

From the Chairman and Managing Director

Dear Shareholder,

AGL announced its 2012 interim results on 24 February 2012. AGL also announced that it had signed conditional agreements to increase its ownership interest in the Loy Yang A power station (Loy Yang A) and adjacent coal mine, from 32.54 per cent to 100 per cent.

Loy Yang A is Victoria's largest power station, producing 30% of the State's electricity requirements. The acquisition of Loy Yang A will increase AGL's owned or controlled generation by approximately 33%, to 6,000 MW (including generation under construction). The additional scale and diversity of Loy Yang A will improve AGL's ability to manage the risks of operating in the National Electricity Market.

To fund the purchase AGL is expecting to issue securities totalling \$1,500 million. A subordinated note issue of \$650 million was launched on 28 February 2012. An \$850 million pro rata renounceable rights entitlement is expected to be offered to AGL shareholders later in 2012.

AGL anticipates that the acquisition of Loy Yang A will be accretive to underlying earnings per share¹ for the financial year ending 30 June 2013.

Interim results – The financial result for the six months ended 31 December 2011 was an Underlying Profit of \$232.9 million, up 3.0% on the prior corresponding period. 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.

Dividend – An interim dividend of 29 cents per share, fully franked, will be paid on 5 April 2012.

Outlook – A strong second half is expected. AGL affirmed the earnings guidance for the full year ending 30 June 2012 of \$470 million to \$500 million.

Jeremy Maycock,
Chairman

Michael Fraser,
Managing Director

1. Adjusted for the effect on Underlying earnings per share of new shares issued following the pro rata rights entitlement offer to AGL shareholders.

Retail Energy



Retail Energy contributed \$178.2 million to Operating EBIT for the half year, up 12.5% on the prior corresponding period.

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 electricity customers in New South Wales, achieve operational excellence and continue improving customer service.

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.

AGL's customer churn across all markets was 16.1%, 4.7 percentage points below the industry average of 20.8%. Customer service levels have continued to improve with further reductions in customer complaints.

Merchant Energy



Operating EBIT for the half year was \$248.8 million, up 11.1% on the prior corresponding period.

Merchant Energy is responsible for developing, operating and maintaining AGL's power generation assets, 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 commercial and industrial customers. In addition to providing gas and electricity, Merchant Energy also supplies "beyond the meter" services such as energy efficiency advice and broader carbon emissions management services.

Additional generation from new assets (including renewables), increased hydro capacity and effective portfolio management all contributed to the strong result.

Wind farms owned and operated by AGL performed well in the half, generating 737,900 MWh at an average capacity factor of 34.6%.

AGL's portfolio of electricity generation assets currently has a carbon intensity which is approximately 50% below the average across the National Electricity Market, reflecting the substantial investment AGL has made in building renewable energy assets. The proposed purchase of Loy Yang A will not alter AGL's commitment to continue building additional renewable generation capacity. The strong cash flow from Loy Yang A will enhance AGL's capacity to invest in renewable energy.

Planning approval for the Dalton Power Station has not yet been received, which has caused a delay in the commencement of construction. AGL expects planning approval by June 2012.

Upstream Gas



Operating EBIT for the half year was \$1.0 million compared with \$17.3 million for the prior corresponding period.

Upstream Gas is responsible for AGL's investments and operations in gas exploration, development and production tenements, and development and operation of gas storage facilities.

Planning approval to build a gas storage facility at Newcastle has not yet been received, which has caused a delay in the commencement of construction. AGL expects planning approval by June 2012.

On 6 October 2011, AGL announced that it had entered into a 50:50 joint venture with the APA Group to construct the Diamantina Power Station (242 MW) in Mt Isa. The asset is expected to be fully operational by 30 June 2014. AGL will supply gas to the power station for a period of 10 years.

Total 2P gas reserves increased by 87 PJ since 30 June 2011 to 2,176 PJ.

Subordinated Notes Offer

AGL has launched an offer of AGL Energy Subordinated Notes (Notes) to raise \$650 million.

AGL intends to use the proceeds to increase its ownership interest in Loy Yang A from 32.54 per cent to 100 per cent, and for general corporate purposes.

AGL intends to reserve approximately \$50 million out of the \$650 million for allocations to Australian shareholders and customers.

Key features of the Notes are as follows:

- > The Notes will mature on 8 June 2039 unless redeemed before that date
- > The Notes entitle Holders to receive floating rate, cumulative interest payments, payable quarterly in arrears unless deferred
- > Interest will be calculated quarterly based on the sum of the 3 month Bank Bill Rate plus a Margin of 3.80%
- > AGL may redeem the Notes on 8 June 2019 or on any interest payment date thereafter, and in certain other circumstances. If the Notes are not redeemed on 8 June 2019, the Margin will increase by 0.25% per annum.
- > The Notes are proposed to be quoted on ASX and are expected to trade under the code "AGKHA"
- > The Notes are not convertible into ordinary shares or other securities
- > The minimum investment is \$5,000 (50 Notes)

For more information about this offer visit our website at www.agl.com.au or call the AGL Energy Subordinated Notes Offer Information line on 1800 824 513 (within Australia) or +61 2 8280 7115 (outside Australia) (Monday to Friday – 8:30am to 5:30pm AEST).

The Offer is being made under a prospectus lodged with the Australian Securities and Investments Commission (ASIC). Investors should read the prospectus in full before deciding whether to invest in the Notes. A replacement prospectus containing the Margin will be made available when the Offer opens, which is expected to be on 8 March 2012. The offering of securities in this release is open only to investors that are in Australia, and accordingly, this release does not constitute an offer to sell, or a solicitation of an offer to buy, securities in the United States or to, or for the account or benefit of, any U.S. person (as defined in Regulation S under the U.S. Securities Act of 1933).

Financial Highlights

Dividend Reinvestment Plan – 1.5% discount

The Dividend Reinvestment Plan (DRP) will again operate in relation to the interim dividend. Under the DRP, shareholders are able to elect to receive additional AGL shares instead of cash. No fees or brokerage are paid on the DRP shares.

Shares under this plan will continue to be issued at a discount of 1.5%.

Currently shareholders accounting for approximately 32% of AGL shares participate in the DRP.

If you are not already participating in the DRP, but would like to do so in future, please go to the web link shown below to download the form, or call Link Market Services on 1800 824 513 or (02) 8280 7115.

Updating Shareholder details – Bank accounts, Postal/Email address

Dividends to Australian and New Zealand resident shareholders are now paid only by electronic funds transfer to a nominated bank account.

Currently, more than 3,500 AGL shareholders have not provided up-to-date bank account details, delaying the payment of their dividends. In addition, almost 1,700 shareholders haven't provided an up-to-date postal or email address.

Shareholders are encouraged to ensure their latest bank account details, postal address and email address have all been provided to our share registry, Link Market Services. The relevant forms can be downloaded at the following web link:

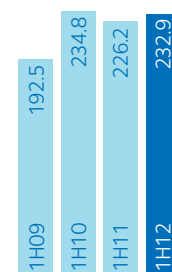
www.linkmarketservices.com.au

Please check carefully that the information you enter is correct.

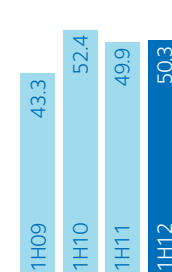
	31 Dec 2011 \$m	31 Dec 2010 \$m	Change %
Revenue	3,615.3	3,488.0	3.6
Operating EBITDA	438.9	416.0	5.5
Depreciation and amortisation	(84.3)	(71.9)	17.2
Operating EBIT	354.6	344.1	3.1
Net financing costs	(23.3)	(22.1)	5.4
Profit before tax	331.3	322.0	2.9
Income tax	(98.4)	(95.8)	2.7
Underlying Profit ¹	232.9	226.2	3.0

1. Underlying profit is the statutory net profit after tax adjusted for significant items and changes in the fair value of financial instruments.

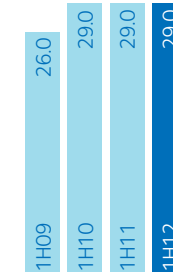
Underlying Profit (\$ million)



EPS – Underlying (cents)



DPS (cents)



3.4 million

Customer numbers up 100,000

\$232.9 million

Underlying Profit¹ up 3.0%

\$117.0 million

Statutory Profit down 51.2%

50.3 cps

EPS – Underlying up 0.8%

29.0 cents

Interim dividend per share – maintained and fully franked

The latest

To see presentations, webcasts and ASX announcements and keep up-to-date with the latest information on AGL, visit our Investor Centre at the following web link:

www.agl.com.au

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Energy in
action.®

AGL

Half Yearly Report to Shareholders

For the Half Year ended
31 December 2011

