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ASX and Media release

AGL reports 13.2% underlying profit growth in 2010

26 August 2010

AGL Energy Limited (AGL) today reported an underlying net profit after tax of $428.9 million for the year ended 30 June 2010, up 13.2% on the prior corresponding period.

AGL has declared an unfranked final dividend of 30.0 cents per share, bringing the dividend for the year to 59.0 cents per share, an increase of 5 cents per share, or 9.3 percent, on the 2009 dividend.

AGL has reported, as a significant item, a credit to income tax expense of $85.5 million following amendments to the income tax law in June 2010. These amendments will entitle AGL to a refund of income tax of approximately $89 million, which is expected to be received during FY11. This tax refund will temporarily deplete AGL's pool of franking credits. As a consequence both the final dividend for FY10 and the interim FY11 dividend will be unfranked.

RESULT OVERVIEW:

- **Revenue $6,610.7 million, up 9.2%**
- **Statutory NPAT $356.1 million, down 77.7%[1]**
- **Underlying Profit[2] $428.9 million, up 13.2%**
- **Underlying Earnings 95.6 cents per share, up 12.5%**
- **Underlying Operating cash flow before tax $630.3 million, up 23.8%**
- **2010 dividend of 59.0 cents per share (49% franked), up 9.3%**

1. 2009 full year result included a profit after tax on the sale of assets of $1,429.6 million
2. Underlying profit is the Statutory Profit adjusted for significant items and changes in fair value adjustments

Commenting on the full year results, AGL Managing Director, Michael Fraser, said: "All our businesses performed well during the year, but it was the continued strength of our Retail business that underpinned the 13 percent improvement in profitability.

"Highlights of this year were the very strong improvement in cash flow, which increased by $121 million compared with last year, and the strength of the balance sheet.

"Importantly, we are on track to deliver further profit growth in 2011."

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Operational Highlights

Group: Operating EBIT for the year ended was $652.1 million compared with $643.1 million, an increase of 1.4%. The underlying EBIT growth from continuing operations (excluding PNG and Elgas) was 6.9%.

The effect on FY10 Operating EBIT of the sale, in FY09, of AGL's interests in Papua New Guinea oil and gas assets and Elgas, was more than offset by a reduction of $46.5 million in net financing costs.

Table 1: Operating EBIT	**Year ended 30 June 2010 $m**	Year ended 30 June 2009 $m	Change %
Operating EBIT			
Retail Energy	**318.7**	266.8	19.5
Merchant Energy	**386.1**	402.8	(4.1)
Upstream Gas	**5.5**	29.9	(81.6)
Energy Investments	**81.7**	74.8	9.2
Centrally managed expenses	**(139.9)**	(131.2)	6.6
Total operating EBIT	**652.1**	643.1	1.4

Retail Energy: Operating EBIT for Retail Energy was $318.7 million, up 19.5% on the prior corresponding period. The key driver was the improvement in gross margin which increased by $71.1 million, or 12.7%, compared with the prior corresponding period. Of this increase, $39.5 million related to mass market gross margin and $31.6 million to C&I gross margin.

Mass market gross margin increases were primarily driven by improved regulatory and contract pricing outcomes, and by improved retention and acquisition of higher value customers. The gross margin increases in the commercial and industrial (C&I) segment also reflect the benefits of focusing on acquisition, retention and recontracting activities on higher value customers.

Operating expenses to gross margin improved to 49.5% compared with 52.4% for the prior corresponding period.

Customer accounts increased by 45,317 to 3.24 million (+1.4%). Importantly, the number of dual fuel customers grew by 122,278 (+9.9%) to 1.36 million. Now 42.0% of AGL's customer accounts source both electricity and gas from AGL.

Customer service levels continued to improve, with unbilled accounts declining to historically low levels and a substantial fall in the number of customer complaints. Days sales outstanding reduced to 35 days, compared with 42 days at June 2009, which contributed to the significant improvement in cash flow.

Merchant Energy: AGL's Merchant Energy business delivered an Operating EBIT of $386.1 million, down 4.1% on the prior corresponding period. Wholesale Electricity gross margin decreased 1.5% to $313.7 million. Wholesale Gas gross margin decreased 3.4% to $102.3 million. Eco-Markets gross margin decreased 1.9% to $35.9 million reflecting lower prices received from customers for national greenhouse abatement certificates and gas-fired electricity certificates, partially offset by lower costs of acquiring renewable energy certificates and lower voluntary scheme surrender costs.

The year was characterised by mild winter conditions, which reduced volumes and wholesale gross margin for both gas and electricity. In addition, there were fewer periods of extreme summer temperatures in South Australia and Victoria compared to previous

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years which reduced the benefit from AGL's generation and hedge portfolio. The portfolio benefited generally from lower underlying electricity pool prices (those below $300/MWh) and from falls in wholesale contract prices. However, unrelated interregional constraints between New South Wales and Queensland meant that AGL could not rely on the portfolio benefits between the two states, which increased the cost of hedging.

In 2010, Merchant Energy announced that it had been awarded three long term contracts, with the South Australian and Victorian desalination plants and with Melbourne Water, for the supply of green energy up to 1,540 GWh per annum. These contracts will underpin the energy output from AGL's wind farms. The 52 MW Hallett 5 wind farm was approved for construction in February 2010 with a capital cost of approximately $120 million and an expected completion date of December 2011.

Throughout the year, continued low dam levels meant that the generation capacity at the Eildon power station was constrained while Dartmouth was unable to operate due to insufficient water. Improved water inflows have resulted in increased generation capacity at Eildon and a return to service of Dartmouth following several years of drought.

Upstream Gas: Following the sale of AGL's Papua New Guinea oil and gas interests in December 2008, Upstream Gas's Operating EBIT fell to $5.5 million compared with $29.9 million for the prior corresponding period.

Upstream Gas is responsible for creating value by expanding AGL's interests in gas reserves entitlements. During the year, AGL's share of proved plus probable (2P) coal seam gas (CSG) reserves entitlements increased by 43% to 1,578 PJ with assessments of additional gas reserves at the Camden, Gloucester and ATP364P CSG projects.

CSG exploration and evaluation results in the Cooper Basin (Innamincka) joint venture were not supportive of commercial development of the coal seam gas resource. This resulted in asset write-offs totalling $13.9 million before tax, which has been included as a significant item.

Energy Investments: The Operating EBIT increased to $81.7 million compared with $74.8 million in the prior corresponding period. ActewAGL increased its equity share of profits to $30.4 million, an increase of $2.5 million compared with the prior corresponding period. AGL's investment in Loy Yang A showed a $14.3 million improvement to $45.1 million.

Financial Highlights

Financing costs: Net financing costs decreased by $46.5 million, to $47.5 million. The decrease was mainly due to lower average net debt. Average net debt for the year was $462.5 million, compared with $907.0 million for the prior corresponding period, reflecting the benefit of AGL's divestment of non-core assets in November and December 2008, and strong operating cash flow during the year.

Net debt as at 30 June 2010 was $420.4 million, a decrease of $76.7 million from 30 June 2009.

The average net interest rate decreased from 6.7% to 6.3% due largely to a more favourable interest rate environment.

Cash flow: The underlying operating cash flow before tax for the year was $630.3 million, an increase of $121.0 million compared with $509.3 million in the prior corresponding period.

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Significant items: Significant items after tax resulted in a gain of $49.9 million. The two largest items were a credit to income tax expense of $85.5 million following a change in the law relating to tax consolidation, and an impairment of non-current assets.

Table 2: Significant items	**Year ended 30 June 2010**		Year ended 30 June 2009	
	Pre-tax $m	**PAT $m**	Pre-tax $m	PAT $m
Acquisition costs	**(5.1)**	**(4.4)**	-	-
Demerger adjustments	**-**	**-**	(16.1)	2.6
Divestment of non-core businesses	**-**	**-**	1,696.3	1,429.6
Gain in fair value of oil derivatives	**-**	**-**	160.8	75.0
Impairment of non-current assets	**(21.7)**	**(15.2)**	(37.2)	(26.0)
Onerous contract	**-**	**-**	(3.8)	(2.7)
Phoenix change program costs	**(11.7)**	**(8.2)**	(49.5)	(34.7)
Redundancy, termination and restructuring costs	**(11.1)**	**(7.8)**	(3.6)	(2.5)
Tax consolidation adjustment[1]	**-**	**85.5**	-	-
Total significant items	**(49.6)**	**49.9**	1,746.9	1,441.3

1.The amendments to the tax law will allow AGL to correct an anomaly in the application of the tax consolidation rules to the merger/demerger transaction with Alinta Limited in October 2006.

Dividends: AGL has declared an unfranked final dividend of 30.0 cents per share bringing the total dividend for 2010 to 59.0 cents per share, an increase of 9.3% on the prior corresponding period.

The record date for the final dividend is 10 September 2010 with payment to be made on 30 September 2010. Shares will commence trading ex-dividend on 6 September 2010.

The AGL Dividend Reinvestment Plan (DRP) will be in operation with shares to be allotted at 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 the second trading day after the dividend record date. No discount will be applied to the DRP for this dividend payment.

Outlook

Revised Renewable Energy Target: The investment uncertainty surrounding renewable generation has been reduced following the passage in June 2010 of legislation to give effect to the revised Renewable Energy Target. AGL has taken an important step toward meeting its obligations under the legislation, with the commitment to construct the Macarthur wind farm. AGL has a strong pipeline of other renewable development opportunities to provide a strong foundation for growth over the next few years.

NSW privatisation of electricity assets: The NSW government has commenced the sale process for a number of assets, including energy retailers and electricity generation capacity, with data rooms opening on 1 July 2010. AGL is currently evaluating the assets for sale but reaffirms its intention to only purchase assets if they are accretive to earnings per share from the outset.

Under the current timetable, bids are due on 1 November 2010. If successful, AGL may undertake an equity raising, which is currently likely to be an entitlement offer available to all shareholders.

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Operations: AGL expects to deliver continued growth in underlying profit in the year ending 30 June 2011. The start to this financial year has seen cooler, more wintery, weather in the southern states of South Australia, Victoria and New South Wales compared with the corresponding start to 2010.

AGL intends to use its robust balance sheet and strong operating cash flow to pursue continued organic growth and prudent acquisitions.

Consistent with its normal practice, AGL will provide formal earnings guidance at the Annual General Meeting to be held on 21 October 2010.

A webcast and conference call will be held today to discuss AGL's 2010 full year profit result.

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About AGL
AGL is one of Australia's leading integrated energy companies and is taking action toward creating a sustainable energy future for our investors, communities and customers. Drawing on over 170 years of experience, AGL operates retail and merchant energy businesses, power generation assets and an upstream gas portfolio. AGL has Australia's largest retail energy and dual fuel customer base. 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, landfill gas and biomass. AGL is Australia's largest private owner and operator of renewable energy assets and is looking to further expand this position by exploring a suite of low emission and renewable energy generation development opportunities.