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 2011

Extracts from this report for announcement to the market *$A Million*

Revenue	**Up**	**3.6%**	To	**3,615.3**
Profit after tax attributable to shareholders (Statutory)	**Down**	**51.2%**	To	**117.0**
Underlying Profit after tax attributable to shareholders	**Up**	**3.0%**	To	**232.9**

Dividends	Amount per ordinary share	Franked amount per ordinary share
Interim dividend	29.0¢	29.0¢
Prior interim dividend	29.0¢	0¢

Record date for determining entitlements to the dividend:

Interim dividend: 7 March 2012 and payable on 5 April 2012

Brief explanation of Underlying Profit:

Statutory Profit after tax of $117.0 million included a loss after tax of $115.9 million from the changes in the fair value of financial instruments. Excluding this item, the Underlying Profit was $232.9 million, up 3.0% on the prior corresponding period.

Underlying Profit is reported to give information to shareholders that provides a greater understanding of the performance of AGL's operations. An analysis of these results is in the Directors' Report attached to this announcement.

AGL Energy Limited and Subsidiaries
Half Year Report
For the half year ended 31 December 2011

Contents	**Page No**

Directors' Report for the half year ended 31 December 2011 (incorporating the commentary by Directors and dividend announcement made to the Australian Securities Exchange Limited on 24 February 2012)

The Directors report on the AGL Energy Limited (AGL) consolidated entity for the half year ended 31 December 2011 in accordance with the Corporations Act 2001.

1. Results

The following tables reconcile Statutory Profit to Underlying Profit.

	Half year ended 31 December 2011 $m	Half year ended 31 December 2010 $m
Statutory Profit	**117.0**	239.6
Adjust for the following after tax items:		
Significant items(1)	**-**	16.8
Changes in fair value of financial instruments(2)	**115.9**	(30.2)
Underlying Profit	**232.9**	226.2

(1) Section 1.1
(2) Section 1.2

	Half year ended 31 December 2011 $m	Half year ended 31 December 2010 $m
Statutory EBIT	**181.4**	361.6
Significant items	**-**	22.6
Changes in fair value of financial instruments	**167.4**	(45.7)
Finance income included in Operating EBIT	**5.8**	5.6
Operating EBIT	**354.6**	344.1
Net finance costs	**(23.3)**	(22.1)
Underlying Profit before tax	**331.3**	322.0
Income tax expense	**(98.4)**	(95.8)
Underlying Profit	**232.9**	226.2

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

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

1.1 Significant Items

	Half year ended 31 December 2011		Half year ended 31 December 2010	
	Pre-tax	**PAT**	Pre-tax	PAT
	$m	**$m**	$m	$m
Merger and acquisition related costs	**-**	**-**	(16.1)	(12.3)
Redundancy, termination and restructuring costs	**-**	**-**	(6.5)	(4.5)
Total significant items	**-**	**-**	(22.6)	(16.8)

There were no significant items recognised for the half year ended 31 December 2011.

Merger and acquisition costs in the prior corresponding period were incurred on activities associated with submitting a bid for the privatisation of certain energy assets in New South Wales and the acquisition of Mosaic Oil NL.

Redundancy, termination and restructuring costs in the prior corresponding period mainly related to the transitioning of Retail Operations back-office functions (mainly non-customer facing billing and sales fulfilment) offshore.

1.2 Changes in Fair Value of Derivative Financial Instruments

AGL uses derivative financial instruments (derivatives) to manage its exposure to interest rate, foreign exchange rate and electricity purchase price risks arising in the normal course of business.

Derivatives are recognised at fair value based on a number of complex valuation assumptions. Under Accounting Standards, movements in the fair value of derivatives will either be recognised in the income statement or as an adjustment to reserves, depending on whether or not the derivative is considered an "effective hedge".

All derivative financial instruments transacted are economic hedges but may not be "effective" hedges for accounting purposes.

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

All other economic hedges are deemed to be "ineffective" hedges. During periods of volatile prices these hedges can create substantial volatility in AGL's earnings. The introduction of the clean energy future legislation has driven valuation changes as the cost of carbon is reflected in the electricity forward price curve.

The change in fair value of financial instruments recognised in profit and loss for the half year was a loss of $167.4 million before tax and $115.9 million after tax.

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

	Net Assets (Liabilities)		
	31 December 2011	30 June 2011	Change
	$m	$m	$m
Electricity derivative contracts	**(11.1)**	(89.7)	78.6
Cross currency interest rate swap, interest rate swap and foreign currency derivative contracts	**(117.7)**	(148.5)	30.8
Total net liabilities for derivative contracts	**(128.8)**	(238.2)	109.4
Change in derivative net liability	**109.4**		
Premiums paid	**(110.2)**		
Equity accounted Loy Yang fair value	**4.2**		
Premium roll off	**65.7**		
Total change in fair value	**69.1**		
Recognised in equity hedge reserve	**179.9**		
Recognised in borrowings	**56.6**		
Recognised in profit and loss	**(167.4)**		
Total change in fair value	**69.1**		

2. Earnings per Share

Earnings per share calculated on the profit after tax attributable to shareholders (Statutory) were 25.3 cents compared with 52.8 cents in the prior corresponding period.

Earnings per share calculated on the Underlying Profit attributable to shareholders were 50.3 cents compared with 49.9 cents in the prior corresponding period.

3. Dividend

The Directors have declared an interim dividend of 29.0 cents per share consistent with the prior corresponding period's interim dividend of 29.0 cents per share. The interim dividend will be paid on 5 April 2012. The record date to determine shareholders' entitlements to the interim dividend is 7 March 2012 and shares will commence trading ex-dividend on 1 March 2012.

Before declaring the dividend the Directors satisfied themselves that:

- AGL's assets exceeded its liabilities immediately before declaring the dividend and the excess was sufficient for the payment of the dividend;

- the payment of the dividend was fair and reasonable to AGL's shareholders as a whole; and

- the payment of the dividend would not materially prejudice AGL's ability to pay its creditors.

The interim dividend will be fully franked

The AGL Dividend Reinvestment Plan (DRP) will be in operation. Shares will be allotted at a 1.5% discount to the simple average of the daily weighted average market price at which AGL's ordinary shares are traded on the ASX during each of the 10 trading days commencing on 9 March 2012.

4. Review of Operations

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

Operating EBIT for the half year ended 31 December 2011 was $354.6 million compared with $344.1 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 2011 $m	Half year ended 31 December 2010 $m	**Half year ended 31 December 2011 $m**	Half year ended 31 December 2010 $m
Retail Energy	**178.2**	156.8	**178.2**	158.4
Merchant Energy	**77.2**	275.4	**248.8**	224.0
Upstream Gas	**1.0**	17.3	**1.0**	17.3
Energy Investments	**10.8**	9.1	**12.4**	20.4
Centrally managed expenses	**(85.8)**	(97.0)	**(85.8)**	(76.0)
Total	**181.4**	361.6	**354.6**	344.1
Depreciation and amortisation			**84.3**	71.9
Operating EBITDA			**438.9**	416.0

As previously advised in its market release on 9 January 2012, AGL amended the basis for segmental analysis reporting. There has been no change to the reported profit in any prior periods, only movements between business units.

The two main changes were:

> Business Customers (formerly Commercial and Industrial) transferred to Merchant Energy, previously reported in Retail Energy; and

> Some administration costs (mainly Finance & IT) reported in Centrally managed expenses, previously reported in the business units.

The following table summarises the changes by segment:

	Half year ended 31 December 2010	
Operating EBIT	**New Reporting Structure**	Previous Reporting Structure
Retail Energy	**158.4**	193.8
Merchant Energy	**224.0**	186.1
Upstream Gas	**17.3**	16.9
Energy Investments	**20.4**	20.4
Centrally managed expenses	**(76.0)**	(73.1)
Total Operating EBIT	**344.1**	344.1

4.1 Retail Energy Operating EBIT: Increased 12.5% to $178.2 million from $158.4 million

	Half year ended 31 December 2011 $m	Half year ended 31 December 2010 $m
Statutory EBIT	**178.2**	156.8
Significant items	**-**	1.6
Operating EBIT	**178.2**	158.4
Depreciation and amortisation	**28.3**	20.9
Operating EBITDA	**206.5**	179.3

Retail Energy is responsible for growing and servicing AGL's consumer customers. The consumer market consists of residential and small business customers. Retail Energy currently services approximately 3.4 million customer accounts.

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

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

4.1.1 Analysis of Operating EBIT

Retail Energy contributed $178.2 million to Operating EBIT for the half year, up 12.5% on the prior corresponding period. The main factors contributing to the increase in Operating EBIT are summarised in the table below.

	$m
Operating EBIT for the half year ended 31 December 2010	**158.4**
Increase in gas and electricity gross margin	30.5
Increase in depreciation and amortisation	(7.4)
Increase in net operating costs	(3.3)
Operating EBIT for the half year ended 31 December 2011	**178.2**

4.1.1.1 Gross Margin

Gross margin, excluding fees and charges, increased by $30.5 million, or 10.0% compared with the prior corresponding period.

Gross margin increases were primarily driven by regulatory and contract price increases in all states. The benefit of higher customer numbers in New South Wales (NSW) was more than offset by a mild start to summer in all states. Gas volumes were lower in all states, driven by a mild winter in 2011 compared with the prior year.

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

	Half year ended 31 December 2011 $m	Half year ended 31 December 2010 $m	Movement %
Electricity	**217.5**	200.1	8.7
Gas	**117.3**	104.3	12.5
Fees and charges	**38.4**	31.9	20.4
Total gross margin	**373.2**	336.3	11.0
Gross margin excluding fees and charges	**334.9**	304.4	10.0

4.1.1.2 Depreciation and Amortisation

Depreciation and amortisation (D&A) increased by $7.4 million, or 35.4% compared with the prior corresponding period.

	Half year ended 31 December 2011 $m	Half year ended 31 December 2010 $m	Movement %
NSW direct customer acquisition cost amortisation	**6.2**	-	n/a
Other	**22.1**	20.9	5.7
Total depreciation and amortisation	**28.3**	20.9	35.4

The main contributor to the increase in D&A related to AGL's strategic initiative to materially grow its electricity customer base in NSW, where it is a non-incumbent electricity provider. For the life of the project (which commenced in January 2011 and finishes on 30 June 2014) the direct cash costs incurred to acquire NSW customers will be capitalised and amortised over the expected benefit period. There were no such costs treated this way in the prior corresponding period.

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

	Half year ended 31 December 2011 $m	Half year ended 31 December 2010 $m	Total Project to date $m
Direct cash outlay	**20.4**	-	**36.0**
Amortised to the income statement	**(6.2)**	-	**(8.3)**
Net capitalised costs	**14.2**	-	**27.7**
Number of lead sales	**123,980**	-	**219,939**
Cost per lead sale	**$164.70**	-	**$163.93**

Amortisation for the year ending:	**$m**
30 June 2011	**2.1**
30 June 2012	**14.5**
30 June 2013	**15.9**
30 June 2014	**3.5**
Total amortisation	**36.0**

In addition to the above capitalised costs, AGL estimates that it spent a further $8 per new NSW electricity customer on sales fulfilment activities. These costs have been incurred to process new customers onto AGL's system and are consistent with prior period costs.

Other increases in depreciation relate to IT system costs incurred in the half year including the introduction of AGL Energy Online.

4.1.1.3 Net Operating Costs excluding Depreciation and Amortisation

Retail Energy's net operating costs excluding D&A increased by $3.4 million, or 2.7%, during the half year compared with the prior corresponding period. The following table provides the breakdown of the material increases in net operating costs:

	Half year ended 31 December 2011 $m	Half year ended 31 December 2010 $m	Movement %
Labour and contractor services	**(64.4)**	(58.8)	9.5
Bad and doubtful debts	**(29.7)**	(28.3)	5.0
Campaigns and advertising	**(35.2)**	(30.0)	17.3
Other expenditure	**(37.5)**	(39.8)	(5.8)
Fees and charges	**38.4**	31.9	20.4
Net operating costs excluding D&A	**(128.4)**	(125.0)	2.7
Depreciation and amortisation	**(28.3)**	(20.9)	35.4
Net operating costs	**(156.7)**	(145.9)	7.4

Labour and contractor services costs increased by $5.6 million, or 9.5%, to $64.4 million. The increase largely resulted from additional new customer connections and transfers reflecting increased customer numbers in the half year. The majority of increased contractor costs from new connections were recovered in fees and charges. Labour rates increased broadly in line with CPI.

The increase in bad and doubtful debt expense of 5.0% compared favourably with the increase in consumer revenue for the half year. Total revenue increased $192.8 million, or 10.5%, compared with the prior corresponding period. The relative improvement in bad and doubtful debt expense was mainly driven by improvements in debt collection capabilities in Customer Operations and a reduction in aged debt outstanding.

Campaign and advertising expenditure increased by $5.2 million across all states. This was driven by an increase in direct advertising and marketing activities, as well as customer retention activities designed to combat the impact of increased market competition and churn levels.

4.1.2 Dual Fuel Strategy

Retail Energy continued to pursue its dual fuel strategy. AGL now services 1.55 million dual fuel customer accounts, compared with 1.47 million as at 30 June 2011, a 5.4% increase. Approximately 85% of this growth was in NSW.

4.1.3 Customer Profitability

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

4.1.3.1 Gross Margin per Customer

	Half year ended 31 December 2011	Half year ended 31 December 2010	Movement %
Gross margin (excluding fees & charges)	**$334.9m**	$304.4m	10.0
Average customer numbers	**3,322,300**	3,245,200	2.4
Consumer gross margin per customer	**$100.80**	$93.80	7.5

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

4.1.3.2 EBIT / Sales Analysis

As discussed at the beginning of this section, AGL has amended the basis for segmental analysis reporting. The analysis in this section and section 4.1.4.1 now excludes commercial and industrial customers (now reported in Section 4.2)

	Half year ended 31 December 2011 $m	Half year ended 31 December 2010 $m	Movement %
Electricity revenue	**1,410.2**	1,217.9	15.8
Gas revenue	**582.8**	588.8	(1.0)
Other fees and charges	**38.4**	31.9	20.4
Total revenue	**2,031.4**	1,838.6	10.5
Cost of sales	**(1,658.1)**	(1,502.3)	10.4
Gross margin	**373.3**	336.3	11.0
Operating costs (excl D&A)	**(166.8)**	(157.0)	6.2
EBITDA	**206.5**	179.3	15.2
Depreciation and amortisation	**(28.3)**	(20.9)	35.4
EBIT	**178.2**	158.4	12.5
EBIT / Sales %	**8.8%**	8.6%	0.2ppts

4.1.4 Operating Efficiency

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

4.1.4.1 Net Operating Costs as a Percentage of Gross Margin

	Half year ended 31 December 2011 $m	Half year ended 31 December 2010 $m	Movement %
Net operating costs	**(156.7)**	(145.9)	7.4
Gross margin	**373.3**	336.3	11.0
Fees and charges	**(38.4)**	(31.9)	20.4
Gross margin less fees and charges	**334.9**	304.4	10.0
Net operating costs as percentage of gross margin (less fees and charges)	**46.8%**	47.9%	1.1ppts

Net operating costs as a percentage of gross margin improved by 1.1 percentage points (ppts). Gross margin less fees and charges increased by 10.0% primarily as a result of stronger pricing outcomes in the consumer market. Net operating costs increased by 7.4% mainly due to higher advertising costs and targeted customer retention activities in all markets, to counter higher industry competition and market churn. Higher contractor costs required to connect new customers also contributed to higher net operating costs.

4.1.4.2 Cost to Serve Analysis

	Half year ended 31 December 2011 $	Half year ended 31 December 2010 $	Movement %
Net operating costs	**(156.7)m**	(145.9)m	7.4
Net operating cost per customer account	**(47.14)**	(44.97)	4.8
Cost to grow/retain	**(48.8)m**	(38.5)m	26.8
Cost to grow per account acquired/retained	**(67.75)**	(81.21)	(16.6)
Cost to serve	**(107.9)m**	(107.4)m	0.5
Cost to serve per customer account	**(32.44)**	(33.10)	(2.0)

Net operating cost per customer account for the half year ended 31 December 2011 was $47.14, a 4.8% increase on the prior corresponding period. The increase in net operating costs is discussed in detail in section 4.1.1.3

The cost to grow/retain increased by 26.8% for the half year, driven by higher campaign and advertising costs, in all markets. Additionally, amortisation relating to NSW electricity customer acquisitions has added $6.2 million to the cost to grow / retain for the half year ended 31 December 2011.

4.1.5 Customer Numbers and Competition

High levels of competitor activity persisted throughout the half year ended 31 December 2011. The following table[1] provides a breakdown of customer numbers by state.

	31 December 2011 ('000)	30 June 2011 ('000)	Movement ('000)	Movement %
Electricity				
Victoria	**637**	639	(2)	(0.3)
South Australia	**464**	468	(4)	(0.6)
New South Wales	**557**	468	89	19.0
Queensland	**355**	350	5	1.4
	2,013	1,925	88	4.6
Gas				
Victoria	**483**	473	10	2.1
South Australia	**108**	104	4	3.8
New South Wales	**716**	718	(2)	(0.3)
Queensland	**74**	74	0	-
	1,381	1,369	12	0.9
Total	**3,394**	3,294	100	3.0

In the six months to 31 December 2011, industry market churn increased by 0.8 ppts, from 20.0% to 20.8%. AGL churn across all markets remained well below the industry at 16.2% (unchanged from the prior corresponding period). The favourable gap between AGL's churn rate and the industry increased, driven primarily by targeted retention activities across all states, as well as the introduction and promotion of AGL's Energy Online capability. This was achieved despite an increasing number of energy retailers in the market in 2011.

1. The above table includes 21,099 C&I customers at 31 December 2011 (20,638 at 30 June 2011) but does not include ActewAGL customers.

4.2 Merchant Energy Operating EBIT: Increased 11.1% to $248.8 million from $224.0 million

	Half year ended 31 December 2011 $m	Half year ended 31 December 2010 $m
Statutory EBIT	**77.2**	275.4
Significant items	**-**	-
Finance income included in EBIT	**-**	0.3
Change in fair value of financial instruments	**171.6**	(51.7)
Operating EBIT	**248.8**	224.0
Depreciation and amortisation	**38.9**	34.2
Operating EBITDA	**287.7**	258.2

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

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

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

	Operating EBIT		**Operating EBITDA**	
	Half year ended 31 December 2011 $m	Half year ended 31 December 2010 $m	**Half year ended 31 December 2011 $m**	Half year ended 31 December 2010 $m
Energy Portfolio Management	**259.4**	214.8	**264.8**	220.0
Merchant Operations	**(58.4)**	(57.1)	**(31.2)**	(32.8)
Business Customers	**43.6**	44.4	**49.8**	49.1
Power Development	**9.4**	26.1	**9.4**	26.1
Sundry	**(5.2)**	(4.2)	**(5.1)**	(4.2)
Total Merchant Energy	**248.8**	224.0	**287.7**	258.2

4.2.1 Energy Portfolio Management Operating EBIT: Increased 20.8% to $259.4 million from $214.8 million

	Half year ended 31 December 2011	Half year ended 31 December 2010	Movement
	$m	$m	%
Wholesale Electricity	**178.6**	149.9	19.2
Wholesale Gas	**58.7**	64.0	(8.3)
Eco-Markets	**33.1**	13.0	154.6
Gross margin	**270.4**	226.9	19.2
Operating costs	**(5.6)**	(6.9)	(18.8)
Operating EBITDA	**264.8**	220.0	20.4
Depreciation and amortisation	**(5.4)**	(5.2)	3.9
Operating EBIT	**259.4**	214.8	20.8

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

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

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

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

4.2.1.1 Wholesale Electricity Gross Margin: Increased 19.2% to $178.6 million from $149.9 million

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

Wholesale Electricity's 19.2% increase in gross margin compared with the prior corresponding period was due to additional generation from new assets and increased hydro capacity. There was also an increase in revenue received from the Retail business due to higher tariffs.

4.2.1.2 Wholesale Gas Gross Margin: Decreased 8.3% to $58.7 million from $64.0 million

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

Lower gross margin was driven by significantly milder weather conditions in July, August and September, particularly in Victoria and NSW. This lowered customer consumption compared with the prior corresponding period, particularly from the residential customer segment.

4.2.1.3 Eco-Markets Gross Margin: Increased 154.6% to $33.1 million from $13.0 million

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

The increase in gross margin compared with the prior corresponding period was due to effective portfolio management and increased renewable generation. AGL benefited from lower costs associated with mandatory renewable schemes resulting in an overall lower net purchase costs for the period. The six months to 31 December 2011 also included a full 6 months gross margin contribution from SRES with no contribution in the prior corresponding period.

4.2.2 Merchant Operations Operating Expense: Increased 2.3% to $58.4 million from $57.1 million

Merchant Operations is responsible for managing and maintaining both owned and third party generation assets. AGL's thermal and renewable generation portfolio includes the 1,280MW gas fired Torrens Island Power Station, the 150MW gas fired Somerton Power Station and 796MW of hydro generation. AGL is also responsible for managing Wattle Point, Hallett 1, Hallett 2 and Hallett 4 wind farms (389 MW capacity).

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

The increase in Merchant Operations operating expenses for the period was due to the impact of new plant coming on line. Higher depreciation costs were recognised as a result of the completion of capital projects, new plant brought on line and increased generation from Hydro assets to manage dam levels. Higher depreciation costs were partially offset by lower labour costs for the half year to 31 December 2011 compared with the prior corresponding period.

During the half year Victoria experienced considerable rainfall resulting in dam levels at Eildon and Dartmouth increasing from 86% and 64% respectively, as at 1 July 2011, to 95% and 76% respectively as at 31 December 2011.

4.2.3 Business Customers Operating EBIT: Decreased 1.8% to $43.6 million from $44.4 million

	Half year ended 31 December 2011 $m	Half year ended 31 December 2010 $m
Electricity gross margin	**29.5**	30.9
Gas gross margin	**20.7**	20.1
Operations and Customer Services expenses	**(15.1)**	(15.6)
Energy Services	**14.7**	13.7
Operating EBITDA	**49.8**	49.1
Depreciation and amortisation	**(6.2)**	(4.7)
Operating EBIT	**43.6**	44.4

The Business Customers business unit manages AGL's C&I gas and electricity customers, offering a unique proposition in the market, through an integrated sales and service model. The customer base provides an excellent channel to market for additional energy related services over above basic energy supply.

Business Customers generates revenues through:
- retention and acquisition of new gas and electricity customers;
- provision of energy services in demand-side management, efficiency and utilisation; and
- development and operations of customer based assets

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

Electricity gross margin was slightly down on the prior corresponding period due to lower customer consumption. Gas gross margin was higher than the prior corresponding period due to stronger margins compared with the prior corresponding period.

The increase in D&A compared with the prior corresponding period was due to the commissioning of the new C&I contract management system, which is expected to result in significant customer relationship management benefits in the future.

4.2.4 Power Development Operating EBIT: Decreased 64.0% to $9.4 million from $26.1 million

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

Development profits of $10.1 million were recognised in the half year compared with $27.0 million in the prior corresponding period.

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

	Half year ended 31 December 2011	Half year ended 31 December 2010
	$m	$m
Hallett 4	**4.8**	27.0
Oaklands Hill	**5.0**	-
Other	**0.3**	-
Total	**10.1**	27.0

Construction of Oaklands Hill, Hallett 5 and the Macarthur wind farm projects continued.

4.3 Upstream Gas Operating EBIT: Decreased 94.2% to $1.0 million from $17.3 million

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

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

	Operating EBIT		**Operating EBITDA**	
	Half year ended 31 December 2011 $m	Half year ended 31 December 2010 $m	**Half year ended 31 December 2011 $m**	Half year ended 31 December 2010 $m
Queensland / South Australia	**4.2**	17.5	**9.2**	22.7
New South Wales	**1.0**	3.1	**5.4**	7.6
Equity investments	**(0.1)**	(0.1)	**(0.1)**	(0.1)
Sundry	**(4.1)**	(3.2)	**(3.4)**	(2.6)
Total Upstream Gas	**1.0**	17.3	**11.1**	27.6

4.3.1 Queensland/South Australia Operating EBIT: Decreased by 76.0% to $4.2 million from $17.5 million

The Queensland/South Australia portfolio includes the Moranbah Gas Project (MGP) joint venture, the upstream elements of the North Queensland Energy (NQE) joint venture, the Galilee Basin and Spring Gully joint ventures and until 6 December 2011, AGL's interests in the Cooper Basin (Innamincka) joint venture. Following the acquisition of Mosaic Oil NL (Mosaic) on 20 October 2010, the Queensland/South Australia portfolio includes additional conventional oil and gas interests in the Surat and Cooper/Eromanga Basins together with the Silver Springs gas storage project.

Operating EBIT contribution from the combined MGP and NQE joint ventures was $0.1 million compared with $2.6 million in the prior corresponding period. Gas sales decreased by 11% from 3.6 PJ to 3.2 PJ as production in the current period was adversely affected by water management constraints (following the significant wet weather in the first half of 2011 resulting in widespread well shut-ins) as well as slower than expected field development. Demand from Incitec Pivot's Dyno Nobel Moranbah Ammonium Nitrate plant also continued to remain below expected levels pending construction completion and commissioning.

Operating EBIT contribution from Silver Springs operations, including gas storage, was $4.8 million compared with $15.0 million in the prior corresponding period. The prior corresponding period included recognition of a $15.0 million fee for development of the depleted Silver Springs and Renlim gas fields as gas storage reservoirs. Income from the development and injection phase of the project is expected to be approximately $8 million to $10 million per annum over the next two years.

On 6 December 2011, AGL completed the sale of all its interests in PELs 101, 103 and 103A to Acer Energy for $6 million. Operating EBIT contribution for the period was a loss of $0.9 million compared with a loss of $0.2 million for the prior corresponding period.

4.3.2 New South Wales Operating EBIT: Decreased 67.7% to $1.0 million from $3.1 million

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

Operating EBIT contribution from the Camden Gas Project was $1.0 million compared with $3.1 million in the prior corresponding period. Gas sales decreased by 7% from 3.0 PJ to 2.8 PJ as production in the current period was adversely affected by technical difficulties and a backlog of workover activities. The prior corresponding period also included grant income of $1.1 million.

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

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

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

4.3.4 Sundry Operating EBIT: Decreased 28.1% to ($4.1 million) from ($3.2 million)

The Sundry category includes Upstream Gas overheads and, following the acquisition of Mosaic on 20 October 2010, additional exploration interests in New Zealand. During the half year AGL completed the sale of its 50% interest in PEP 51151 (Alton block, New Zealand) resulting in a before tax loss of $0.4 million.

4.3.5 Gas Sales and Reserves Position

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

AGL share of operations	**Half year ended 31 December 2011**	Half year ended 31 December 2010
Gas sales volume (PJ)		
Queensland / South Australia	**3.2**	3.6
New South Wales	**2.8**	3.0
Total gas sales volume	**6.0**	6.6
Sales revenue ($m)		
Queensland / South Australia	**7.4**	8.3
New South Wales	**10.4**	10.5
Total sales revenue	**17.8**	18.8
Average gas price ($/GJ)	**2.97**	2.85

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

AGL share of gas reserves (PJ)	**31 December 2011**		30 June 2011	
	2P	**3P**	2P	3P
Gloucester (100%)	**669**	**832**	669	832
Moranbah (50%)	**379**	**866**	370	700
Camden (100%)	**145**	**192**	148	195
Hunter (100%)	**142**	**271**	142	271
Silver Springs (various)	**65**	**137**	65	137
Spring Gully (various)	**8**	**10**	8	10
Sub-Total	**1,408**	**2,308**	1,402	2,145
ATP 1103 back-in rights (50%) (1)	**768**	**1,660**	687	1,495
Total	**2,176**	**3,968**	2,089	3,640

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

AGL's combined 2P gas reserves entitlement, net of production over the half year, increased by 87 PJ (4.2%) to 2,176 PJ.

Gas reserves for the Moranbah and ATP 1103 as at 31 December 2011 have been reassessed by independent reserves auditor Netherland Sewell & Associates, Inc (NSAI). AGL's entitlement of 2P reserves within the ATP increased by 81 PJ (11.8%) as a result of exploration and appraisal activities during the past 12 months.

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

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

AGL will undertake a full annual reserves assessment at the end of financial year as at 30 June 2012. AGL's annual reserves assessment as at 30 June 2011 was released to the ASX on 6 October 2011.

4.4 Energy Investments Operating EBIT: Decreased 39.2% to $12.4 million from $20.4 million

	Half year ended 31 December 2011 $m	Half year ended 31 December 2010 $m
Statutory EBIT	**10.8**	9.1
Significant items	**-**	-
Finance income from Loy Yang investment	**5.8**	5.3
Change in fair value of financial instruments (Loy Yang)	**(4.2)**	6.0
Operating EBIT	**12.4**	20.4
Depreciation and amortisation	**-**	-
Operating EBITDA	**12.4**	20.4

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

	Half year ended 31 December 2011 $m	Half year ended 31 December 2010 $m
ActewAGL	**17.3**	17.6
Loy Yang	**(4.9)**	0.4
Other	**-**	2.4
Operating EBIT	**12.4**	20.4

4.4.1 ActewAGL (50% AGL Ownership) Operating EBIT: Decreased 1.7% to $17.3 million from $17.6 million

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

ActewAGL Retail partnership contributed an equity share of profits of $17.3 million compared with $17.6 million for the prior corresponding period. This decrease was driven mainly by lower electricity volumes compared with the prior corresponding period. ActewAGL has continued to grow customer numbers in both gas and electricity.

4.4.2 Loy Yang Investment Operating EBIT: Decreased to ($4.9) million from $0.4 million

Operating EBIT of ($4.9) million comprised an equity share of loss of $10.7 million compared with a loss of $4.9 million for the corresponding prior period and interest income of $5.8 million compared with $5.3 million for the prior corresponding period.

Loy Yang's reduction in operating result was driven by lower generation, higher operating expenses and depreciation and higher interest expense.

4.4.3 Diamantina Power Station Joint Venture

On 6 October AGL entered into a 50:50 joint venture with the APA Group to construct the Diamantina Power Station in Mt Isa. The joint venture did not contribute to Operating EBIT for the half year ended 31 December 2011.

4.5 Centrally Managed Expenses: Increased 12.9% to $85.8 million from $76.0 million

	Half year ended 31 December 2011 $m	Half year ended 31 December 2010 $m
Statutory EBIT	**(85.8)**	(97.0)
Significant items	**-**	21.0
Operating EBIT	**(85.8)**	(76.0)
Depreciation and amortisation	**7.0**	6.5
Operating EBITDA	**(78.8)**	(69.5)

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

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

	Half year ended 31 December 2011 $m	Half year ended 31 December 2010 $m
Labour	**(25.8)**	(24.9)
Office leases	**(9.8)**	(9.1)
Hardware and software costs	**(26.8)**	(21.7)
Consultants and contractor fees	**(6.8)**	(9.7)
Insurance premiums	**(5.0)**	(4.9)
Depreciation and amortisation	**(7.0)**	(6.5)
Other	**(4.6)**	0.8
Total	**(85.8)**	(76.0)

Labour costs increased 3.6% broadly in line with CPI.

Hardware and software costs increased $5.1 million or 23.5% driven by additional support costs in relation to the new C&I billing platform and AGL Online together with increased infrastructure expenditure.

5. Net Finance Costs
Increased 5.4% to $23.3 million from $22.1 million

	Half year ended 31 December 2011 $m	Half year ended 31 December 2010 $m
Statutory finance costs	**(37.3)**	(37.1)
Statutory finance income	**19.8**	20.6
Remove finance income included in EBITDA	**(5.8)**	(5.6)
Net financing costs	**(23.3)**	(22.1)

Net financing costs increased by $1.2 million to $23.3 million for the half year compared with $22.1 million from the prior corresponding period. The increase in net financing costs was mainly due to higher average net debt which increased by $215 million to $790 million, the average net interest rate also increased from 6.63% to 7.10%. These increases were partially offset by higher levels of interest capitalisation in relation to the funding costs associated with construction project expenditure.

6. Tax Expense
Increased 2.7% to $98.4 million from $95.8 million

	Half year ended 31 December 2011 $m	Half year ended 31 December 2010 $m
Statutory income tax expense	**(46.9)**	(105.5)
Income tax (benefit) / expense from significant items	**-**	(5.8)
Income tax (benefit) / expense from fair value movements	**(51.5)**	15.5
Underlying tax expense	**(98.4)**	**(95.8)**

The underlying effective tax rate was 29.7% compared with 29.8% for the prior corresponding period.

7. Operating Cash Flow

7.1 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 2011 $m		Half year ended 31 December 2010 $m
Operating EBITDA		**438.9**		416.0
Equity accounted income (net of dividend received)		**8.0**		2.9
Accounting for onerous gas contract		**(10.4)**		(10.4)
Working capital movements				
(Increase) / decrease in receivables	**(51.3)**		17.6	
Net movement in green assets / liabilities	**15.2**		(88.7)	
(Increase) / decrease in inventories	**(7.5)**		3.6	
Increase / (decrease) in creditors	**(155.9)**		(82.1)	
(Increase) / decrease in futures margin calls	**19.6**		(19.4)	
Net derivative premiums paid / roll-offs	**(44.5)**		(83.2)	
Net movement in GST recoverable / payable	**(4.4)**		5.4	
Other	**(20.5)**	**(249.3)**	(12.8)	(259.6)
Operating cash flow before interest, tax & significant items		**187.2**		148.9
Net finance costs paid		**(37.8)**		(25.3)
Income tax paid		**(121.6)**		(75.0)
Cash flow relating to significant items		**-**		(22.6)
Statutory net cash provided by operating activities		**27.8**		26.0

7.2 Underlying Operating Cash Flow before Tax: Decreased 50.5% to $114.6 million from $231.7 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 tax.

	Half Year ended 31 December 2011 $m	Half Year ended 31 December 2010 $m
Statutory net cash provided by operating activities	**27.8**	26.0
Cash flow relating to significant items	**-**	22.6
Increase / (decrease) in futures margin calls	**(19.6)**	19.4
Increase / (decrease) in net green position	**(15.2)**	88.7
Underlying Operating Cash Flow	**(7.0)**	156.7
Income tax paid	**121.6**	75.0
Underlying Operating Cash Flow before tax	**114.6**	231.7

Underlying operating cash flow before tax decreased to $114.6 million compared with $231.7 million for the prior corresponding period. In September 2011, AGL's business customers were migrated to the SAP billing platform. The short term impact of this was delays in billing the customer base as the new system was brought on-line, driving an increase in unbilled levels. It is expected that unbilled balances will return to normal levels in the second half of the financial year.

7.2.1 Futures Margin Calls

AGL posts deposits with the clearing member of the futures exchange at the inception of a futures contract in relation to electricity. Depending on market movements, AGL subsequently pays or receives cash. The net receipt for the half year ended 31 December 2011 was $19.6 million compared with a payment of $19.4 million for the prior corresponding period.

7.2.2 Net Green Position

AGL purchases various green products to satisfy its green compliance obligations. As at 31 December 2011, AGL had paid $115.6 million for certificates relating to future obligations compared with $130.8 million as at 30 June 2011, a net decrease of $15.2 million.

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)
Michael Anthony Fraser – Managing Director	22 October 2007
Maxwell Gilbert Ould	17 February 2006
Sandra Veronica McPhee	9 October 2006
Bruce John Phillips	23 August 2007
Leslie Victor Hosking	1 November 2008
John Victor Stanhope	9 March 2009
Belinda Jane Hutchinson	22 December 2010

Rounding of Amounts to Nearest $0.1 Million

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

Auditor's Independence Declaration

The auditor's independence declaration is on page 51.

Jeremy Maycock
Chairman

AGL Energy Limited and Subsidiaries
Condensed consolidated Income Statement
For the half year ended 31 December 2011

	Note	Half year ended 31 Dec 2011 $m	31 Dec 2010 $m
Continuing operations			
Revenue	3	**3,615.3**	3,488.0
Other income	4	**-**	-
Expenses	5	**(3,360.5)**	(3,061.2)
Share of profits of associates and jointly controlled entities accounted for using the equity method	12	**10.9**	6.7
Profit before net financing costs, depreciation and amortisation		**265.7**	433.5
Depreciation and amortisation	6	**(84.3)**	(71.9)
Profit before net financing costs		**181.4**	361.6
Finance income		**19.8**	20.6
Finance costs		**(37.3)**	(37.1)
Net financing costs	7	**(17.5)**	(16.5)
Profit before tax		**163.9**	345.1
Income tax expense	9	**(46.9)**	(105.5)
Profit for the period attributable to owners of AGL Energy Limited		**117.0**	239.6
Statutory earnings per share			
Basic (cents per share)	16	**25.3**	52.8
Diluted (cents per share)	16	**25.3**	52.8

Notes to the condensed consolidated financial statements are included on pages 33 to 49.

AGL Energy Limited and Subsidiaries
Condensed consolidated Statement of Comprehensive Income
For the half year ended 31 December 2011

	Half year ended	
	31 Dec 2011 $m	31 Dec 2010 $m
Profit for the period	**117.0**	239.6
Other comprehensive income		
Cash flow hedges		
Gain/(loss) in fair value of cash flow hedges	**41.9**	(234.0)
Reclassification adjustments transferred to profit or loss	**123.7**	144.4
Reclassification adjustments transferred to the initial carrying amounts of hedged items	**14.3**	3.0
Available-for-sale financial assets		
Gain on revaluation of available-for-sale financial assets	**0.1**	-
Actuarial (loss)/gain on defined benefit plans	**(39.1)**	8.4
Share of other comprehensive income of associates	**(58.9)**	92.2
Income tax relating to components of other comprehensive income	**(42.3)**	23.4
Other comprehensive income for the period, net of income tax	**39.7**	37.4
Total comprehensive income for the period attributable to owners of AGL Energy Limited	**156.7**	277.0

Notes to the condensed consolidated financial statements are included on pages 33 to 49.

AGL Energy Limited and Subsidiaries
Condensed consolidated Statement of Financial Position
As at 31 December 2011

	Note	As at 31 Dec 2011 $m	 30 June 2011 $m
Current assets			
Cash and cash equivalents		**200.3**	753.1
Trade and other receivables		**1,326.7**	1,272.1
Inventories		**134.9**	127.4
Other financial assets		**319.8**	301.2
Other assets		**277.5**	276.6
Total current assets		**2,259.2**	2,730.4
Non-current assets			
Trade and other receivables		**-**	0.5
Investments accounted for using the equity method		**179.6**	240.7
Exploration and evaluation assets		**675.2**	658.0
Oil and gas assets		**474.5**	461.4
Property, plant and equipment		**2,502.9**	2,281.5
Intangible assets		**3,158.3**	3,137.2
Other financial assets		**138.7**	164.5
Other assets		**18.6**	21.5
Total non-current assets		**7,147.8**	6,965.3
Total assets		**9,407.0**	9,695.7
Current liabilities			
Trade and other payables		**687.2**	853.1
Borrowings	14	**-**	886.7
Provisions		**71.8**	94.3
Current tax liabilities		**161.9**	167.2
Other financial liabilities		**346.1**	440.7
Other liabilities		**27.2**	15.1
Total current liabilities		**1,294.2**	2,457.1
Non-current liabilities			
Trade and other payables		**1.2**	-
Borrowings	14	**1,135.7**	284.5
Provisions		**170.5**	161.6
Deferred tax liabilities		**255.5**	302.7
Other financial liabilities		**61.0**	94.1
Other liabilities		**89.0**	54.2
Total non-current liabilities		**1,712.9**	897.1
Total liabilities		**3,007.1**	3,354.2
Net assets		**6,399.9**	6,341.5
Equity			
Issued capital	15	**4,291.4**	4,244.6
Reserves		**(14.8)**	(97.1)
Retained earnings		**2,123.3**	2,194.0
Total equity attributable to owners of AGL Energy Limited		**6,399.9**	6,341.5

Notes to the condensed consolidated financial statements are included on pages 33 to 49.

AGL Energy Limited and Subsidiaries
Condensed consolidated Statement of Changes in Equity
For the half year ended 31 December 2011

	Attributable to owners of AGL Energy Limited						
	Issued capital $m	Investments revaluation reserve $m	Employee equity benefits reserve $m	Hedging reserve $m	Other reserve $m	Retained earnings $m	Total equity $m
Balance at 1 July 2011	**4,244.6**	**-**	**0.6**	**(97.3)**	**(0.4)**	**2,194.0**	**6,341.5**
Profit for the period	**-**	**-**	**-**	**-**	**-**	**117.0**	**117.0**
Other comprehensive income for the period	**-**	**0.1**	**-**	**84.1**	**-**	**(44.5)**	**39.7**
Total comprehensive income for the period	**-**	**0.1**	**-**	**84.1**	**-**	**72.5**	**156.7**
Transactions with owners in their capacity as owners:							
Issue of ordinary shares	**46.8**	**-**	**-**	**-**	**-**	**-**	**46.8**
Payment of dividends	**-**	**-**	**-**	**-**	**-**	**(143.2)**	**(143.2)**
Share-based payments	**-**	**-**	**(1.9)**	**-**	**-**	**-**	**(1.9)**
Balance at 31 December 2011	**4,291.4**	**0.1**	**(1.3)**	**(13.2)**	**(0.4)**	**2,123.3**	**6,399.9**
Balance at 1 July 2010	4,066.7	-	4.7	(163.6)	(0.5)	1,892.6	5,799.9
Profit for the period	-	-	-	-	-	239.6	239.6
Other comprehensive income for the period	-	-	-	17.2	(0.2)	20.4	37.4
Total comprehensive income for the period	-	-	-	17.2	(0.2)	260.0	277.0
Transactions with owners in their capacity as owners:							
Issue of ordinary shares	134.3	-	-	-	-	-	134.3
Payment of dividends	-	-	-	-	-	(135.0)	(135.0)
Share-based payments	-	-	(4.2)	-	-	-	(4.2)
Balance at 31 December 2010	4,201.0	-	0.5	(146.4)	(0.7)	2,017.6	6,072.0

Notes to the condensed consolidated financial statements are included on pages 33 to 49.

AGL Energy Limited and Subsidiaries
Condensed consolidated Statement of Cash Flows
For the half year ended 31 December 2011

	Note	Half year ended 31 Dec 2011 $m	31 Dec 2010 $m
Cash flows from operating activities			
Receipts from customers		**4,368.1**	4,022.3
Payments to suppliers and employees		**(4,195.6)**	(3,911.6)
Dividends received		**14.7**	15.6
Finance income received		**16.1**	10.7
Finance costs paid		**(53.9)**	(36.0)
Income taxes paid		**(121.6)**	(75.0)
Net cash provided by operating activities		**27.8**	26.0
Cash flows from investing activities			
Payments for property, plant and equipment		**(289.9)**	(204.3)
Payments for exploration and evaluation assets		**(23.7)**	(21.1)
Payments for oil and gas assets		**(29.8)**	(24.0)
Payments for interest acquired in a jointly controlled entity	12	**(1.6)**	-
Payments for investment securities		**(0.1)**	-
Payments for intangible assets		**(21.8)**	-
Payments for businesses and subsidiaries, net of cash acquired	19	**(10.8)**	(5.1)
Proceeds from sale of property, plant and equipment		**0.2**	-
Proceeds from sale of exploration and evaluation assets		**9.0**	-
Proceeds from sale of oil and gas assets		**0.1**	-
Loans advanced to related parties		**(25.1)**	(0.1)
Proceeds from repayment of related party loans		**0.2**	-
Net cash used in investing activities		**(393.3)**	(254.6)
Cash flows from financing activities			
On-market share purchases		**(4.4)**	(6.0)
Proceeds from borrowings		**930.0**	338.4
Repayment of borrowings		**(1,016.5)**	-
Dividends paid	10	**(96.4)**	(116.7)
Net cash (used in)/provided by financing activities		**(187.3)**	215.7
Net decrease in cash and cash equivalents		**(552.8)**	(12.9)
Cash and cash equivalents at the beginning of the period		**753.1**	480.4
Cash and cash equivalents at the end of the period	17	**200.3**	467.5

Notes to the condensed consolidated financial statements are included on pages 33 to 49.

Note 1 - Summary of significant accounting policies

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

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

(a) Statement of compliance

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

The half year financial report does not include 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 half year financial report has been prepared on the basis of historical cost, except for derivative financial instruments and available-for-sale financial assets, which are measured at fair value. Cost is based on the fair values of the consideration given in exchange for assets.

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

The accounting policies and methods of computations adopted in the preparation of the half year financial report are consistent with those adopted and disclosed in the annual financial report for the year ended 30 June 2011, except for the impact of the Standards and Interpretations described below. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

(c) Adoption of new and revised standards

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

The adoption of all the new and revised Standards and Interpretations has not resulted in any changes to the consolidated entity's accounting policies and has no effect on the amounts reported for the current or prior periods. The new and revised Standards and Interpretations has not had a material impact and not resulted in changes to the consolidated entity’s presentation of, or disclosure in, its half year financial statements.

• AASB 124 *Related Party Disclosures (2009)* and AASB 2009-12 *Amendments to Australian Accounting Standards* [AASBs 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 and Interpretations 2, 4, 16, 1039 & 1052]

• AASB 2009-14 *Amendments to Australian Interpretation – Prepayments of a Minimum Funding Requirement* [AASB Interpretation 14]

• AASB 2010-4 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASBs 1, 7, 101 & 134 and Interpretation 13]

• AASB 2010-5 *Amendments to Australian Accounting Standards* [AASB 1, 3, 4, 5, 101, 107, 112, 118, 119, 121, 132, 133, 134, 137, 139, 140, 1023 & 1038 and Interpretations 112, 115, 127, 132 & 1042]

• AASB 2010-6 *Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets* [AASB 1 & AASB 7]

Note 2 - Segment information

Operating segments

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

The consolidated entity has identified its operating segments based on the internal reports that are regularly reviewed and used by the Board of Directors (the chief operating decision maker) in assessing performance and in determining the allocation of resources. Management has determined the operating segments based on the manner in which products are sold, whether retail or wholesale, and the nature of the services provided.

From 1 July 2011, the following changes were made to the consolidated entity's operating segments:

- Business customers (formerly commercial and industrial) previously reported in the Retail Energy operating segment are now included in the Merchant Energy operating segment; and

- Certain administration costs (mainly finance and information technology) previously reported in the Retail Energy, Merchant Energy and Upstream Gas operating segments are now included in Other.

Segment results are reported according to the internal management reporting structure at the reporting date. Segment comparative information has been restated to reflect the changes described above.

The consolidated entity has four reportable operating segments as follows:

- **Retail Energy** is responsible for selling natural gas, electricity and energy-related products and services to residential and small business customers.

- **Merchant Energy** is responsible for developing, operating and maintaining power generation assets and managing the risks associated with the procurement and delivery of gas and electricity for its wholesale portfolio and for the Retail Energy segment. Merchant Energy also sells natural gas and electricity to business customers and also provides energy efficiency and carbon management services.

- **Upstream Gas** is responsible for exploration, development and production of coal seam gas, development and operation of gas storage facilities and also exploration and development of geothermal renewable energy sources.

- **Energy Investments** includes equity accounted investments in the ActewAGL Retail Partnership and Greater Energy Alliance Corporation Pty Limited.

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

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

Segment financial results

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

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

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

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

Note 2 - Segment information (cont'd)

	Retail Energy $m	Merchant Energy $m	Upstream Gas $m	Energy Investments $m	Other $m	Total $m
Half year ended 31 December 2011						
Revenue						
Total segment revenue	**2,027.2**	**2,411.0**	**41.7**	**-**	**0.1**	**4,480.0**
Inter-segment revenue	**-**	**(849.5)**	**(15.2)**	**-**	**-**	**(864.7)**
External revenue	**2,027.2**	**1,561.5**	**26.5**	**-**	**0.1**	**3,615.3**
Earnings before interest, tax, depreciation and amortisation (EBITDA)	**206.5**	**287.7**	**11.1**	**12.4**	**(78.8)**	**438.9**
Depreciation and amortisation	**(28.3)**	**(38.9)**	**(10.1)**	**-**	**(7.0)**	**(84.3)**
Operating EBIT	**178.2**	**248.8**	**1.0**	**12.4**	**(85.8)**	**354.6**
Net financing costs						**(23.3)**
Underlying profit before income tax						**331.3**
Income tax expense						**(98.4)**
Underlying profit						**232.9**
Other segment information						
Share of profits of associates and jointly controlled entities	**-**	**-**	**0.1**	**10.8**	**-**	**10.9**
Additions to non-current assets	**52.9**	**224.7**	**79.8**	**-**	**9.2**	**366.6**
Half year ended 31 December 2010						
Revenue						
Total segment revenue	1,842.6	2,424.8	43.9	2.5	1.6	4,315.4
Inter-segment revenue	-	(810.6)	(16.8)	-	-	(827.4)
External revenue	1,842.6	1,614.2	27.1	2.5	1.6	3,488.0
Earnings before interest, tax, depreciation and amortisation (EBITDA)	179.3	258.2	27.6	20.4	(69.5)	416.0
Depreciation and amortisation	(20.9)	(34.2)	(10.3)	-	(6.5)	(71.9)
Operating EBIT	158.4	224.0	17.3	20.4	(76.0)	344.1
Net financing costs						(22.1)
Underlying profit before income tax						322.0
Income tax expense						(95.8)
Underlying profit						226.2
Other segment information						
Share of profits of associates and jointly controlled entities	-	-	-	6.7	-	6.7
Additions to non-current assets	41.5	104.6	178.1	-	12.2	336.4
Segment assets						
As at 31 December 2011	**3,140.5**	**4,032.0**	**1,369.9**	**294.0**	**91.9**	**8,928.3**
As at 30 June 2011	3,219.7	3,704.6	1,278.9	351.0	91.8	8,646.0
Segment liabilities						
As at 31 December 2011	**177.5**	**679.5**	**88.2**	**-**	**101.7**	**1,046.9**
As at 30 June 2011	213.6	773.1	83.8	-	107.8	1,178.3

Note 2 - Segment information (cont'd)

	31 Dec 2011 $m	31 Dec 2010 $m
Segment Operating EBIT reconciliation to the income statement		
Reconciliation of segment Operating EBIT to profit before tax is as follows:		
Operating EBIT for reportable segments	**440.4**	420.1
Other	**(85.8)**	(76.0)
	354.6	344.1
Amounts excluded from underlying results:		
- (loss)/gain in fair value of financial instruments	**(167.4)**	45.7
- significant expense items	**-**	(22.6)
Finance income included in Operating EBIT	**(5.8)**	(5.6)
Finance income	**19.8**	20.6
Finance costs	**(37.3)**	(37.1)
Profit before tax	**163.9**	345.1

	31 Dec 2011 $m	30 June 2011 $m
Segment assets reconciliation to the statement of financial position		
Reconciliation of segment assets to total assets is as follows:		
Segment assets for reportable segments	**8,836.4**	8,554.2
Other	**91.9**	91.8
	8,928.3	8,646.0
Cash and cash equivalents	**200.3**	753.1
Derivative financial instruments	**278.4**	296.6
Total assets	**9,407.0**	9,695.7
Segment liabilities reconciliation to the statement of financial position		
Reconciliation of segment liabilities to total liabilities is as follows:		
Segment liabilities for reportable segments	**945.2**	1,070.5
Other	**101.7**	107.8
	1,046.9	1,178.3
Borrowings	**1,135.7**	1,171.2
Current tax liabilities	**161.9**	167.2
Deferred tax liabilities	**255.5**	302.7
Derivative financial instruments	**407.1**	534.8
Total liabilities	**3,007.1**	3,354.2

	Half year ended 31 Dec 2011 $m	31 Dec 2010 $m
Note 3 - Revenue		
Revenue from sale of goods	**3,547.6**	3,395.1
Revenue from rendering of services	**66.5**	92.5
Other revenue		
Royalties	**1.2**	0.4
	3,615.3	3,488.0
Note 4 - Other income		
Other	**-**	-
	-	-
Note 5 – Expenses		
Cost of sales	**2,870.0**	2,784.3
Loss/(gain) in fair value of electricity derivatives - economic hedges	**167.4**	(45.7)
	3,037.4	2,738.6
Administration expenses	**81.0**	70.8
Employee benefits expense	**173.4**	166.1
Other expenses		
Impairment of trade receivables (net of bad debts recovered)	**27.6**	26.5
Redundancy, termination and restructure costs	**-**	6.5
Merger and acquisition related costs	**-**	16.1
Net loss on disposal of property, plant and equipment	**0.1**	-
Net loss on disposal of other non-current assets	**1.1**	-
Operating lease rental expenses	**11.0**	10.7
Other	**28.9**	25.9
	3,360.5	3,061.2
Note 6 - Depreciation and amortisation		
Property, plant and equipment	**57.9**	51.1
Oil and gas assets	**7.9**	8.4
Intangible assets	**15.6**	9.5
Other	**2.9**	2.9
	84.3	71.9

	Half year ended	
	31 Dec 2011 $m	31 Dec 2010 $m
Note 7 - Net financing costs		
Finance income		
Interest income		
Associates and jointly controlled entities	**6.1**	5.3
Other entities	**13.7**	15.3
	19.8	20.6
Finance costs		
Interest expense		
Other entities	**39.6**	34.9
Less finance costs capitalised	**(10.3)**	(5.9)
Unwinding of discounts on provisions	**5.4**	5.8
Other finance costs	**2.6**	2.3
	37.3	37.1
Net financing costs	**17.5**	16.5
Note 8 - Significant expense items		
Significant expense items before income tax		
Redundancy, termination and restructure costs	**-**	(6.5)
Merger and acquisition related costs	**-**	(16.1)
	-	(22.6)
Income tax income applicable:		
Redundancy, termination and restructure costs	**-**	2.0
Merger and acquisition related costs	**-**	3.8
	-	5.8
Significant expense items after income tax	**-**	(16.8)

	Half year ended	
	31 Dec 2011 $m	31 Dec 2010 $m
Note 9 - Income tax expense		
Numerical reconciliation between tax expense and pre-tax accounting profit		
The prima facie income tax expense on pre-tax accounting profit reconciles to the income tax expense in the financial statements as follows:		
Profit before tax	**163.9**	345.1
Income tax expense calculated at the Australian tax rate of 30% (Dec 2010: 30%)	**49.2**	103.5
Non-deductible expenses	**2.9**	4.1
Share of profits of associates and jointly controlled entities	**2.0**	3.2
Adjustments in relation to current tax of prior years	**(7.2)**	(5.3)
Income tax recognised in the income statement	**46.9**	105.5
Note 10 – Dividends		
Recognised amounts		
Final dividend		
Final dividend for 2011 of 31.0 cents per share, fully franked at 30%, paid 29 September 2011 (2010: Final dividend for 2010 of 30.0 cents per share, unfranked, paid 30 September 2010)	**143.2**	135.0
Total dividends	**143.2**	135.0
Dividends satisfied by the issue of shares under the AGL Dividend Reinvestment Plan (Note 15)	**(46.8)**	(18.3)
Dividends paid as per the statement of cash flows	**96.4**	116.7
Unrecognised amounts		
Since the end of the financial period, the Directors have declared an interim dividend for 2012 of 29.0 cents per share, fully franked at 30%, (2010: 29.0 cents unfranked), payable 5 April 2012.	**134.7**	132.9

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

Dividend reinvestment plan

The AGL Dividend Reinvestment Plan (DRP) will be in operation and shares will be allotted at a 1.5% discount to the simple average of the daily weighted average market price at which AGL's ordinary shares are traded on ASX during each of the 10 trading days commencing on 9 March 2012.

	As at	
	31 Dec 2011 $	30 June 2011 $
Note 11 - Net tangible asset backing		
Net tangible asset backing per ordinary share	**6.98**	6.95

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

Name of entity	Ownership interest As at 31 Dec 2011 %	Ownership interest As at 31 Dec 2010 %	Contribution to net profit Half year ended 31 Dec 2011 $m	Contribution to net profit Half year ended 31 Dec 2010 $m
Associates				
Great Energy Alliance Corporation Pty Limited	**32.5**	32.5	**(6.5)**	(10.9)
CSM Energy Limited	**35.0**	35.0	**(0.1)**	(0.1)
Jointly controlled entities				
ActewAGL Retail Partnership	**50.0**	50.0	**17.3**	17.6
Energy Infrastructure Management Pty Ltd	**50.0**	50.0	**0.2**	0.1
Central Queensland Pipeline Pty Ltd	**50.0**	50.0	**-**	-
Diamantina Holding Company Pty Limited (a)	**50.0**	-	**-**	-
			10.9	6.7

(a) On 6 October 2011, the consolidated entity entered into a 50:50 joint venture with the APA Group to construct a gas-fired power station in Mt Isa to be known as Diamantina Power Station. Under the arrangement, the consolidated entity acquired a 50% ownership interest in Diamantina Holding Company Pty Limited. The consideration for the acquisition was $1.6 million including acquisition-related costs.

Underpinning the development of the power station, the joint venture entered into a long-term Energy Supply Agreement with Mount Isa Mines Limited, a wholly subsidiary of Xstrata plc and a Power Purchase Agreement with Ergon Energy Queensland Pty Ltd, a Queensland government owned corporation.

Note 12 - Interests in associates, jointly controlled entities and jointly controlled operations and assets (cont'd)

	Interest	
Jointly controlled operations and assets	**31 Dec 2011 %**	31 Dec 2010 %
Bowen Basin - Queensland		
Moranbah Gas Project - PL 191, PL 196, PLA 222, PL 223, PL 224 & ATP 1103P	**50.0**	50.0
Spring Gully Project - ATP 592P, PL 195 & PL 203	**0.8**	0.8
Spring Gully Project - PL 204	**0.04**	0.04
Galilee Basin - Queensland		
Galilee Gas Project - ATP 529P	**50.0**	50.0
Cooper / Eromanga Basin - South Australia		
PEL 101 (a)	**-**	35.0
PEL 103, PEL 103A, PRL 14, PRL 17 & PRL 18 (a)	**-**	37.5
Surat Basin - Queensland		
ATP 471P (Bainbilla Block)	**75.3**	75.3
ATP 471P (Spring Grove #2 sole risk)	**52.8**	52.8
ATP 471P (Weribone)	**28.7**	28.7
PL 1 (Cabawin)	**15.0**	15.0
PL 30 (Riverslea)	**10.0**	10.0
PL 74 (Major)	**16.0**	16.0
PL 119 (Downlands)	**75.3**	75.3
Wungoona Joint Venture - LPG plant & pipeline (b)	**-**	50.0
Cooper / Eromanga Basin - Queensland		
ATP 934P (under application)	**20.0**	20.0
ATP 1056P	**40.0**	40.0
Carnarvon Basin – Western Australia		
WA 208P (c)	**-**	6.0
Taranaki Basin – New Zealand		
PEP 51149	**18.6**	18.6
PEP 51151 (d)	**-**	50.0
PEP 52181	**15.0**	15.0
PEP 53247	**75.0**	75.0
Others		
North Queensland Energy Joint Venture	**50.0**	50.0
Macarthur Wind Farm Joint Venture	**50.0**	50.0
Lytton Joint Venture – Crude oil terminal	**33.3**	33.3

(a) On 6 December 2011, the consolidated entity disposed of its 37.5% interest in permits PRL 14, 17 & 18 and PEL 103 & 103A and its 35% interest in PEL 101 located in the Cooper Basin in South Australia.

(b) On 8 April 2011, the consolidated entity acquired an additional 50% interest in the Wungoona Joint Venture. This transaction resulted in the consolidated entity owing 100% of the Wallumbilla LPG processing plant and the associated pipeline.

(c) On 8 April 2011, the consolidated entity disposed of its 6% interest in exploration permit WA 208P in the Carnarvon Basin offshore Western Australia.

(d) On 13 October 2011, the consolidated entity disposed of its 50% interest in exploration permit PEP 51151 in New Zealand's Taranaki Basin.

	As at	
	31 Dec 2011 $m	31 Dec 2010 $m
Note 13 - Intangible assets – Goodwill		
Balance at 1 July, net of accumulated impairment	**2,624.8**	2,624.8
Acquisitions through business combinations (Note 18)	**14.9**	-
Balance at 31 December, net of accumulated impairment	**2,639.7**	2,624.8
Balance at 1 July		
Cost (gross carrying amount)	**2,624.8**	2,624.8
Accumulated impairment losses	**-**	-
Net carrying amount	**2,624.8**	2,624.8
Balance at 31 December		
Cost (gross carrying amount)	**2,639.7**	2,624.8
Accumulated impairment losses	**-**	-
Net carrying amount	**2,639.7**	2,624.8

	As at	
	31 Dec 2011 $m	30 June 2011 $m
Note 14 – Borrowings		
Current		
Bank loans – unsecured	**-**	886.7
Non-current		
USD senior notes – unsecured	**331.0**	274.4
Bank loans - unsecured	**750.0**	-
Finance lease liabilities - secured	**12.5**	11.9
Other loans – unsecured	**50.0**	-
Deferred borrowing costs	**(7.8)**	(1.8)
	1,135.7	284.5
Total borrowings	**1,135.7**	1,171.2

Bank loans

On 20 July 2011, the consolidated entity entered into a $1.0 billion syndicated loan facility, comprising of a $600.0 million 3 year term loan tranche and a $400.0 million 5 year revolving tranche. The funds were partially used to refinance $886.7 million of debt, repaid in October 2011. As at 31 December 2011, $750.0 million of the facility had been utilised.

USD senior notes

In September 2010, the consolidated entity issued US$300.0 million of fixed rate unsecured senior notes in the US private placement market, comprising two tranches of 12 year and 15 year maturities for US$165.0 million and US$135.0 million, respectively. To manage the foreign exchange risk arising from the future principal and interest payments required on the US$300.0 million, the notes were converted back to A$337.8 million through cross currency interest rate swaps.

Other loans

On 5 July 2011, the consolidated entity entered into a $200.0 million loan facility with EKF, the Danish export credit agency. The funds will be used to partially fund the consolidated entity's 50% interest in the construction of the Macarthur Wind Farm. Amortising over 18 years, the loan matures in 2031. As at 31 December 2011, $50.0 million of the facility had been utilised.

Note 15 - Issued capital

	31 Dec 2011		30 June 2011	
	Number of shares	**$m**	Number of shares	$m
Movement in fully paid ordinary shares				
Balance at beginning of financial year	**461,311,732**	**4,244.6**	450,076,509	4,066.7
Shares issued under AGL Dividend Reinvestment Plan (a)	**3,291,932**	**46.8**	4,251,051	61.9
Shares issued for acquisition of subsidiary	**-**	**-**	6,984,172.0	116.0
Balance at end of financial period	**464,603,664**	**4,291.4**	461,311,732	4,244.6

(a) On 29 September 2011, 3,291,932 ordinary shares were issued at $14.20 per share to participating Shareholders under the AGL Dividend Reinvestment Plan.

Note 16 - Earnings per share (EPS)

	Half year ended	
	31 Dec 2011 Cents	31 Dec 2010 Cents
Statutory earnings per share		
Basic earnings per share	**25.3**	52.8
Diluted earnings per share	**25.3**	52.8
Underlying earnings per share		
Basic earnings per share	**50.3**	49.9
Diluted earnings per share	**50.3**	49.8

	31 Dec 2011 $m	31 Dec 2010 $m
Earnings used in calculating basic and diluted earnings per share		
Profit for the period attributable to owners of AGL Energy Limited	**117.0**	239.6
Statutory earnings used to calculate basic and diluted EPS	**117.0**	239.6
Significant expense items after income tax	**-**	16.8
Loss/(gain) in fair value of financial instruments after income tax	**115.9**	(30.2)
Underlying earnings used to calculate basic and diluted EPS	**232.9**	226.2

	31 Dec 2011 No. millions	31 Dec 2010 No. millions
Weighted average number of ordinary shares		
Weighted average number of ordinary shares used in the calculation of basic EPS	**463.0**	453.4
Effect of dilution - LTIP share performance rights	**0.2**	0.5
Weighted average number of ordinary shares used in the calculation of diluted EPS	**463.2**	453.9

	Half year ended 31 Dec 2011 $m	31 Dec 2010 $m
Note 17 - 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	**174.1**	63.2
Short-term deposits	**26.2**	404.3
	200.3	467.5
Non-cash financing and investing activities		
Dividends satisfied by the issue of shares under the AGL Dividend Reinvestment Plan (Note 15)	**46.8**	18.3
Shares issued as consideration for acquisition of subsidiary (Note 15)	**-**	116.0
	46.8	134.3

Note 18 - 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) During the half year ended 31 December 2011, AGL received an unfavourable response from the Australian Taxation Office (ATO) to a private binding ruling relating to the tax treatment of the unbilled supply of energy. AGL's current tax treatment is to pay income tax on energy when it is billed to customers. If the ATO's view is correct, AGL would be required to pay income tax on energy when it is supplied to customers rather than when it is billed. AGL believes its current tax treatment is correct and has therefore lodged an objection to the private binding ruling in January 2012.

(b) The consolidated entity has various contingent liabilities arising in connection with the sale of certain subsidiaries and a jointly controlled entity. Under the various sale agreements the consolidated entity has given warranties and indemnities in relation to tax related matters, environmental and other specific liabilities.

(c) Pursuant to ASIC Class Order 98/1418 (as amended), the Parent Entity and certain wholly-owned Australian subsidiaries have entered in to a Deed of Cross Guarantee. The effect of the Deed is that the Parent Entity guarantees to each creditor, payment in full of any debt in the event of winding up of any of the subsidiaries under certain provisions of the Corporations Act 2001. The subsidiaries have also given a similar guarantee in the event that the Parent Entity is wound up. No liabilities subject to the Deed of Cross Guarantee at 31 December 2011 are expected to arise.

(d) Certain entities in the consolidated entity are party to various other legal actions and claims which have arisen in the ordinary course of business. Any liabilities arising from such legal actions and claims are not expected to have a material adverse effect on the consolidated entity.

Note 19 - Acquisition of subsidiaries and businesses

Half year ended 31 December 2011
Acquisition of EKO Energy solar business

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

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

Acquisition-related costs amounting to $0.6 million have been excluded from the consideration paid and have been recognised as an expense in the period, within the 'other expenses' line item in the income statement.

From the date of acquisition, the business has contributed $4.8 million to the revenue and a loss of $1.1 million to the profit before tax of the consolidated entity. It is considered impracticable to estimate what the revenue and profit before tax of the consolidated entity would have been if the acquisition had been effected at 1 July 2011.

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

Net assets acquired	EKO Energy $m
Assets	
Property, plant and equipment	**0.3**
Liabilities	
Provisions	**(0.1)**
Fair value of identifiable net assets	**0.2**
Goodwill arising on acquisition	**14.9**
	15.1
Consideration transferred	
Consideration paid in cash	**10.8**
Contingent consideration	**4.3**
	15.1

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

Note 19 - Acquisition of subsidiaries and businesses (cont'd)

Contingent consideration

As part of the purchase agreement with the four founders of the EKO Energy business, a contingent consideration arrangement has been agreed. There will be additional cash payments to the four founders of the business of:

- $3.1 million, representing 20% of the purchase consideration which is payable one year from the acquisition date; and
- $1.55 million, representing 10% of the purchase consideration which is payable two years from the acquisition date.

If a founder has ceased or given notice to cease employment at the relevant deferred payment date, then their share of the contingent consideration amount is forfeited.

As at the acquisition date, the fair value of the contingent consideration was estimated to be $4.3 million. The fair value of the non-current amount was based upon a discount rate of 13.4%.

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

Half year ended 31 December 2010

Acquisition of Mosaic Oil NL

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

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

Mosaic's principal activities are the production of, and development and exploration for, oil and gas. Mosaic's main producing assets are located in the Surat-Bowen Basin in south-east Queensland. Mosaic operates fields and discoveries in 10 petroleum leases, owns and operates the Silver Springs processing facility, and now owns 100% of the Wallumbilla LPG plant and associated pipeline. Mosaic holds varying interests in exploration permits in the Surat-Bowen Basin, Cooper-Eromanga Basin south-west Queensland and New Zealand's Taranaki Basin. Mosaic also has a 33.3% interest in an oil storage tank and unloading facility at Lytton in Brisbane.

AGL carried out a comprehensive review of Mosaic's businesses and assets to determine which were core and non-core to AGL's integrated energy strategy going forward. AGL has disposed of Mosaic's interest in the exploration permit in the Carnarvon Basin offshore Western Australia and is in the process of selling Mosaic's interests in the exploration permits in New Zealand's Taranaki Basin.

AGL has now completed the development of a gas storage facility at Mosaic's depleted Silver Springs/Renlim gas fields in the Surat Basin.

Acquisition-related costs amounting to $3.5 million were excluded from the consideration paid and were recognised as an expense in the 2011 financial year, within the 'other expenses' line item in the income statement.

Note 19 - Acquisition of subsidiaries and businesses (cont'd)

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

Net assets acquired	Provisional fair value on acquisition $m	Fair value adjustment $m	Adjusted fair value on acquisition $m
Assets			
Cash and cash equivalents	21.5	-	21.5
Trade and other receivables	5.9	-	5.9
Inventories	2.9	-	2.9
Other assets	0.9	-	0.9
Exploration and evaluation assets	19.8	-	19.8
Oil and gas assets	104.5	(20.0)	84.5
Property, plant and equipment	8.4	-	8.4
Deferred tax assets	23.9	(9.7)	14.2
Liabilities			-
Trade and other payables	(2.8)	-	(2.8)
Borrowings	(0.3)	-	(0.3)
Provisions	(10.3)	-	(10.3)
Deferred tax liabilities	(31.4)	29.7	(1.7)
Other liabilities	(0.4)	-	(0.4)
Fair value of identifiable net assets	142.6	-	142.6
Goodwill arising on acquisition	-	-	-
	142.6	-	142.6
Consideration transferred			
Fair value of shares issued	116.0	-	116.0
Consideration paid in cash	26.6	-	26.6
	142.6	-	142.6

The fair values of the assets and liabilities acquired as part of the Mosaic acquisition had only been provisionally determined at 30 June 2011. Upon finalisation of the acquisition accounting, the fair value of identifiable net assets of the acquisition at the date of acquisition have been amended.

	Half year ended	
	31 Dec 2011 $m	31 Dec 2010 $m
Net cash outflow on acquisitions		
Consideration paid in cash	**10.8**	26.6
Cash and cash equivalent balances acquired	**-**	(21.5)
	10.8	5.1

Note 20 - Disposal of subsidiaries

Half year ended 31 December 2011

Nil

Half year ended 31 December 2010

Nil

Note 21 - Subsequent events

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

Interim dividend

On 24 February 2012, the Directors of AGL resolved to pay a fully franked interim dividend of 29.0 cents per share, amounting to $134.7 million. The record date for the interim dividend is 7 March 2012 with payment to be made on 5 April 2012. Shares will commence trading ex-dividend on 1 March 2012.

The AGL Dividend Reinvestment Plan (DRP) will be in operation and shares will be allotted at a 1.5% discount to the simple average of the daily weighted average market price at which AGL's ordinary shares are traded on the ASX during each of the 10 trading days commencing on 9 March 2012.

Loy Yang acquisition

On 24 February 2012, AGL announced it had entered into conditional agreements to purchase the remaining 67.5% of the Great Energy Alliance Corporation Pty Limited (GEAC), increasing its ownership interest to 100%. GEAC wholly owns Loy Yang Power, which in turn wholly owns the Loy Yang A power station and its adjacent coal mine. The agreed purchase price is $448 million. AGL already owns 32.5% of GEAC and, as at 31 December 2011, the carrying value of this investment was $267.1 million, comprising AGL's existing equity interest of 32.5% of $146.6 million and loan notes and interest receivable of $120.5 million.

The purchase is subject to a number of conditions precedent including, but not limited to, removing the Federal Court undertaking that currently limits AGL's ownership of GEAC to 35%. AGL estimates that this process could take several months to complete.

It is anticipated that, if the transaction completes, there will be a number of charges to the income statement that will be classified by AGL as significant items. While it is difficult to know with certainty the final significant item amount, AGL estimates it to be approximately $260 million including stamp duty, transaction costs, recycling of reserve items to the income statement and fair value movements as a result of the transaction being a "step acquisition" in accordance with AASB 3.

Hybrid issue

On 24 February 2012, AGL announced it was issuing up to $650 million in high equity credit hybrid instruments. The instruments, to be known as AGL Energy Subordinated Notes, will rank behind senior debt providers but ahead of shareholders in the event of AGL's insolvency.

Note 22 - Information on audits or review

1. This report has been prepared in accordance with AASB Standards, other AASB authoritative pronouncements and Interpretations or other standards acceptable to ASX.

2. This report, and the accounts upon which the report is based (if separate), use the same accounting policies.

3. This report does give a true and fair view of the matters disclosed.

4. This report is based on accounts to which one of the following applies.

☐	The accounts have been audited.	√	The accounts have been subject to review.
☐	The accounts are in the process of being audited or subject to review.	☐	The accounts have not yet been audited or reviewed.

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

Jeremy Maycock
Chairman
24 February 2012

Directors' Declaration
For the half year ended 31 December 2011

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 2011 and of the performance for the half year ended on that date of the consolidated entity; and

(b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001.

The Directors also declare that, in their opinion:

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

Signed in accordance with a resolution of the Directors

Jeremy Maycock
Chairman

Sydney, 24 February 2012

Deloitte Touche Tohmatsu
A.B.N. 74 490 121 060

Grosvenor Place
225 George Street
Sydney NSW 2000
PO Box N250 Grosvenor Place
Sydney NSW 1220 Australia

DX 10307SSE
Tel: +61 (0) 2 9322 7000
Fax: +61 (0) 2 9322 7001
www.deloitte.com.au

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

24 February 2012

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 2011, 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

DELOITTE TOUCHE TOHMATSU

B J Pollock
Partner
Chartered Accountants

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060

Grosvenor Place
225 George Street
Sydney NSW 2000
PO Box N250 Grosvenor Place
Sydney NSW 1219 Australia

DX: 10307SSE
Tel: +61 (0) 2 9322 7000
Fax:
www.deloitte.com.au

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 2011, the condensed consolidated Income Statement, the condensed consolidated Statement of Comprehensive Income, the condensed consolidated Statement of Cash Flows and the condensed consolidated Statement of Changes in Equity for the half year ended on that date, selected explanatory notes, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the end of the half-year or from time to time during the half-year as set out on pages 28 to 50.

Directors' Responsibility for the Half-Year Financial Report

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

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the AGL Energy Limited's financial position as at 31 December 2011 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of AGL Energy Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Auditor's Independence Declaration

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

Conclusion

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

(a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2011 and of its performance for the half-year ended on that date; and

(b) complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

B J Pollock
Partner
Chartered Accountants
Sydney, 24 February 2012