

ASX and Media release

2012 interim profit provides base for strong full year result

24 February 2012

AGL Energy Limited (AGL) today reported an Underlying Profit of \$232.9 million for the half year ended 31 December 2011, an increase of 3 per cent on the \$226.2 million reported in the prior corresponding period.

Strong earnings growth from AGL's core Retail and Merchant businesses were partly offset by lower wind farm development and gas storage fee income.

Underlying profit is the statutory net profit after tax adjusted for significant items and changes in the fair value of financial instruments. AGL's statutory net profit after tax was \$117.0 million.

Customer accounts increased by 100,000, including 89,000 new electricity customers in New South Wales.

The interim dividend has been maintained at 29 cents per share, and will be fully franked.

AGL remains on track to deliver full year results in line with previous guidance for Underlying profit of between \$470 million and \$500 million.

RESULT OVERVIEW:

- **Revenue \$3,615.3 million, up 3.6%**
- **Statutory NPAT \$117.0 million, down 51.2%**
- **Underlying NPAT \$232.9 million, up 3.0%**
- **Underlying Earnings 50.3 cents per share, up 0.8%**
- **Interim dividend of 29.0 cents per share (fully franked)**

Commenting on the half year results, AGL Managing Director, Michael Fraser, said: "This is a high quality result that provides a solid base for a strong full year result.

Our core Retail and Merchant businesses both grew strongly notwithstanding lower than expected customer demand. I am especially pleased with the continued success of our organic growth strategy in New South Wales where we grew our electricity customer base by 19 per cent over the six months to 31 December."

Operational Highlights

Group: Operating EBIT was \$354.6 million, an increase of 3.1% on the first half last year. Strong improvements in both Retail Energy and Merchant Energy were offset by a reduced contribution from Upstream Gas.

Table 1

Operating EBIT	Six months ended	Six months ended	Change	Change
	31 December 2011	31 December 2010		
	\$m	\$m	\$m	%
Retail Energy	178.2	158.4	19.8	12.5
Merchant Energy	248.8	224.0	24.8	11.1
Upstream Gas	1.0	17.3	(16.3)	(94.2)
Energy Investments	12.4	20.4	(8.0)	(39.2)
Centrally managed expenses	(85.8)	(76.0)	(9.8)	(12.9)
Total operating EBIT	354.6	344.1	10.5	3.1

Retail Energy: Operating EBIT for Retail Energy was \$178.2 million, up 12.5% on the prior corresponding period, due to a \$37.0 million (11%) increase in gross margin compared with the prior corresponding period.

The operating expenses to gross margin ratio continued to improve, falling to 46.8% compared with 47.9% for the prior corresponding period.

Customer accounts increased to 3.39 million, up more than 100,000 (3.0%) since 30 June 2011. AGL's strategy to grow its electricity customer base in New South Wales continued to be successful, with an additional 89,000 customers acquired over the six month period. Importantly, AGL maintained its electricity and gas customer bases in all other States. Dual fuel customers increased by 80,000 since 30 June 2011 and now total 1.55 million.

Although customer churn rates remain high across the National Electricity Market, AGL's customer churn rate is 4.7 ppts below the industry average. Customer service levels improved with reduced average call waiting times and higher rates of first call resolution contributing to further reductions in customer complaints.

Merchant Energy: Operating EBIT for AGL's Merchant Energy business was \$248.8 million, an increase of 11.1% on the prior corresponding period.

Wholesale Electricity gross margin improved by 19.1% to \$178.6 million due mainly to lower hedging costs and increased capacity from AGL's hydro assets.

Wholesale Gas gross margin decreased by 8.3% to \$58.7 million partly because of the effects on volume of milder weather conditions in July, August and September, particularly in Victoria and New South Wales.

Eco-Markets gross margin increased to \$33.1 million, compared with \$13.0 million in the prior corresponding period. Active portfolio management and lower purchase costs contributed to the higher gross margin.

Power Development Operating EBIT fell by 64.0% to \$9.4 million reflecting the reduced level of development fees recognised in respect of wind farm construction projects.

Merchant Operations operating expenses increased 2.3% to \$58.4 million mainly as a result of higher depreciation charges.

Business Customers¹ Operating EBIT fell by 1.8% to \$43.6 million.

¹ Business Customers was part of Retail Energy results until 30 June 2011. Restated historic segment earnings details were advised to the market on 10 January 2012.



Upstream Gas: AGL's Upstream Gas operating EBIT decreased by 94.2% to \$1.0 million compared with \$17.3 million for the prior corresponding period. This was due mainly to lower fees derived from gas storage services at Silver Springs in Queensland and a reduction in gas sales from AGL's Moranbah and Camden Gas projects.

Total 2P gas reserves now stand at 2,176 PJ.

Energy Investments: Operating EBIT decreased to \$12.4 million compared with \$20.4 million in the prior corresponding period.

The contribution from Loy Yang was a loss of \$4.9 million compared with a profit of \$0.4 million in the prior corresponding period.

The ActewAGL retail partnership contributed an equity share of profits of \$17.3 million compared with \$17.6 million for the prior corresponding period.

Centrally Managed Expenses: Centrally managed expenses totalled \$85.8 million, an increase of \$9.8 million compared with the prior corresponding period. The increase was due mainly to higher hardware and software costs incurred in supporting the new billing platform for business customers and the new AGL Online portal for residential customers.

Financial Highlights

Financing costs: Net financing costs increased by \$1.2 million to \$23.3 million for the half year mainly due to higher average net debt and a higher average net interest rate.

Net debt as at 31 December 2011 was \$937.5 million, an increase of \$466.1 million from 30 June 2011.

Cash Flow: Underlying operating cash flow before tax was \$117.1 million lower than for the prior corresponding period mainly due to a billing backlog following the introduction late in 2011 of a new billing system for AGL's business customers. The billing delays are of a temporary nature only, with normal operating cash flow expected to have been restored by the end of the financial year.

Dividends: An interim dividend of 29.0 cents per share for the half year has been declared, the same as the interim dividend for the prior corresponding period. The dividend will be paid on 5 April 2012. The record date to determine shareholders' entitlements to the dividend is 7 March 2012 and shares will commence trading ex-dividend on 1 March 2012.

The interim dividend will be fully franked.

The AGL Dividend Reinvestment Plan (DRP) will be in operation in relation to the dividend, with shares to 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.

Outlook

AGL anticipates further earnings growth in the second half.

The Retail Energy business is expected to continue to benefit from improved operating efficiencies, below market average customer churn rates, and the continued growth in electricity customer accounts in New South Wales.

In Merchant Energy, wholesale electricity costs are expected to be materially lower than in the prior year on the assumption that there is not a recurrence of the extreme weather events experienced in February 2011.

AGL has also separately announced today that it has entered into conditional agreements to acquire the remaining interests in Loy Yang. Although completion of the transaction is not expected to have a material bearing on AGL's Underlying Profit for FY12, the strategic benefits it provides will underpin further earnings growth in the years ahead.



A webcast and conference call will be held today to discuss AGL's 2012 interim profit result.

Webcast via: www.agl.com.au

9:30am AEDT

Dial In numbers:

Toll Free Australia: 1800 148 258 (no PIN)

International Dial In: +61 2 8524 6650 (no PIN)

Further inquiries:

John Hobson, Head of Capital Markets

Direct: + 61 2 9921 2789

Mobile: + 61 (0) 488 002 460

e-mail: john.hobson@agl.com.au

Nathan Vass, Head of Corporate Communications

Direct: +61 2 9921 2264

Mobile: +61 (0) 405 040 133

e-mail: nvass@agl.com.au

Karen Winsbury, Media Manager

Direct: +61 3 8633 6388

Mobile: +61 (0) 408 465 479

e-mail: kwinsbury@agl.com.au

About AGL

AGL is one of Australia's leading integrated energy companies and is taking action toward creating a sustainable energy future for our investors, communities and customers.

Drawing on over 170 years of experience, AGL operates retail and merchant energy businesses, power generation assets and an upstream gas portfolio. AGL has Australia's largest dual fuel customer base. AGL has a diverse power generation portfolio including base, peaking and intermediate generation plants, spread across traditional thermal generation as well as renewable sources including hydro, wind, landfill gas and biomass.

AGL is Australia's largest private owner and operator of renewable energy assets and is looking to further expand this position by exploring a suite of low emission and renewable energy generation development opportunities.