liabilities		6,459	7,018
Net assets		8,136	8,815
Equity			
Issued capital	12	6,696	6,696
Reserves		(41)	(65)
Retained earnings		1,471	2,175
Total equity attributable to owners of AGL Energy Limited		8,126	8,806
Non-controlling interests		10	9
Total equity		8,136	8,815

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

AGL Energy Limited and controlled entities
Condensed consolidated Statement of Changes in Equity
For the half-year ended 31 December 2015

Attributable to owners of AGL Energy Limited							
	Issued capital	Employee equity benefits reserve	Hedging reserve	Retained earnings	Total	Non-controlling interests	Total equity
	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Balance at 1 July 2015	6,696	3	(68)	2,175	8,806	9	8,815
Loss for the period	-	-	-	(449)	(449)	-	(449)
Other comprehensive income for the period, net of income tax	-	-	28	(25)	3	-	3
Total comprehensive income for the period	-	-	28	(474)	(446)	-	(446)
Transactions with owners in their capacity as owners:							
Issue of ordinary shares	-	-	-	-	-	1	1
Payment of dividends	-	-	-	(230)	(230)	-	(230)
Share-based payments	-	(4)	-	-	(4)	-	(4)
Balance at 31 December 2015	6,696	(1)	(40)	1,471	8,126	10	8,136
Balance at 1 July 2014	5,437	5	(104)	2,249	7,587	1	7,588
Profit for the period	-	-	-	308	308	-	308
Other comprehensive income for the period, net of income tax	-	-	38	(19)	19	-	19
Total comprehensive income for the period	-	-	38	289	327	-	327
Transactions with owners in their capacity as owners:							
Issue of ordinary shares	1,253	-	-	-	1,253	3	1,256
Transaction costs relating to the issue of ordinary shares	(22)	-	-	-	(22)	-	(22)
Payment of dividends	-	-	-	(185)	(185)	-	(185)
Share-based payments	-	(2)	-	-	(2)	-	(2)
Income tax relating to transactions with owners	6	-	-	-	6	-	6
Balance at 31 December 2014	6,674	3	(66)	2,353	8,964	4	8,968

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

AGL Energy Limited and controlled entities
Condensed consolidated Statement of Cash Flows
For the half-year ended 31 December 2015

	Note	Half-year ended	
		31 Dec 2015	31 Dec 2014
		\$m	\$m
Cash flows from operating activities			
Receipts from customers		6,133	6,001
Payments to suppliers and employees		(5,290)	(5,250)
Dividends received		2	3
Finance income received		8	9
Finance costs paid		(99)	(107)
Income taxes paid		(96)	(68)
Net cash provided by operating activities		658	588
Cash flows from investing activities			
Payments for property, plant and equipment		(301)	(352)
Payments for exploration and evaluation assets		(7)	(21)
Payments for oil and gas assets		(5)	(18)
Payments for investments in associates and joint ventures		(1)	(74)
Payments for businesses and subsidiaries, net of cash acquired acquisitions in current period	16	-	(1,216)
Government grants received		2	28
Proceeds from sale of property, plant and equipment		2	-
Proceeds from sale of subsidiary, net of cash disposed	17	522	-
Loans advanced to related parties		-	(3)
Proceeds from repayment of related party loans		-	56
Net cash provided by/(used) in investing activities		212	(1,600)
Cash flows from financing activities			
Proceeds from issue of shares, net of transaction costs		-	1,210
Proceeds from issue of shares to non-controlling interests		1	3
Purchase of shares on-market for equity based remuneration		(7)	(5)
Proceeds from borrowings		550	1,277
Repayment of borrowings		(1,337)	(1,380)
Payments for settlement of derivative financial instruments		-	(4)
Dividends paid	9	(230)	(164)
Net cash (used in)/provided by financing activities		(1,023)	937
Net decrease in cash and cash equivalents		(153)	(75)
Cash and cash equivalents at the beginning of the period		259	466
Cash and cash equivalents at the end of the period	14	106	391

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 condensed consolidated Financial Statements
For the half-year ended 31 December 2015

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

(b) Basis of preparation

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

The Parent Entity is a company of the kind referred to in ASIC Class Order 98/0100, dated 10 July 1998, and in accordance with that Class Order, amounts in the interim 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 interim financial report are consistent with those adopted and disclosed in AGL's 2015 annual financial report for the year ended 30 June 2015, except for the impact of the Standards and Interpretations described below. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

(c) Adoption of new and revised Standards and Interpretations

AGL has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to its operations and effective for the current reporting period.

The adoption of all the new and revised Standards and Interpretations has not resulted in any changes to AGL's accounting policies and has no effect on the amounts recognised in the condensed consolidated financial statements for the current or prior half years.

AGL Energy Limited and controlled entities
Notes to the condensed consolidated Financial Statements
For the half-year ended 31 December 2015

Note 2 - Segment information

Operating segments

AGL reports segment information on the same basis as the internal management reporting structure. 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.

On 29 July 2015, AGL announced that it has changed the basis for segment reporting to align it with the organisational structure announced on 16 April 2015 and the subsequent review and restructure of the Upstream Gas business.

The previous operating segments were: Retail Energy, Merchant Energy, Upstream Gas and Investments.

AGL has four reportable operating segments as follows:

- **Energy Markets** comprises three business units: Wholesale Markets, Consumer Market and Business Customers. It is responsible for managing the risks associated with satisfying the gas and electricity requirements of AGL's wholesale, consumer and business portfolios. It also sells natural gas, electricity and energy related products and services to Consumer Market and Business Customers, currently servicing over 3.7 million customer accounts.
- **Group Operations** is a diverse power generation portfolio, spread across traditional thermal generation, natural gas (formerly Upstream Gas) and renewable sources including hydro, wind and solar.
- **New Energy** was formed in 2014 to drive AGL's capabilities in taking new and distributed technologies to market in Australia. The business unit comprises Residential Energy Services, Business Energy Services, Distributed Energy Services, and the newly established Digital Metering business, ActiveStream.
- **Investments** include equity accounted investments in the ActewAGL Retail Partnership and Diamantina Holding Company Pty Limited.

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 segment.

Segment comparative information has been restated to reflect the changes described above.

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 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 across the business. AASB 8 requires AGL to report segment information on the same basis as the internal management structure. As a result the Energy Markets segment, which is responsible for AGL's sales and managing risks associated with gas and electricity requirements, reports 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 is responsible for managing and maintaining AGL's portfolio of electricity generation assets, natural gas, gas storage and renewable assets, and reports the majority of expenses associated with these operations.

For the purposes of reviewing the carrying values of AGL assets via impairment testing, the segments impute a revenue transfer between Energy 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 condensed consolidated Financial Statements
For the half-year ended 31 December 2015

Note 2 - Segment information (cont'd)

	Energy Markets \$m	Group Operations \$m	New Energy \$m	Investments \$m	Other \$m	Total \$m
Half-year ended 31 December 2015						
Revenue						
Total segment revenue	5,490	80	62	-	-	5,632
Inter-segment revenue	(6)	(14)	(11)	-	-	(31)
External revenue	5,484	66	51	-	-	5,601
Earnings before interest, tax, depreciation and amortisation (EBITDA)						
	1,244	(272)	(2)	17	(102)	885
Depreciation and amortisation	(48)	(165)	(6)	-	(16)	(235)
Operating EBIT	1,196	(437)	(8)	17	(118)	650
Net financing costs						(114)
Underlying profit before income tax						536
Income tax expense						(161)
Underlying profit						375
Other segment information						
Share of profits of associates and joint ventures	-	-	-	17	-	17
Investments in associates and joint ventures	-	2	6	99	-	107
Additions to non-current assets	24	255	11	-	5	295
Loss in fair value of financial instruments	(234)	-	-	-	(6)	(240)
Significant expense items	-	(795)	-	-	(23)	(818)
Segment assets						
As at 31 December 2015	5,028	7,548	164	178	89	13,007
As at 30 June 2015	5,088	8,708	164	159	117	14,236
Segment liabilities						
As at 31 December 2015	1,464	838	22	-	143	2,467
As at 30 June 2015	1,424	828	24	-	118	2,394

AGL Energy Limited and controlled entities
Notes to the condensed consolidated Financial Statements
For the half-year ended 31 December 2015

Note 2 - Segment information (cont'd)

	Energy Markets \$m	Group Operations \$m	New Energy \$m	Investments \$m	Other \$m	Total \$m
Half-year ended 31 December 2014						
Revenue						
Total segment revenue	5,077	77	63	-	-	5,217
Inter-segment revenue	(11)	(12)	(11)	-	-	(34)
External revenue	5,066	65	52	-	-	5,183
Earnings before interest, tax, depreciation and amortisation (EBITDA)						
	1,038	(229)	12	12	(98)	735
Depreciation and amortisation	(45)	(126)	(5)	-	(11)	(187)
Operating EBIT	993	(355)	7	12	(109)	548
Net financing costs						(117)
Underlying profit before income tax						431
Income tax expense						(129)
Underlying profit						302
Other segment information						
Share of profits of associates and joint ventures	-	-	-	12	-	12
Investments in associates and joint ventures	-	4	-	111	-	115
Additions to non-current assets	13	1,807	6	77	5	1,908
Gain in fair value of financial instruments	198	(4)	-	-	(3)	191
Significant expense items	(49)	(93)	-	-	(24)	(166)

	Half-year ended	
	31 Dec	31 Dec
	2015	2014
	\$m	\$m
Segment Operating EBIT reconciliation to the statement of profit or loss		
Reconciliation of segment Operating EBIT to (Loss)/profit before tax is as follows:		
Operating EBIT for reportable segments	768	657
Other	(118)	(109)
	650	548
Amounts excluded from underlying results:		
- (loss)/gain in fair value of financial instruments	(240)	191
- significant expense items	(818)	(166)
Finance income included in Operating EBIT	(2)	(2)
Finance income	10	10
Finance costs	(122)	(125)
(Loss)/profit before tax	(522)	456

AGL Energy Limited and controlled entities
Notes to the condensed consolidated Financial Statements
For the half-year ended 31 December 2015

	Half-year ended	
	31 Dec	31 Dec
	2015	2014
	\$m	\$m
Note 3 - Revenue		
Revenue from sale of goods	5,516	5,112
Revenue from rendering of services	85	71
	5,601	5,183

Note 4 - Expenses

Cost of sales	4,014	3,801
Administration expenses	119	119
Employee benefits expense	295	265
Other expenses		
Loss/(gain) in fair value of financial instruments	240	(191)
Impairment loss on trade receivables (net of bad debts recovered)	47	50
Impairment loss on exploration and evaluation assets	171	-
Impairment loss on oil and gas assets	505	-
Impairment loss on property, plant and equipment	119	-
Cumulative loss reclassified from equity on acquisition of a business	-	37
Acquisition and integration costs	-	106
Restructuring and other costs	23	23
Operating lease rental expenses	14	10
Other	246	217
	5,793	4,437

Note 5 - Depreciation and amortisation

Property, plant and equipment	203	166
Oil and gas assets	11	3
Intangible assets	17	15
Other	4	3
	235	187

AGL Energy Limited and controlled entities
Notes to the condensed consolidated Financial Statements
For the half-year ended 31 December 2015

	Half-year ended	
	31 Dec	31 Dec
	2015	2014
	\$m	\$m
Note 6 - Net financing costs		
Finance income		
Interest income		
Joint ventures	4	-
Other entities	6	10
	10	10
Finance costs		
Interest expense		
Other entities	96	111
Finance costs capitalised	(4)	(10)
Unwinding of discounts on provisions and other liabilities	13	8
Unwinding of discount on deferred consideration	13	13
Other finance costs	4	3
	122	125
Net financing costs	112	115

Note 7 - Impairment loss

Impairment loss on exploration and evaluation assets	171	-
Impairment loss on oil and gas assets	505	-
Impairment loss on property, plant and equipment	119	-
	795	-

AGL conducted a detailed review of the carrying amount of natural gas assets classified as exploration and evaluation assets, oil and gas assets, and property, plant and equipment, as at 31 December 2015. As a result of this review, AGL has recognised an impairment charge of \$795 million before tax (\$640 million after tax) in the Group Operations operating segment.

The fall in global oil prices has had a consequent effect on long-term Queensland gas prices and this has resulted in an impairment to AGL's Queensland natural gas assets (including Moranbah, Silver Springs and Spring Gully).

Also, based on forecasted lower than expected production volumes AGL will no longer proceed with the Gloucester Gas Project. Without the Gloucester Gas Project, there are limited opportunities for scale and efficiencies across projects, so AGL will also cease production at the Camden Gas Project by 2023 (12 years earlier than previously proposed).

The impairment loss above also includes \$50 million relating to an increase in the provision for environmental rehabilitation, for the gas operations projects and a decrease in inventory value.

AGL Energy Limited and controlled entities
Notes to the condensed consolidated Financial Statements
For the half-year ended 31 December 2015

	Half-year ended	
	31 Dec	31 Dec
	2015	2014
	\$m	\$m

Note 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:

(Loss)/profit before tax	(522)	456
Income tax (benefit)/expense calculated at the Australian tax rate of 30% (Dec 2014: 30%)	(157)	137
Impairment of non-current assets	84	-
Non-deductible expenses	1	14
Share of profits of associates and joint ventures	1	1
Adjustments in relation to current tax of prior years	(2)	(4)
Income tax recognised in the statement of profit or loss	(73)	148

Note 9 - Dividends

Recognised amounts

Final dividend

Final dividend for 2015 of 34.0 cents per share, fully franked at 30%, paid 24 September 2015 (Dec 2014: Final dividend for 2014 of 33.0 cents per share, fully franked at 30%, paid 30 September 2014)

	230	185
Total dividends	230	185
Dividends satisfied by the issue of shares under the AGL Dividend Reinvestment Plan	-	(21)
Dividends paid as per the statement of cash flows	230	164

Unrecognised amounts

Since the end of the financial period, the Directors have declared an interim dividend for 2016 of 32.0 cents per share, fully franked at 30%, (Dec 2014: 30.0 cents fully franked), payable 16 March 2016.

	216	202
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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 operate in respect of the dividend. Shares will be bought on-market and allotted at no discount to the simple average of the daily weighted average market price at which AGL's ordinary shares are traded on the ASX during each of the 10 trading days commencing on 29 February 2016. The last date for shareholders to elect to participate in the DRP for the FY16 interim dividend is 26 February 2016.

AGL Energy Limited and controlled entities
Notes to the condensed consolidated Financial Statements
For the half-year ended 31 December 2015

Note 10 - Investments in associates and joint ventures

Name of entity	Ownership interest		Contribution to net profit	
	As at		Half-year ended	
	31 Dec 2015 %	31 Dec 2014 %	31 Dec 2015 \$m	31 Dec 2014 \$m
Associates				
CSM Energy Limited	35	35	-	-
Greenbox Group Ltd	19.9	-	-	-
Solar Analytics Pty Ltd	40	40	-	-
Joint ventures				
ActewAGL Retail Partnership	50	50	19	15
Diamantina Holding Company Pty Limited	50	50	(2)	(3)
Energy Infrastructure Management Pty Ltd	50	50	-	-
Central Queensland Pipeline Pty Ltd	50	50	-	-
			17	12

	As at	
	31 Dec 2015 \$m	30 June 2015 \$m

Note 11 - Borrowings

Current

Bank loans - secured	-	331
Bank loans - unsecured	11	100
Other loans - unsecured	11	11
Finance lease liabilities - secured	-	1
	22	443

Non-current

USD senior notes - unsecured	452	421
Subordinated notes - unsecured	650	650
Medium term notes - unsecured	597	597
Bank loans - secured	-	167
Bank loans - unsecured	1,247	1,440
Other loans - unsecured	161	167
Finance lease liabilities - secured	18	17
Deferred borrowing costs	(18)	(20)
	3,107	3,439
Total borrowings	3,129	3,882

Bank loans - unsecured

On 16 September 2015, AGL repaid the balance of the Loy Yang senior debt facility of \$315 million. On 13 November 2015, AGL restructured the remaining CPI bonds which allowed for the removal of the Security Trust Deed (STD) and for the security provisions over specific Loy Yang assets to be replaced with AGL's other senior unsecured lenders.

AGL Energy Limited and controlled entities
Notes to the condensed consolidated Financial Statements
For the half-year ended 31 December 2015

Note 12 - Issued capital

	31 Dec 2015		As at 30 June 2015	
	Number of shares	\$m	Number of shares	\$m
Movement in fully paid ordinary shares				
Balance at beginning of financial year	674,712,378	6,696	559,719,746	5,437
Shares issued under the institutional and retail rights offers	-	-	111,981,107	1,232
Shares issued under AGL Dividend Reinvestment Plan	-	-	2,998,085	43
Shares issued to shareholders with unrepresented or unclaimed dividend payments	-	-	13,440	-
Transaction costs relating to the institutional and retail rights offers		-		(22)
Deferred tax credit recognised directly in equity		-		6
Balance at end of financial period	674,712,378	6,696	674,712,378	6,696

AGL Energy Limited and controlled entities
Notes to the condensed consolidated Financial Statements
For the half-year ended 31 December 2015

	Half-year ended	
	31 Dec 2015	31 Dec 2014
Note 13 - Earnings per share (EPS)		
Statutory earnings per share		
Basic earnings per share	(66.5 cents)	48.6 cents
Diluted earnings per share	(66.5 cents)	48.6 cents
Underlying earnings per share		
Basic earnings per share	55.6 cents	47.7 cents
Diluted earnings per share	55.5 cents	47.6 cents

	Half-year ended	
	31 Dec 2015	31 Dec 2014
	\$m	\$m
Earnings used in calculating basic and diluted earnings per share		
(Loss)/profit for the period attributable to owners of AGL Energy Limited	(449)	308
Statutory earnings used to calculate basic and diluted EPS	(449)	308
Significant expense items after income tax	656	128
Loss/(gain) in fair value of financial instruments after income tax	168	(134)
Underlying earnings used to calculate basic and diluted EPS	375	302

	Half-year ended	
	31 Dec 2015	31 Dec 2014
	Number	Number
Weighted average number of ordinary shares		
Number of ordinary shares used in the calculation of basic EPS pre adjusting for bonus element of the rights issue	674,712,378	625,994,731
Bonus element of the rights issue	-	7,757,715
Number of ordinary shares used in the calculation of basic EPS	674,712,378	633,752,446
Effect of dilution - LTIP share performance rights	373,531	383,849
Number of ordinary shares used in the calculation of diluted EPS	675,085,909	634,136,295

AGL Energy Limited and controlled entities
Notes to the condensed consolidated Financial Statements
For the half-year ended 31 December 2015

	As at	
	31 Dec	31 Dec
	2015	2014
	\$m	\$m

Note 14 - Cash flow information

Reconciliation of cash and cash equivalents

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

Cash at bank and on hand	72	178
Short-term deposits	34	207
	106	385
Cash and cash equivalents included in disposal groups held for sale	-	6
	106	391

Non-cash financing and investing activities

Dividends satisfied by the issue of shares under the AGL

Dividend Reinvestment Plan	-	21
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Note 15 - 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) 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.
- (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 2015 are expected to arise.

Note 16 - Acquisition of subsidiaries and businesses

Half-year ended 31 December 2015

There were no acquisitions of subsidiaries and businesses made during the half-year ended 31 December 2015.

Half-year ended 31 December 2014

Acquisition of Macquarie Generation

On 20 August 2014, AGL executed a Sale and Purchase Agreement with the New South Wales Government to acquire the Macquarie Generation assets for a consideration of \$1,505 million including stamp duty.

The acquisition was completed on 2 September 2014, on which date AGL obtained control of the assets. The final purchase consideration comprised cash of \$1,401 million including stamp duty of \$93 million. The purchase price also included working capital and other settlement adjustments of \$104 million.

The assets acquired included the 2,640 MW Bayswater and 2,000 MW Liddell coal fired power stations, 50 MW Hunter Valley gas turbines, development sites and extensive coal handling infrastructure comprising rail unloaders and conveyor systems.

Acquisition-related costs of \$105 million including stamp duty were excluded from the consideration paid and were recognised as an expense in profit or loss in the December 2014 half-year, within the 'other expenses' line item.

AGL Energy Limited and controlled entities
Notes to the condensed consolidated Financial Statements
For the half-year ended 31 December 2015

Note 16 - Acquisition of subsidiaries and businesses (cont'd)

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

		Macquarie Generation	Other acquisition	Total
	31 Dec 2015	31 Dec 2014	31 Dec 2014	31 Dec 2014
	\$m	\$m	\$m	\$m
Assets acquired and liabilities assumed				
Current assets				
Trade and other receivables	-	79	-	79
Inventories	-	148	-	148
Other financial assets	-	86	-	86
Other assets	-	11	-	11
Total current assets	-	324	-	324
Non-current assets				
Other financial assets	-	64	-	64
Property, plant and equipment	-	1,352	-	1,352
Intangible assets	-	10	-	10
Deferred tax assets	-	92	-	92
Total non-current assets	-	1,518	-	1,518
Total assets	-	1,842	-	1,842
Current liabilities				
Trade and other payables	-	54	-	54
Provisions	-	47	-	47
Other financial liabilities	-	27	-	27
Total current liabilities	-	128	-	128
Non-current liabilities				
Provisions	-	72	-	72
Other financial liabilities	-	212	-	212
Other liabilities	-	122	-	122
Total non-current liabilities	-	406	-	406
Total liabilities	-	534	-	534
Net assets	-	1,308	-	1,308
Goodwill arising on acquisition	-	-	5	5
Fair value of net assets acquired	-	1,308	5	1,313
Purchase consideration	-	1,505	5	1,510
Less: working capital and other adjustments	-	(104)	-	(104)
Less: stamp duty	-	(93)	-	(93)
Net consideration	-	1,308	5	1,313
Cash paid	-	1,211	5	1,216
Consideration payable	-	97	-	97
Net consideration	-	1,308	5	1,313
			Half-year ended	
			31 Dec	31 Dec
			2015	2014
			\$m	\$m
Net cash outflow on acquisitions				
Cash paid			-	1,216
Less: cash and cash equivalent balances acquired			-	-
			-	1,216

AGL Energy Limited and controlled entities
Notes to the condensed consolidated Financial Statements
For the half-year ended 31 December 2015

Note 17 - Disposal of subsidiaries and businesses

Half-year ended 31 December 2015

Disposal of Macarthur Wind Farm Pty Ltd

On 7 September 2015, AGL completed the disposal of its 50% participating interest in the Macarthur Wind Farm joint venture to H.R.L. Morrison & Co managed funds for a consideration of \$532 million. The divestment included the disposal of 100% of the shares in Macarthur Wind Farm Pty Ltd and MWF Finance Pty Ltd.

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

	Half-year ended	
	31 Dec 2015	31 Dec 2014
	\$m	\$m
Assets		
Property, plant and equipment	491	-
Liabilities		
Deferred tax liabilities	1	-
Net assets disposed	490	-
Consideration received		
Consideration received in cash	532	-
Costs directly attributable to the disposal	(15)	-
Liability assumed	(27)	-
	490	-
Gain on disposal of subsidiaries		
Consideration received	490	-
Net assets disposed	(490)	-
	-	-
Net cash inflow on disposal of subsidiaries		
Consideration received in cash	532	-
Costs directly attributable to the disposal paid	(10)	-
	522	-

Half-year ended 31 December 2014

There were no disposals of subsidiaries made during the half-year ended 31 December 2014.

AGL Energy Limited and controlled entities
Notes to the condensed consolidated Financial Statements
For the half-year ended 31 December 2015

Note 18 - Financial instruments

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).

There were no material transfers between Level 1 and Level 2 during the period.

	Carrying amount \$m	Level 1 \$m	Level 2 \$m	Level 3 \$m	Total fair value \$m
31 December 2015					
Financial assets					
Derivative financial instruments					
- Cross currency swap contracts - cash flow and fair value hedges	103	-	103	-	103
- Interest rate swap contracts - cash flow hedges	5	-	5	-	5
- Energy derivatives - cash flow hedges	41	-	41	-	41
- Energy derivatives - economic hedges	442	23	119	300	442
	591	23	268	300	591
Financial liabilities					
Derivative financial instruments					
- Interest rate swap contracts - cash flow hedges	(78)	-	(78)	-	(78)
- Energy derivatives - cash flow hedges	(1)	-	(1)	-	(1)
- Energy derivatives - economic hedges	(280)	(39)	(164)	(77)	(280)
	(359)	(39)	(243)	(77)	(359)
30 June 2015					
Financial assets					
Derivative financial instruments					
- Cross currency swap contracts - cash flow and fair value hedges	74	-	74	-	74
- Interest rate swap contracts - cash flow hedges	7	-	7	-	7
- Energy derivatives - cash flow hedges	11	-	11	-	11
- Energy derivatives - economic hedges	564	12	107	445	564
	656	12	199	445	656
Financial liabilities					
Derivative financial instruments					
- Interest rate swap contracts - cash flow hedges	(79)	-	(79)	-	(79)
- Energy derivatives - cash flow hedges	(8)	-	(8)	-	(8)
- Energy derivatives - economic hedges	(165)	(9)	(68)	(88)	(165)
	(252)	(9)	(155)	(88)	(252)

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.

AGL Energy Limited and controlled entities
Notes to the condensed consolidated Financial Statements
For the half-year ended 31 December 2015

Note 18 - Financial instruments (cont'd)

Estimation of fair values

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

- a) 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.
- b) The fair value of forward foreign exchange contracts and energy swap contracts is calculated as the present value of expected future cash flows relating to the difference between the contract 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.
- c) 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.
- d) 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.
- e) The fair value of lease liabilities is estimated as the present value of future cash flows discounted where the effect of discounting is material.
- f) 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.

	As at	
	31 Dec	30 June
	2015	2015
	\$m	\$m
Energy derivatives		
Opening balance	357	224
Total gains and losses recognised in profit or loss		
- Settlements during the year	18	42
- Changes in fair value	(152)	42
Purchases	-	(5)
Acquisition through business combination	-	54
Closing balance	223	357

The significant unobservable inputs for the level 3 contracts include cost-based indexes, volumes and electricity prices beyond the quoted pricing period. The sensitivity of the valuation to changes in these inputs are based on reasonable alternative scenarios considered by management and result in a (\$164 million) unfavourable and \$222 million favourable movement in profit after tax increase/(decrease).

Fair value gains or losses on energy derivatives are included in other expenses in the line item "loss/(gain) in fair value of financial instruments" in Note 4.

**AGL Energy Limited and controlled entities
Notes to the condensed consolidated Financial Statements
For the half-year ended 31 December 2015**

Note 19 - 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 AGL, the results of those operations, or the state of affairs of AGL in future financial periods other than:

Interim dividend

On 10 February 2016, the Directors of AGL resolved to pay a fully franked interim dividend of 32.0 cents per share, amounting to \$216 million. The record date for the interim dividend is 25 February 2016 with payment to be made on 16 March 2016. Shares will commence trading ex-dividend on 23 February 2016.

The AGL Dividend Reinvestment Plan (DRP) will operate in respect of the dividend. Shares will be bought on-market and allotted at no discount to the simple average of the daily weighted average market price at which AGL's ordinary shares are traded on the ASX during each of the 10 trading days commencing on 29 February 2016. The last date for shareholders to elect to participate in the DRP for the FY16 interim dividend is 26 February 2016.

Note 20 - 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.

AGL Energy Limited and controlled entities

Directors' Declaration For the half-year ended 31 December 2015

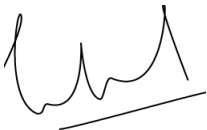
The Directors of AGL Energy Limited declare that, in their opinion, the attached financial statements and notes thereto are in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the financial position as at 31 December 2015 and of the performance for the half-year ended on that date of AGL; 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, 10 February 2016

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

10 February 2016

Dear Board Members

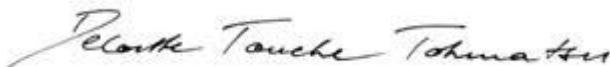
AGL Energy Limited

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 2015, I declare that to the best of my knowledge and belief, there have been no contraventions of:

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

Yours sincerely



DELOITTE TOUCHE TOHMATSU



G Coultas
Partner
Chartered Accountants

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

We have reviewed the accompanying half-year financial report of AGL Energy Limited, which comprises the condensed Consolidated Statement of Financial Position as at 31 December 2015 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 2 to 23.

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 2015 and its performance for half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of AGL Energy Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

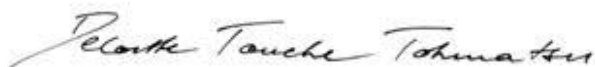
Auditor's Independence Declaration

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

Conclusion

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

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2015 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.



DELOITTE TOUCHE TOHMATSU



G Couttas
Partner
Chartered Accountants
Sydney, 10 February 2016