AGL Energy Limited
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ASX release

ELECTRONIC LODGEMENT

11 February 2015

AGL Energy Limited Financial Results for the half-year ended 31 December 2014

We attach the following documents relating to AGL Energy Limited's results for the half-year ended 31 December 2014:

1. ASX Appendix 4D
2. Directors' Report
3. Interim Financial Report

Paul McWilliams

Company Secretary

About AGL
AGL Energy Limited (AGL) is one of Australia's leading integrated energy companies and is the largest ASX listed owner, operator and developer of renewable energy generation in the country. Drawing on over 175 years of experience, AGL operates retail and merchant energy businesses, power generation assets and an upstream gas portfolio. AGL has one of Australia's largest retail energy and dual fuel customer bases. 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 taking action toward creating a sustainable energy future for investors, communities and customers.

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 2014

Extracts from this report for announcement to the market

				$A Million
Revenue	**down**	**2.0%**	to	**5,183**
Statutory Profit after tax attributable to shareholders	**up**	**18.0%**	to	**308**
Underlying Profit after tax attributable to shareholders	**up**	**24.8%**	to	**302**
				Cents per share
Statutory Earnings per share	**up**	**7.8%**	to	**48.6**
Underlying Earnings per share	**up**	**14.1%**	to	**47.7**
				$
Net tangible asset backing per share	**up**	**9.5%**	to	**8.49**

Dividends	Amount per ordinary share	Franked amount per ordinary share
Interim dividend	30.0¢	30.0¢
Prior interim dividend	30.0¢	30.0¢

Record date for determining entitlements to the interim dividend:
26 February 2015 and payable on 25 March 2015.

Brief explanation of Underlying Profit and Underlying Earnings per share:
Statutory Profit and Statutory Earnings per share are prepared in accordance with the Corporations Act 2001 and the Australian Accounting Standards, which comply with the International Financial Reporting Standards.

Statutory Profit after tax of $308 million included a loss of $128 million after tax in relation to significant items and a gain after tax of $134 million from the changes in the fair value of financial instruments. Excluding these items, the Underlying Profit was $302 million, up 24.8% on the prior corresponding period.

Underlying Profit and Underlying Earnings per share are reported to give information to shareholders that provides a greater understanding of the performance of AGL Energy Limited's (AGL's) operations. AGL believes Underlying Profit is useful as it removes significant items and timing mismatches between the fair value of derivatives and the underlying asset being hedged thereby facilitating a more representative comparison of financial performance between financial periods.

Discussion and analysis of the results for the half-year ended 31 December 2014
Analysis of these results is included in the Director's Report attached to this announcement.

Additional Appendix 4D disclosure requirements can be found in the notes to the Interim Financial Report also attached to this announcement.

AGL Energy Limited and controlled entities

Directors' Report

For the half-year ended 31 December 2014

(including the review of operations)

Directors' Report

In accordance with a resolution of the Board, the Directors present their report on the consolidated entity (AGL) consisting of AGL Energy Limited and its controlled entities, either during or at the end of the half-year ended 31 December 2014 (the period). Financial comparisons used in this report are of results for the half-year ended 31 December 2013 for statement of profit or loss analysis, and 30 June 2014 for statement of financial position analysis.

1. Principal Activities

AGL Energy Limited (AGL) is one of Australia's leading integrated energy companies and is the largest ASX listed owner, operator and developer of renewable energy generation in the country. Drawing on over 175 years of experience, AGL operates retail and merchant energy businesses, power generation assets and an upstream gas portfolio. AGL has one of Australia's largest retail energy and dual fuel customer bases. 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 taking action toward creating a sustainable energy future for investors, communities and customers.

Operating Segments

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

› **Retail Energy** sells natural gas, electricity and energy-related products and services to residential and small business customers.

› **Merchant Energy** develops, operates and maintains power generation assets and manages the risks associated with the procurement and delivery of natural 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 provides energy efficiency and carbon management services.

› **Upstream Gas** invests in, and operates gas exploration, development and production tenements and develops and operates gas storage facilities.

› **Investments** include equity accounted investments in the ActewAGL Retail Partnership and Diamantina Holding Company Pty Limited. Also included are AGL's long-term investments in strategic growth opportunities.

2. Review and Results of Operations

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

3. Business Acquisitions and Disposals

On 2 September 2014, AGL completed the $1,505 million acquisition of the Macquarie Generation assets from the NSW Government. The Macquarie Generation assets include the Bayswater and Liddell power stations.

4. Subsequent Events

Debt facility refinance
On 4 February 2015, AGL executed a $410 million 6.5-year debt facility with a group of Asian banks. These funds will be used on 12 February 2015 to partially repay the Loy Yang A Senior Debt facility. Following this repayment, there will remain $332 million outstanding on this facility, which requires refinancing prior to the loan maturing in November 2015.

Retirement of CEO
Mr. Michael Fraser retires as AGL Managing Director and CEO effective 11 February 2015. Mr Andy Vesey has been appointed as Mr. Fraser's successor.

5. Dividends

The Directors have determined to pay an interim fully franked dividend of 30.0 cents per share which will be paid on 25 March 2015.

6. Directors in Office

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

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

7. Non-IFRS financial information

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

8. Rounding

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

9. Auditor's Independence Declaration

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

Jeremy Maycock

Chairman

Sydney, 11 February 2015

AGL Energy Limited
Review of Operations

For the half-year ended 31 December 2014

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

Contents

1. Results Overview

1.1 Reconciliation of Statutory Profit to Underlying Profit

The following tables reconcile Statutory Profit to Underlying Profit and Statutory Earnings before Interest and Tax (EBIT) to Operating EBIT.

	Half-year ended 31 December 2014 $m	Half-year ended 31 December 2013 $m
Statutory Profit	**308**	261
Adjust for the following after tax items:		
Significant items[1]	**128**	17
Changes in fair value of financial instruments[2]	**(134)**	(36)
Underlying Profit	**302**	242

[1] Section 1.3
[2] Section 5

Statutory EBIT	**571**	482
Significant items	**166**	22
Changes in fair value of financial instruments	**(191)**	(51)
Finance income included in Operating EBIT	**2**	2
Operating EBIT	**548**	455
Net finance costs	**(117)**	(113)
Underlying Profit before tax	**431**	342
Income tax expense	**(129)**	(100)
Underlying Profit	**302**	242

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

Underlying Profit and Operating EBIT are useful as they:

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

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

1.2 Underlying Profit Summary

	Half-year ended 31 December 2014 $m	Half -Year ended 31 December 2013 $m
Revenue	**5,183**	5,287
Operating EBITDA	**735**	622
Operating EBIT by segment:		
Retail Energy	**159**	136
Merchant Energy	**522**	433
Upstream Gas	**(10)**	(13)
Investments	**4**	14
Centrally managed expenses	**(127)**	(115)
Total Operating EBIT	**548**	455
Less: Net finance costs	**(117)**	(113)
Underlying Profit before tax	**431**	342
Less: Income tax expense	**(129)**	(100)
Underlying Profit	**302**	242

Underlying profit after tax increased $60 million or 24.8% due to normalised weather conditions and the acquisition of Macquarie Generation on 2 September 2014. Also included in the result was the benefit of higher wholesale gas sales and margins offset by the impact of the removal of carbon.

Distribution Use of System Restatement

As announced to the market on 22 January 2015, the Distribution Use of System (DUOS) costs in South Australia and Queensland have been restated in the 31 December 2013 figures. The result of this is a grossing up of revenue and cost of sales in the Retail and Business Customers segments for both States.

The following table summarises this change in reporting:

	Half-year ended 31 December 2013 As published $m	Duos restatement $m	**Half-year ended 31 December 2013 Restated $m**
Revenue	4,842	445	5,287
Expenses	(4,207)	(445)	(4,652)

There is no change to the reported Gross Margin, Statutory or Operating EBIT or Statutory or Underlying Profit.

1.3 Significant Items

	Half-year ended 31 December 2014		Half-year ended 31 December 2013	
	Pre-tax $m	**PAT $m**	Pre-tax $m	PAT $m
Macquarie acquisition stamp duty	**(93)**	**(65)**	-	-
Macquarie elimination of derivative contracts	**(37)**	**(37)**	-	-
Macquarie acquisition and integration costs	**(13)**	**(10)**	-	-
Restructuring costs	**(11)**	**(8)**	-	-
Carbon repeal costs	**(12)**	**(8)**	-	-
APG acquisition	**-**	**-**	(22)	(17)
Total significant items	**(166)**	**(128)**	(22)	(17)

1.3.1 Acquisition of Macquarie Generation

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

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

1.3.2 Restructuring costs

During the period restructuring costs of $11 million before tax were recognised predominantly in the Retail business in relation to the closure of Energy stores and in Merchant Energy, predominantly related to the closure of the LPG extraction plant (HCE) at Kurnell.

1.3.3 Carbon repeal costs

On 17 July 2014, the Federal Government passed legislation to repeal the Carbon Tax. AGL incurred costs in removing the calculation of the carbon tax from customer statements and also wrote-off previously capitalised costs associated with the original implementation of the carbon tax.

1.3.4 Acquisition of Australian Power and Gas Company Limited (APG)

In the prior corresponding period, the completion of the acquisition of APG on 25 October 2013 resulted in the recognition of the following costs as significant items:

- Acquisition related transaction costs of $8 million before tax including adviser fees, redundancies and other transaction costs.
- Break costs associated with terminating APG's funding facilities of $2 million before tax.
- Incremental contract costs associated with existing customer servicing arrangements of $10 million before tax.
- Termination costs associated with other contracts of $2 million before tax.

1.4 Earnings per Share

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

	Half-year ended 31 December 2014 $m	Half-year ended 31 December 2013 $m
Statutory Profit	**308**	261
Underlying Profit	**302**	242
	Cents	Cents (restated)
Statutory EPS	**48.6**	45.1
Underlying EPS	**47.7**	41.8

Statutory and Underlying EPS for the prior corresponding period have been restated to reflect the bonus element of the rights issue completed in September 2014.

1.5 Interim Dividend

The Directors have declared an interim dividend of 30.0 cents per share, in line with the prior corresponding period's interim dividend also of 30.0 cents per share. The interim dividend will be paid on 25 March 2015. The record date to determine shareholders' entitlements to the interim dividend is 26 February 2015 and shares will commence trading ex-dividend on 24 February 2015.

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. No discount will apply to shares allocated under the DRP. Shares will be allocated to plan participants at the volume weighted average price at which AGL shares trade during each of the 10 trading days commencing on 2 March 2015. The last date for shareholders to elect to participate in the DRP for the FY15 interim dividend is 27 February 2015.

2. Review of Segment Operations

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

Operating EBIT for the half-year ended 31 December 2014 was $548 million compared with $455 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 2014 $m	Half-year ended 31 December 2013 $m	**Half-year ended 31 December 2014 $m**	Half-year ended 31 December 2013 $m
Retail Energy	**149**	114	**159**	136
Merchant Energy	**582**	484	**522**	433
Upstream Gas	**(10)**	(13)	**(10)**	(13)
Investments	**4**	14	**4**	14
Centrally managed expenses	**(154)**	(117)	**(127)**	(115)
EBIT	**571**	482	**548**	455
Depreciation and amortisation	**187**	167	**187**	167
EBITDA	**758**	649	**735**	622

2.1 Retail Energy

Operating EBIT increased 16.9% to $159 million from $136 million

	Half-year ended 31 December 2014 $m	Half-year ended 31 December 2013 $m
Statutory EBIT	**149**	114
Significant items	**10**	22
Operating EBIT	**159**	136
Depreciation and amortisation	**35**	43
Operating EBITDA	**194**	179

Retail Energy sells natural gas, electricity and energy related products and services to residential and small business customers (Consumer segment). Retail Energy currently services over 3.7 million customer accounts.

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

2.1.1 Analysis of Operating EBIT

Retail Energy contributed $159 million to Operating EBIT for the half-year, an increase of 16.9% from the prior corresponding period. The main changes in Operating EBIT are summarised in the table below.

	$m
Operating EBIT for the half-year ended 31 December 2013	**136**
Increase in gas and electricity gross margin	33
Decrease in depreciation and amortisation	8
Increase in net operating costs	(18)
Operating EBIT for the half-year ended 31 December 2014	**159**

2.1.1.1 Gross Margin

Gross margin, excluding fees and charges, increased by $33 million or 9.6% compared with the prior corresponding period.

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

	Half-year ended 31 December 2014 $m	Half-year ended 31 December 2013 $m	Movement %
Electricity	**215**	192	12.0
Gas	**160**	150	6.7
Fees and charges	**34**	37	(8.1)
Total gross margin	**409**	379	7.9
Gross margin excluding fees and charges	**375**	342	9.6

Electricity volumes increased as a result of more normal weather compared with the prior corresponding period (which included record warm weather conditions in winter) and an additional three months of contribution from the APG customer base. This was offset by the continued decline in the average consumption of energy. Electricity rate improvement contributed to the growth in gross margin due to disciplined price management and the additional three months of the APG customer base.

Gas gross margin increased with higher volumes as weather normalised compared with the record warm weather conditions in the peak winter months of the prior corresponding period, and an additional three months of contribution from the APG customer base.

2.1.1.2 Depreciation and Amortisation

Depreciation and amortisation (D&A) decreased by $8 million, or 18.6% compared with the prior corresponding period.

	Half-year ended 31 December 2014 $m	Half-year ended 31 December 2013 $m	Movement %
NSW direct customer acquisition cost amortisation	**(8)**	(21)	(61.9)
Other	**(27)**	(22)	22.7
Total D&A	**(35)**	(43)	(18.6)

NSW acquisition cost amortisation

The project to substantially grow AGL's customer base in NSW concluded at the end of June 2014. Total capitalised costs during the project were $125 million with an unamortised balance of $21 million remaining at 31 December 2014. The remaining amortisation will be recognised as follows:

Amortisation for the year ending:	**$m**
30 June 2015*	**15**
30 June 2016	**14**

* Includes $8 million amortisation recognised in the first half.

All acquisition costs from 1 July 2014 are now directly expensed through the profit and loss.

Other D&A

Increases in other D&A relate mainly to customer contracts acquired as part of the APG acquisition and IT migration costs incurred to integrate APG with AGL's systems.

2.1.1.3 Net Operating Costs excluding Depreciation and Amortisation

Retail Energy's net operating costs excluding D&A increased by $18 million, or 11.0%, 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 2014 $m	Half-year ended 31 December 2013 $m	Movement %
Labour and contractor services	**(74)**	(78)	(5.1)
Bad and doubtful debts	**(48)**	(42)	14.3
Campaigns and advertising	**(49)**	(34)	44.1
Other expenditure	**(44)**	(46)	(4.3)
Fees and charges	**34**	37	(8.1)
Net operating costs excluding D&A	**(181)**	(163)	11.0
Depreciation and amortisation	**(35)**	(43)	(18.6)
Net operating costs	**(216)**	(206)	4.9

Total net operating costs increased predominantly due to the inclusion of APG and NSW campaign activity no longer being capitalised. Underlying costs were approximately flat year on year with cost saving initiatives offsetting inflationary cost increases.

Labour and contractor services costs decreased by $4 million, or 5.1%, largely due to the exclusion of AGL Solar now reported in the Investments segment and efficiency gains through offshoring and absorption of APG costs, partially offset by the acquisition of Energy Connections New South Wales.

The increase in bad and doubtful debts of $6 million, or 14.3%, is due to higher provisioning of the APG customer base with three additional months. The higher provisioning in relation to APG is entirely consistent with acquisition assumptions.

Campaigns and advertising expenditure increased $15 million, or 44.1% partly due to the cost of NSW electricity acquisitions no longer being capitalised (this is offset by lower amortisation as mentioned in section 2.1.1.2). Expenditure on brand and loyalty activity increased as market competition remains strong.

2.1.2 Customer Profitability

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

2.1.2.1 Gross Margin per Customer Account

	Half-year ended 31 December 2014	Half-year ended 31 December 2013	Movement %
Gross margin (excluding fees & charges)	**$375m**	$342m	9.6
Average customer accounts	**3,741,263**	3,661,885	2.2
Consumer gross margin per customer account	**$100.15**	$93.41	7.2

2.1.2.2 EBIT / Sales Analysis

	Half-year ended 31 December 2014 $m	Half-year ended 31 December 2013 $m	Movement %
Electricity revenue	**1,999**	2,142	(6.7)
Gas revenue	**780**	739	5.5
Other fees and charges	**34**	37	(8.1)
Total revenue	**2,813**	2,918	(3.6)
Cost of sales – electricity	**(1,783)**	(1,949)	(8.5)
Cost of sales – gas	**(621)**	(590)	5.3
Gross margin	**409**	379	7.9
Operating costs (excl D&A)	**(215)**	(200)	7.5
Operating EBITDA	**194**	179	8.4
Depreciation and amortisation	**(35)**	(43)	(18.6)
Operating EBIT	**159**	136	16.9
Operating EBIT / Sales %	**5.6%**	4.7%	0.9ppts

2.1.3 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.

2.1.3.1 Net Operating Costs as a percentage of Gross Margin

	Half-year ended 31 December 2014 $m	Half-year ended 31 December 2013 $m	Movement %
Net operating costs	**(216)**	(206)	4.9
Gross margin	**409**	379	7.9
Fees and charges	**(34)**	(37)	(8.1)
Gross margin less fees and charges	**375**	342	9.6
Net operating costs as percentage of gross margin (less fees and charges)	**57.6%**	60.2%	2.6ppts

Net operating costs increased by 4.9% as detailed in section 2.1.1.3.

Net operating costs as a percentage of gross margin decreased by 2.6 percentage points (ppts). This is due to the inclusion of the APG customer base, increased volumes as a result of normalised weather patterns, incremental gross margin improvement, and on-going cost saving initiatives.

2.1.3.2 Cost to Serve Analysis

	Operating costs			**Cost per account**		
	Half Year ended 31 December			**Half Year ended 31 December**		
	2014 $m	2013 $m	Movement %	**2014 $**	2013 $	Movement %
Cost to Serve	**(143)**	(134)	6.7	**(38)**	(37)	2.7
Cost to Acquire	**(57)**	(58)	(1.7)	**(164)**	(159)	3.1
Cost to Retain	**(16)**	(14)	14.3	**(36)**	(29)	24.1
Cost to Acquire/Retain	**(73)**	(72)	1.4	**(93)**	(90)	3.3
Net Operating costs	**(216)**	(206)	4.9	**(58)**	(56)	3.6

Cost to serve increased 6.7% due to increased operating costs with the inclusion of the APG customer base for an additional three months and higher provisioning of the APG net bad debt as described in section 2.1.1.3. Excluding net bad debt expense the cost to serve was flat year on year with cost saving initiatives offsetting the additional three months of APG operating costs.

The overall cost to acquire and retain customers increased by 1.4% due to a lower proportion of customer retentions and the cost of NSW electricity customer acquisitions no longer being capitalised. (this is offset by lower amortisation as mentioned in section 2.1.1.2).

Net operating costs per customer account was $58, a 3.6% increase on the prior corresponding period. The increase in net operating costs relates largely to an additional three months of APG and higher provisioning of APG net bad debt expense. Net operating cost excluding net bad debt expense per customer account for the period was $45 which was the same as the prior corresponding period as a result of successful cost savings initiatives during the period.

2.1.4 Customer Numbers

The following table[1] provides a breakdown of customer numbers by state.

	31 December ('000)	30 June 2014 ('000)	Movement ('000)	Movement %
Electricity				
New South Wales	**813**	820	(7)	(0.9)
Victoria	**657**	673	(16)	(2.4)
South Australia	**428**	434	(6)	(1.4)
Queensland	**385**	389	(4)	(1.0)
	2,283	2,316	(33)	(1.4)
Gas				
New South Wales	**702**	707	(5)	(0.7)
Victoria	**556**	567	(11)	(1.9)
South Australia	**130**	130	-	-
Queensland	**80**	80	-	-
	1,468	1,484	(16)	(1.1)
Total	**3,751**	3,800	(49)	(1.3)
Dual fuel accounts	**1,919**	1,942	(23)	(1.2)

1. The above table includes 20,150 C&I customers at 31 December 2014 (20,027 at 30 June 2014)

Total AGL churn remained consistent for the six months to 31 December 2014, in line with 30 June 2014 at 15.4% despite strong competition in the market place. The Rest of Market churn increased by 0.5% to 21.0%, increasing the favourable gap between AGL and the rest of the market. This favourable gap is supported by strong product offers and customer satisfaction levels. APG customer churn (a subset of Total AGL churn) remains in line with the acquisition business case.

2.2 Merchant Energy

Operating EBIT increased 20.6% to $522 million from $433 million

	Half-year ended 31 December 2014 $m	Half-year ended 31 December 2013 $m
Statutory EBIT	**582**	484
Significant items	**132**	-
Finance income included in EBIT	**2**	2
Change in fair value of financial instruments	**(194)**	(53)
Operating EBIT	**522**	433
Depreciation and amortisation	**132**	98
Operating EBITDA	**654**	531

Merchant Energy comprises three operating business units: Energy Portfolio Management, Merchant Operations, and Business Customers. It is responsible for developing, operating and maintaining AGL's power generation assets and for managing the risks associated with satisfying the gas and electricity requirements of AGL's Wholesale and Retail portfolios. It also manages the relationship with AGL's large business 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 utilises its ~10,500MW portfolio of owned and contracted generation assets, financial hedges and bilateral contracts to ensure adequacy of competitively priced supply. Generation assets include both thermal and renewable assets including Australia's largest privately owned and operated renewable portfolio.

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 2014 $m	Half-year ended 31 December 2013 $m	**Half-year ended 31 December 2014 $m**	Half-year ended 31 December 2013 $m
Energy Portfolio Management	**804**	606	**810**	614
Merchant Operations	**(323)**	(213)	**(206)**	(131)
Business Customers	**52**	52	**61**	59
Sundry	**(11)**	(12)	**(11)**	(11)
Total Merchant Energy	**522**	433	**654**	531

2.2.1 Energy Portfolio Management Operating EBIT:

Increased 32.7% to $804 million from $606 million

	Half-year ended 31 December 2014 $m	Half-year ended 31 December 2013 $m	Movement %
Wholesale Electricity	**588**	523	12.4
Wholesale Gas	**205**	81	153.1
Eco-Markets	**25**	16	56.3
Gross margin	**818**	620	31.9
Operating costs	**(8)**	(6)	33.3
Operating EBITDA	**810**	614	31.9
Depreciation and amortisation	**(6)**	(8)	(25.0)
Operating EBIT	**804**	606	32.7

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 are complemented by a portfolio of electricity hedge products.

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

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

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

2.2.1.1 Wholesale Electricity Gross Margin: Increased 12.4% to $588 million from $523 million

	Half-year ended 31 December 2014 $m	Half-year ended 31 December 2013 $m	Movement %
Retail	**552**	735	(24.9)
Business & Wholesale*	**496**	549	(9.7)
Total revenue	**1,048**	1,284	(18.4)
Pool generation revenue	**577**	572	0.9
Pool purchase costs	**(723)**	(975)	(25.8)
Net derivative (cost)/revenue	**(54)**	(103)	(47.6)
Net portfolio management	**(200)**	(506)	(60.5)
Carbon	**-**	(110)	(100.0)
Generation costs	**(260)**	(145)	79.3
Total costs of generation	**(260)**	(255)	2.0
Total cost of sales	**(460)**	(761)	(39.6)
Gross Margin	**588**	523	12.4

* Consists of Internal Business Customer and external large contract Wholesale revenues.

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

The 12.4% increase in gross margin was largely due to the acquisition of Macquarie Generation on 2 September 2014.

This increase is partly offset by the effect of the repeal of the carbon tax on 1 July 2014, being the primary cause of a reduction in average revenue rates from sales to Retail, Business and Wholesale customers. These effects are mostly offset by the reduction in pool purchase rates and net carbon expense. Overall, the repeal of the carbon tax is estimated to have had a net ($87 million) reduction as a result of the loss of Loy Yang A transitional assistance and lower wholesale electricity prices resulting in lower generation revenues from AGL's renewable and gas generation portfolio.

The result has also been reduced by lower generation revenue of ($15 million) as a result of lower generation volumes from wind (315 GWh lower) and gas-fired generation (105 GWh lower) assets.

The Wholesale Electricity and Generation Operating EBIT is set out in the following table. This analysis combines the Wholesale Electricity Gross Margin described above with the Merchant Operations business (described in section 2.2.2) to reflect the procurement and hedging of AGL's electricity requirements and the costs of managing and maintaining AGL's owned and contracted generation assets. In the following tables, a volume and rate analysis is also provided.

	Half-year ended 31 December 2014 $m	Half-year ended 31 December 2013 $m	Movement %
Wholesale Electricity	**588**	523	12.4
Merchant Operations	**(323)**	(213)	51.6
Wholesale Operating EBIT	**265**	310	(14.5)
Consisting of:			
Retail	**552**	735	(24.9)
Business & Wholesale	**539**	589	(8.5)
Total revenue	**1,091**	1,324	(17.6)
Fuel	**(244)**	(136)	79.4
Carbon	**-**	(110)	(100.0)
Generation costs	**(265)**	(180)	47.2
Depreciation and amortisation	**(117)**	(82)	42.7
Total costs of generation	**(626)**	(508)	23.2
Pool generation revenue	**577**	572	0.9
Pool purchase costs	**(723)**	(975)	(25.8)
Net derivative cost	**(54)**	(103)	(47.6)
Net portfolio management	**(200)**	(506)	(60.5)
Total cost of sales	**(826)**	(1,014)	(18.5)
Wholesale Operating EBIT	**265**	310	(14.5)

Wholesale Operating EBIT from electricity has decreased (14.5%) to $265 million from $310 million.

The net 12.4% increase in Wholesale Electricity Gross Margin is discussed in the previous section and section 2.1.2 discusses the Merchant Operations Operating EBIT reduction of 51.6%. Both movements are predominantly due to the Macquarie Generation acquisition.

	Half-year ended 31 December 2014 GWh	Half-year ended 31 December 2013 GWh	Movement %
Electricity Volumes			
Retail	**7,741**	7,908	(2.1)
Business & Wholesale	**10,712**	8,228	30.2
Total demand	**18,453**	16,136	14.4
AGL generated	**(16,019)**	(9,818)	63.2
Pool sales	**16,019**	9,818	63.2
Pool purchases	**(18,453)**	(16,136)	14.4
Total supply	**(18,453)**	(16,136)	14.4

Retail volumes were down 2.1% due to a decline in average consumption, partially offset by normalised weather and an additional 3 months of contribution from former APG customers.

Business and Wholesale volumes increased 30.2% due to the inclusion of large wholesale contracts from the Macquarie Generation acquisition. This increase was partly offset by lower Business Customer electricity volumes, primarily as a result of the loss of three major customers.

AGL generated volumes have increased substantially due to 6,747 GWh generated by Macquarie. This is partially offset by lower (315 GWh) of wind, gas (105 GWh) and hydro (61GWh).

	Half-year ended 31 December 2014	Half-year ended 31 December 2013	Movement
$ per MWh	**$**	$	%
Retail	**71.3**	93.0	(23.3)
Business & Wholesale	**50.3**	71.5	(29.7)
Average revenue	**59.2**	82.0	(27.8)
Fuel	**(15.2)**	(13.8)	10.1
Carbon	**-**	(11.2)	(100.0)
Generation costs	**(16.5)**	(18.3)	(9.8)
Depreciation and amortisation	**(7.3)**	(8.3)	(12.0)
Total cost of generation	**(39.0)**	(51.6)	(24.4)
Pool sales	**36.0**	58.3	(38.3)
Pool purchases	**(39.2)**	(60.4)	(35.1)
Net derivative (cost)/revenue over total supply	**(2.9)**	(6.4)	(54.7)
Average total cost of sales	**(44.8)**	(62.8)	(28.7)
Average Wholesale Operating EBIT	**14.4**	19.2	(25.0)

Changes in $ per MWh rates were due to:

- Carbon tax repeal reducing average revenue, carbon expense, pool sales and pool purchase rates. This reduced Wholesale Operating EBIT by ~ ($4.71 per MWh).
- Generation cost per MWh has reduced by (10%) as a result of the addition of Macquarie with a lower average cost per MWh than the balance of the portfolio. This has been partly offset by higher labour and capacity payments for other generation sites.
- Fuel rates have increased 10% due to higher mine maintenance costs at Loy Yang and the inclusion of Macquarie compared with the generation mix in the prior corresponding period.
- Depreciation and amortisation per MWh has decreased (12%) primarily as a result of the addition of Macquarie with a lower average cost per MWh than the balance of the portfolio.

2.2.1.2 Wholesale Gas Gross Margin: Increased 153.1% to $205 million from $81 million

	Half-year ended 31 December 2014 $m	Half-year ended 31 December 2013 $m	Movement %
Retail	**275**	225	22.2
Business, Wholesale & Generation*	**620**	451	37.5
Total revenue	**895**	676	32.4
Gas purchases	**(558)**	(471)	18.5
Haulage and storage	**(132)**	(124)	6.5
Total cost of sales	**(690)**	(595)	16.0
Gross Margin	**205**	81	153.1

* Consists of Internal Business Customer and Generation transfer price revenue and external large contract Wholesale revenues.

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

The 153.1% increase in gross margin was due in part to 17.9PJ or $62 million of additional gross margin from sales to Queensland Wholesale customers. This is coupled with a $13 million increase in gross margin due to a 7.5% increase in Retail Consumer volumes as a result of mild weather in the prior corresponding period and the acquisition of APG in October 2013.

Wholesale Gas also benefited from a $49 million increase in revenue relating to higher transfer price rates charged to Retail Energy and other Business / Wholesale customers (reflecting higher wholesale market prices) while having the benefit of some long term low cost contracts.

	Half-year ended 31 December 2014 PJ	Half-year ended 31 December 2013 PJ	Movement %
Gas Volumes			
Retail	**34.6**	32.2	7.5
Business, Wholesale & Generation	**91.9**	77.7	18.3
Total demand	**126.5**	109.9	15.1
Gas purchases	**(127.4)**	(111.5)	14.3
Less Energy losses	**0.9**	1.6	(43.8)
Total supply	**(126.5)**	(109.9)	15.1

Retail gas volumes increased 2.4PJ as a result of mild weather in the prior corresponding period and the acquisition of APG in October 2013. Business Customer volumes also increased 2.4PJ due to strong customer acquisitions across all states particularly in Queensland and New South Wales with the acquisition of multiple high volume customers. Wholesale Volumes increased 55% due to higher Queensland sales, while Generation volumes decreased (14%) due to a reduction of (105 GWh) in AGL gas fired generation.

$ per GJ	**$**	$	%
Retail	**8.0**	7.0	14.3
Business, Wholesale & Generation	**6.7**	5.8	15.5
Average revenue	**7.1**	6.2	14.5
Gas purchases	**(4.4)**	(4.3)	2.3
Haulage and storage	**(1.0)**	(1.1)	(9.1)
Average total cost of sales	**(5.4)**	(5.4)	0.0
Average Wholesale Gross Margin	**1.7**	0.8	112.5

Average revenue rates have increased as a result of higher transfer price rates charged to Retail Energy, Business Customers and others (reflecting higher wholesale market prices) while having the benefit of some long term low cost contracts. This is partly offset by the repeal of the carbon tax reducing the carbon charges passed through from suppliers.

Gas Purchase rates have increased 2.3% as a result of annual escalations on historical supply contracts partially offset by the repeal of the carbon tax resulting in lower pass through costs from suppliers. Haulage and storage rates have decreased (9.1%) due to a reduction in storage fees.

2.2.1.3 Eco-Markets Gross Margin: Increased 56.3% to $25 million from $16 million

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

The increase in gross margin was the result of lower market costs for Small-scale Renewable Energy Certificates in FY15 ($9 million) and lower certificate purchase costs for Victorian Energy Efficiency Certificates ($5 million). This was partially offset by higher certificate production costs for Large-scale Renewable Certificates ($6 million).

2.2.2 Merchant Operations Operating EBIT: Decreased 51.6% to $323 million from $213 million

	Half-year ended 31 December 2014 $m	Half-year ended 31 December 2013 $m	Movement %
Other revenue	**43**	39	10.3
Labour	**(103)**	(66)	56.1
Contractor services	**(73)**	(59)	23.7
Other operating costs	**(73)**	(45)	62.2
Operating EBITDA	**(206)**	(131)	57.3
Depreciation and amortisation	**(117)**	(82)	42.7
Operating EBIT	**(323)**	(213)	51.6

Merchant Operations is responsible for managing and maintaining both AGL's owned and contracted generation assets. AGL's thermal and renewable generation portfolio includes the Macquarie assets of Bayswater 2,640 MW, Liddell 2,000 MW and Hunter Valley gas turbine 50 MW power stations, the 2,210 MW Loy Yang A power station and adjacent brown coal mine, the 1,280 MW gas fired Torrens Island power station, the 150 MW gas fired Somerton power station, 795 MW of hydro generation and 925 MW of wind generation across 7 wind farms.

Merchant Operations is largely a cost centre with all generation revenues and variable fuel costs included in the Energy Portfolio Management results. Other revenue is predominantly AGL Loy Yang coal sales to third parties.

The decrease in Merchant Operations operating EBIT for the period is largely due to the addition of Macquarie from 2 September 2014.

2.2.3 Business Customers Operating EBIT: Level at $52 million from $52 million

	Half-year ended 31 December 2014 $m	Half-year ended 31 December 2013 $m	Movement %
Electricity Gross Margin	**19**	19	0.0
Gas Gross Margin	**34**	32	6.3
C&I Operations and Customer Services Expenses	**(13)**	(14)	(7.1)
Energy Services	**21**	22	(4.5)
Operating EBITDA	**61**	59	3.4
Depreciation and amortisation	**(9)**	(7)	28.6
Operating EBIT	**52**	52	0.0

Business Customers manages AGL's Commercial and Industrial (C&I) gas and electricity customers through an integrated sales and service model. The customer base provides a channel to market for value adding energy related services in addition to basic energy supply.

Electricity gross margin has remained steady with slightly lower volumes of 234 GWh primarily as a result of the loss of three major customers. This is offset by higher customer margins of $0.25 per MWh due to a strong performance in a market which remains highly competitive.

Gas gross margin is 6.3% higher due to a 6% increase in sales volumes with strong customer acquisitions across all states particularly in Queensland and New South Wales with the acquisition of multiple high volume customers.

Energy Services earnings are in line with the prior corresponding period, with lower contributions from HC Extractions due to site closure in October 2014 ($5 million) mostly offset by favourable performance of National Assets particularly STA refueling stations and Electroserv $4 million.

2.3 Upstream Gas

Operating EBIT increased to ($10 million) from ($13 million)

	Half-year ended 31 December 2014 $m	Half-year ended 31 December 2013 $m
Statutory EBIT	**(10)**	(13)
Significant items	**-**	-
Operating EBIT	**(10)**	(13)
Depreciation and amortisation	**6**	12
Operating EBITDA	**(4)**	(1)

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. The portfolio is divided into two broad regions: (i) Queensland; 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 2014 $m	Half-year ended 31 December 2013 $m	**Half-year ended 31 December 2014 $m**	Half-year ended 31 December 2013 $m
Queensland	**(2)**	(7)	**(1)**	1
New South Wales	**(2)**	-	**3**	4
Sundry	**(6)**	(6)	**(6)**	(6)
Total Upstream Gas	**(10)**	(13)	**(4)**	(1)

2.3.1 Queensland Operating EBIT: Increased to ($2 million) from ($7 million)

The Queensland portfolio includes the Moranbah Gas Project (MGP) joint venture, the upstream elements of the North Queensland Energy (NQE) joint venture, the Silver Springs conventional oil and gas interests in the Surat Basin including underground gas storage, oil and gas exploration interests in the Cooper/Eromanga and Galilee Basins, and the Spring Gully joint venture.

Operating EBIT contribution from the combined MGP and NQE joint ventures was a loss of $2 million compared with a loss of $6 million in the prior corresponding period. Depreciation and amortisation recognised in the prior corresponding period has been excluded from the current period (as the asset is held for sale). This reduction was partially offset by an increase in operating expenditure in the current period.

Operating EBIT contribution from the Silver Springs interests was a loss of $2 million compared with $0 million in the prior corresponding period, due to reduced oil sales revenue because of lower production, a lower oil price and reduced storage business revenue.

Operating EBIT contribution from the combined Cooper/Eromanga and Galilee Basin interests and the Spring Gully joint venture was a profit of $2 million compared with a loss of $1 million in the prior corresponding period, due to increased Cooper/Eromanga oil sales, increased Spring Gully gas sales, and reduced Galilee expenditure.

2.3.2 New South Wales Operating EBIT: Decreased to ($2 million) from $0 million

The New South Wales portfolio includes the Camden Gas Project, gas exploration interests in the Sydney Basin (including Hunter Valley) and Gloucester Basin development assets.

The lower operating EBIT contribution was largely due to reduced gas sales revenue from Camden, partially offset by lower operating expenditure.

2.3.3 Sundry Operating EBIT: Remained constant at ($6 million)

Operating EBIT contribution from Sundry Operations, which primarily includes Upstream Gas overheads, was $6 million consistent with the prior corresponding period.

2.3.4 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 2014**	Half-year ended 31 December 2013
Gas sales volume (PJ)		
Queensland	**3.7**	3.5
New South Wales	**2.2**	2.4
Total gas sales volume	**5.9**	5.9
Sales revenue ($m)		
Queensland	**13.5**	11.6
New South Wales	**8.8**	9.4
Total sales revenue	**22.3**	21.0
Average gas price ($/GJ)	**3.78**	3.50

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

AGL share of gas reserves (PJ)	**31 December 2014**		30 June 2014	
	2P	**3P**	2P	3P
Gloucester (100%)	**527**	**649**	527	649
Moranbah (50%)	**282**	**478**	285	481
Silver Springs (various)	**57**	**149**	57	149
Camden (100%)	**43**	**43**	45	45
Spring Gully (various)	**9**	**11**	9	11
Sub-Total	**918**	**1,330**	923	1,335
ATP 1103 back-in rights (50%) [1]	**968**	**2,191**	968	2,191
Total	**1,886**	**3,521**	1,891	3,526

[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 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.

AGL engages independent experts SRK Consulting Australia (SRK) to evaluate reserves and resources for its operated gas projects.

Gas reserves within the Gloucester Gas Project were last assessed by SRK as at 30 June 2014. There has been no reassessment since then.

Gas reserves within the Camden Gas Project were last reassessed by SRK as at 30 June 2013. There has been no reassessment since then. The change in Camden reserves was wholly due to gas sales over the past half-year.

Gas reserves within the Silver Springs Project were last reassessed by SRK as at 30 June 2012. There has been no reassessment since then.

Gas reserves within the MGP were last reassessed by independent reserves and resources evaluation company Netherland Sewell & Associates, Inc (NSAI) as at 31 December 2012; and gas reserves within ATP 1103 were last reassessed by NSAI as at 31 August 2013. There has been no reassessment since then. The change in MGP reserves was wholly due to gas sales over the past half-year.

2.4 Investments

Operating EBIT decreased 71.4% to $4 million from $14 million

	Half-year ended 31 December 2014 $m	Half-year ended 31 December 2013 $m
Statutory EBIT	**4**	14
Operating EBIT	**4**	14
Depreciation and amortisation	**-**	-
Operating EBITDA	**4**	14

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

	Half-year ended 31 December 2014 $m	Half-year ended 31 December 2013 $m
ActewAGL	**15**	14
New Energy	**(8)**	-
Diamantina Power Station	**(3)**	-
Operating EBIT	**4**	14

2.4.1 ActewAGL (50% AGL Ownership) Operating EBIT: Increased 7.1% to $15 million from $14 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 $15 million for the half-year compared with $14 million for the prior corresponding period. The increase in Operating EBIT contribution was due to higher gas and electricity consumption in the ACT consumer market.

2.4.2 New Energy

New Energy captures revenue and expenditure relating to solar installs, home services franchisees, digital metering and investment in other technologies; such as energy storage. The developing digital metering business will provide devices and metering data to retailers and distributors. Its expenses to date relate to the initial business operations, such as process and infrastructure establishment, legal and travel costs.

2.4.3 Diamantina Power Station Joint Venture

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

2.5 Centrally Managed Expenses

Increased 11.9% to $113 million from $101 million

	Half-year ended 31 December 2014 $m	Half-year ended 31 December 2013 $m
Statutory EBIT	**(154)**	(117)
Significant items	**24**	-
Change in fair value of financial assets	**3**	2
Operating EBIT	**(127)**	(115)
Depreciation and amortisation	**14**	14
Operating EBITDA	**(113)**	(101)

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 2014 $m	Half-year ended 31 December 2013 $m
Labour	**(40)**	(35)
Office leases	**(8)**	(9)
Hardware and software costs	**(34)**	(34)
Consultants and contractor fees	**(7)**	(7)
Insurance premiums	**(12)**	(10)
Depreciation and amortisation	**(14)**	(14)
Other	**(12)**	(6)
Total	**(127)**	(115)

Total operating expenses increased by $12 million due to the inclusion of $13 million of Macquarie corporate expenses. Labour costs excluding Macquarie were $34 million, $1 million lower than the prior corresponding period. Overall, operating expenses excluding Macquarie were slightly lower than the prior corresponding period predominantly due to lower insurance premiums.

2.6 Net Finance Costs

Increased 3.5% to $117 million from $113 million

	Half-year ended 31 December 2014 $m	Half-year ended 31 December 2013 $m
Statutory finance costs	**(125)**	(122)
Statutory finance income	**10**	11
Remove finance income included in EBITDA	**(2)**	(2)
Net financing costs	**(117)**	(113)

Net financing costs increased 3.5% reflective of an increase in average net debt to $3,246 million compared with $2,739 million for the prior corresponding period partly offset by lower average interest rates driven by debt refinancing strategies.

2.7 Income Tax Expense

Underlying tax expense increased 29.0% to $129 million from $100 million

	Half-year ended 31 December 2014 $m	Half-year ended 31 December 2013 $m
Statutory income tax expense	**(148)**	(110)
Adjusted for:		
Income tax benefit from significant items	**(38)**	(5)
Income tax expense from fair value movements	**57**	15
Underlying tax expense	**(129)**	(100)

The underlying effective tax rate was 29.9% compared with 29.2% for the prior corresponding period.

3. Cash Flow

A summary of the major movements in cash flows is shown in the following table:

	Half-year ended 31 December 2014 $m	Half-year ended 31 December 2013 $m
Opening cash & cash equivalents	**466**	281
Cash flows from:		
Operating activities	**588**	748
Investing activities	**(1,600)**	(386)
Financing activities	**937**	(73)
Net increase / (decrease) in cash & equivalents	**(75)**	289
Closing cash & cash equivalents	**391**	570

Cash flows from operating activities are discussed further in sections 3.1 and 3.2.

Cash flows from investing activities relate primarily to capital expenditure and the acquisition of Macquarie Generation. Capital expenditure is discussed in section 4.

Cash flows from financing activities include net cash flows from funding activities including the borrowing activities, proceeds from the issue of shares and dividends paid. In the current year, AGL received net proceeds from the issue of shares of $1,210 million, paid dividends of $164 million and had a net repayment in borrowings of $103 million. Cash flows in the prior corresponding period relate primarily to the debt refinancing and dividends paid.

3.1 Reconciliation of Statutory Cash Flow to Underlying Operating Cash Flow before interest and tax

Underlying operating cash flow before interest and tax decreased 12.7% or $128 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 2014 $m	Half-year ended 31 December 2013 $m
Statutory net cash provided by operating activities	**588**	748
Cash flow relating to significant items	**124**	22
Underlying Operating Cash Flow	**712**	770
Income tax paid	**68**	138
Net finance costs paid	**99**	99
Underlying Operating Cash Flow before interest and tax	**879**	1,007

3.1.1 Significant items

AGL incurred cash expenses in the period in relation to the acquisition of Macquarie Generation. These expenses are further described in section 1.3.1.

3.2 Reconciliation of Operating EBITDA to Underlying Operating Cash Flow before interest and tax

The close management of receivables significantly improved underlying cash flow excluding carbon timing.

The repeal of the carbon tax improved working capital by $118 million during the period. This compared with a benefit of $447 million in the prior corresponding period which included the receipt of $117 million in relation to the Loy Yang transitional assistance. Excluding the effects of carbon, underlying operating cash flow was up approximately $201 million compared with the prior corresponding period due to the contribution from Macquarie and the close management of receivables.

The following table provides a reconciliation of Operating EBITDA to Underlying Operating Cash Flow before interest and tax:

		Half-year ended 31 December 2014 $m		Half-year ended 31 December 2013 $m
Operating EBITDA		**735**		622
Equity accounted income (net of dividend received)		**(9)**		(1)
Accounting for onerous contracts		**(8)**		(18)
Working capital movements				
(Increase) / decrease in receivables	**332**		137	
(Increase) / decrease in inventories	**(5)**		4	
Carbon transitional assistance	**-**		117	
Increase / (decrease) in creditors	**(225)**		(217)	
Increase / (decrease) in carbon liability	**-**		288	
(Increase) / decrease in futures margin calls	**6**		5	
(Increase) / decrease in net green position	**19**		39	
Net derivative premiums paid / roll-offs	**8**		16	
Net movement in GST recoverable / payable	**(1)**		(11)	
Other	**27**	**161**	26	404
Underlying Operating Cash Flow before interest and tax		**879**		1,007

4. Capital Expenditure

Total capital expenditure was $385 million for the period, up $101 million from the prior corresponding period. “Stay in business” capital expenditure was $127 million compared with $139 million for the prior corresponding period with the largest movements being a decrease in relation to Loy Yang, offset by the addition of Macquarie. Capital expenditure on growth initiatives was $258 million for the period compared with $145 million for the prior corresponding period. Capital expenditure on key growth projects in the period included $51 million on the Newcastle Gas storage facility and $64 million on Upstream Gas projects. $117 million was spent on the Solar generation projects and AGL received $28 million of government grants related to these projects. Capitalised interest of $10 million in the period related to the Newcastle Gas storage facility and the Solar generation projects.

5. Changes in fair value of derivative financial instruments

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

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

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

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

The change in fair value of derivatives reported in profit and loss for the half-year to 31 December 2014 was a gain of $191 million before tax and $134 million after tax. For the prior corresponding period the change in fair value of derivatives was a gain of $51 million before tax and $36 million after tax.

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

	Net Assets (Liabilities)		
	31 December 2014	30 June 2014	Change
	$m	$m	$m
Energy derivative contracts	**156**	18	138
Cross currency and interest rate swaps and foreign currency derivative contracts	**(39)**	(79)	40
Total net assets (liabilities) for derivative contracts	**117**	(61)	178
Change in derivative net asset	**178**		
Premiums paid	**(33)**		
Premium roll off	**41**		
Settlement of interest rate swaps	**(4)**		
Derivatives acquired	**97**		
Total change in fair value	**279**		
Recognised in equity hedge reserve	**54**		
Recognised in borrowings	**63**		
Recognised in profit and loss (significant items – pre-tax)	**(37)**		
Recognised in profit and loss (fair value – pre-tax)	**191**		
Recognised in profit and loss (interest – pre-tax)	**8**		
Total change in fair value	**279**		

AGL Energy Limited and controlled entities

Interim Financial Report

For the half-year ended 31 December 2014

AGL Energy Limited and controlled entities
Condensed consolidated Statement of Profit or Loss
For the half-year ended 31 December 2014

	Note	Half-year ended 31 Dec 2014 $m	31 Dec 2013 $m
Continuing operations			
Revenue	3	**5,183**	5,287
Expenses	4	**(4,437)**	(4,652)
Share of profits of associates and joint ventures	10	**12**	14
Profit before net financing costs, depreciation and amortisation		**758**	649
Depreciation and amortisation	5	**(187)**	(167)
Profit before net financing costs		**571**	482
Finance income		**10**	11
Finance costs	6	**(125)**	(122)
Net financing costs		**(115)**	(111)
Profit before tax		**456**	371
Income tax expense	8	**(148)**	(110)
Profit for the period		**308**	261
Profit attributable to:			
Owners of AGL Energy Limited		**308**	261
Non-controlling interests		**-**	-
		308	261
Earnings per share [(a)]			
Basic earnings per share	13	**48.6 cents**	45.1 cents
Diluted earnings per share	13	**48.6 cents**	45.0 cents

(a) The comparative earnings per share for the half year ended 31 December 2013 have been restated for the bonus element of the one-for-five share rights issue undertaken in September 2014; refer Note 13 for further details.

Notes to the condensed consolidated financial statements are included on pages 7 to 24.

AGL Energy Limited and controlled entities
Condensed consolidated Statement of Comprehensive Income
For the half-year ended 31 December 2014

	Half-year ended	
	31 Dec 2014 $m	**31 Dec 2013 $m**
Profit for the period	**308**	261
Other comprehensive income		
Items that will not be reclassified subsequently to profit or loss		
Remeasurement (loss)/gain on defined benefit plans	**(27)**	79
Income tax relating to items that will not be reclassified subsequently	**8**	(24)
	(19)	55
Items that may be reclassified subsequently to profit or loss		
Cash flow hedges		
Gain in fair value of cash flow hedges	**(33)**	20
Reclassification adjustments transferred to profit or loss	**87**	(51)
Income tax relating to items that may be reclassified subsequently	**(16)**	9
	38	(22)
Other comprehensive income for the period, net of income tax	**19**	33
Total comprehensive income for the period	**327**	294
Total comprehensive income attributable to:		
Owners of AGL Energy Limited	**327**	294
Non-controlling interests	**-**	-
	327	294

Notes to the condensed consolidated financial statements are included on pages 7 to 24.

AGL Energy Limited and controlled entities
Condensed consolidated Statement of Financial Position
As at 31 December 2014

	Note	31 Dec 2014 $m	30 June 2014 $m
Current assets			
Cash and cash equivalents		**385**	456
Trade and other receivables		**1,633**	1,902
Inventories		**379**	191
Other financial assets		**214**	114
Other assets		**387**	318
		2,998	2,981
Assets classified as held for sale		**438**	430
Total current assets		**3,436**	3,411
Non-current assets			
Trade and other receivables		**45**	46
Inventories		**28**	28
Other financial assets		**526**	484
Investments in associates and joint ventures	10	**115**	32
Exploration and evaluation assets		**392**	372
Oil and gas assets		**176**	170
Property, plant and equipment		**7,287**	5,694
Intangible assets		**3,249**	3,248
Deferred tax assets		**656**	631
Other assets		**13**	18
Total non-current assets		**12,487**	10,723
Total assets		**15,923**	14,134
Current liabilities			
Trade and other payables		**1,309**	1,417
Borrowings	11	**765**	45
Provisions		**147**	101
Current tax liabilities		**83**	49
Other financial liabilities		**415**	477
		2,719	2,089
Liabilities directly associated with assets classified as held for sale		**77**	77
Total current liabilities		**2,796**	2,166
Non-current liabilities			
Borrowings	11	**2,921**	3,669
Provisions		**178**	106
Deferred tax liabilities		**40**	50
Other financial liabilities		**473**	280
Other liabilities		**547**	275
Total non-current liabilities		**4,159**	4,380
Total liabilities		**6,955**	6,546
Net assets		**8,968**	7,588
Equity			
Issued capital	12	**6,674**	5,437
Reserves		**(63)**	(99)
Retained earnings		**2,353**	2,249
Total equity attributable to owners of AGL Energy Limited		**8,964**	7,587
Non-controlling interests		**4**	1
Total equity		**8,968**	7,588

Notes to the condensed consolidated financial statements are included on pages 7 to 24.

AGL Energy Limited and controlled entities
Condensed consolidated Statement of Changes in Equity
For the half-year ended 31 December 2014

	Attributable to owners of AGL Energy Limited						
	Issued capital $m	Employee equity benefits reserve $m	Hedging reserve $m	Retained earnings $m	Total $m	Non-controlling interests $m	Total equity $m
Balance at 1 July 2014	**5,437**	**5**	**(104)**	**2,249**	**7,587**	**1**	**7,588**
Profit for the period	**-**	**-**	**-**	**308**	**308**	**-**	**308**
Other comprehensive income for the period, net of income tax	**-**	**-**	**38**	**(19)**	**19**	**-**	**19**
Total comprehensive income for the period	**-**	**-**	**38**	**289**	**327**	**-**	**327**
Transactions with owners in their capacity as owners:							
Issue of ordinary shares	**1,253**	**-**	**-**	**-**	**1,253**	**3**	**1,256**
Transaction costs relating to the issue of ordinary shares	**(22)**	**-**	**-**	**-**	**(22)**	**-**	**(22)**
Payment of dividends	**-**	**-**	**-**	**(185)**	**(185)**	**-**	**(185)**
Share-based payments	**-**	**(2)**	**-**	**-**	**(2)**	**-**	**(2)**
Income tax relating to transactions with owners	**6**	**-**	**-**	**-**	**6**	**-**	**6**
Balance at 31 December 2014	**6,674**	**3**	**(66)**	**2,353**	**8,964**	**4**	**8,968**
Balance at 1 July 2013	5,354	3	(5)	1,988	7,340	-	7,340
Profit for the period	-	-	-	261	261	-	261
Other comprehensive income for the period, net of income tax	-	-	(22)	55	33	-	33
Total comprehensive income for the period	-	-	(22)	316	294	-	294
Transactions with owners in their capacity as owners:							
Issue of ordinary shares	63	-	-	-	63	-	63
Payment of dividends	-	-	-	(183)	(183)	-	(183)
Share-based payments	-	(2)	-	-	(2)	-	(2)
Balance at 31 December 2013	5,417	1	(27)	2,121	7,512	-	7,512

Notes to the condensed consolidated financial statements are included on pages 7 to 24.

AGL Energy Limited and controlled entities
Condensed consolidated Statement of Cash Flows
For the half-year ended 31 December 2014

	Note	Half-year ended 31 Dec 2014 $m	31 Dec 2013 $m
Cash flows from operating activities			
Receipts from customers		**6,001**	6,170
Payments to suppliers and employees		**(5,250)**	(5,198)
Dividends received		**3**	13
Finance income received		**9**	7
Finance costs paid		**(107)**	(106)
Income taxes paid		**(68)**	(138)
Net cash provided by operating activities		**588**	748
Cash flows from investing activities			
Payments for property, plant and equipment		**(352)**	(340)
Payments for exploration and evaluation assets		**(21)**	(13)
Payments for oil and gas assets		**(18)**	(33)
Payments for investments in associates and joint ventures		**(74)**	-
Payments for intangible assets		**-**	(17)
Payments for businesses and subsidiaries, net of cash acquired			
acquisitions in current period	16	**(1,216)**	(79)
acquisitions in prior period		**-**	(2)
Government grants received		**28**	96
Proceeds from sale of property, plant and equipment		**-**	2
Loans advanced to related parties		**(3)**	-
Proceeds from repayment of related party loans		**56**	-
Net cash used in investing activities		**(1,600)**	(386)
Cash flows from financing activities			
Proceeds from issue of shares, net of transaction costs		**1,210**	-
Proceeds from issue of shares to non-controlling interests		**3**	-
Purchase of shares on-market for equity based remuneration		**(5)**	(6)
Proceeds from borrowings		**1,277**	255
Repayment of borrowings		**(1,380)**	(202)
Payments for settlement of derivative financial instruments		**(4)**	-
Dividends paid	9	**(164)**	(120)
Net cash provided by/(used in) financing activities		**937**	(73)
Net (decrease)/increase in cash and cash equivalents		**(75)**	289
Cash and cash equivalents at the beginning of the period		**466**	281
Cash and cash equivalents at the end of the period	14	**391**	570

Notes to the condensed consolidated financial statements are included on pages 7 to 24.

Note 1 - Summary of significant accounting policies

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

The interim financial report includes the condensed consolidated financial statements which comprise the Parent Entity and its controlled entities (together referred to as AGL).

(a) Statement of compliance

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

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

(b) Basis of preparation

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

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

The accounting policies and methods of computation adopted in the preparation of the interim financial report are consistent with those adopted and disclosed in AGL's 2014 annual financial report for the year ended 30 June 2014, except for the impact of the Standards and Interpretations described below. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

(c) Adoption of new and revised Standards and Interpretations

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

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

(d) Change in recognition of Distribution Use of System costs

AGL announced to the market on 22 January 2015, that it has changed the recognition of Distribution Use of System (DUOS) costs in South Australia and Queensland for the Retail Energy and Merchant Energy operating segments. This change has resulted in a grossing up of revenue and expenses in the consolidated statement of profit or loss and a grossing up of receivables and payables in the consolidated statement of financial position. Comparative information in the condensed consolidated financial statements has been restated.

AGL Energy Limited and controlled entities
Notes to the condensed consolidated Financial Statements
For the half-year ended 31 December 2014

Note 1 - Summary of significant accounting policies (cont'd)

(d) Change in reporting of Distribution Use of System costs (cont'd)

The following tables summarise the impact on individual line items in AGL's financial statements.

Consolidated statement of profit or loss (extract) Half-year ended 31 December 2013	As previously reported $m	DUOS restatement $m	As restated $m
Revenue	4,842	445	5,287
Expenses	(4,207)	(445)	(4,652)
Profit before tax	371	-	371
Profit for the period	261	-	261

Consolidated statement of financial position (extract) As at 30 June 2014			
Current assets			
Trade and other receivables	1,743	159	1,902
Total current assets	3,252	159	3,411
Total assets	13,975	159	14,134
Current liabilities			
Trade and other payables	1,258	159	1,417
Total current liabilities	2,007	159	2,166
Total liabilities	6,387	159	6,546
Net assets	7,588	-	7,588

Note 2 - Segment information

Operating segments

AGL has four reportable operating segments as follows:

- Retail Energy
- Merchant Energy
- Upstream Gas
- Energy Investments

There has been no change to the way AGL determines operating segments or measures segment financial results from the methods used and disclosed in AGL's 2014 annual financial report.

Information regarding AGL's reportable segments is presented below.

	Retail Energy $m	Merchant Energy $m	Upstream Gas $m	Energy Investments $m	Other $m	Total $m
Half-year ended 31 December 2014						
Revenue						
Total segment revenue	2,813	3,268	34	7	-	6,122
Inter-segment revenue	-	(925)	(12)	(2)	-	(939)
External revenue	2,813	2,343	22	5	-	5,183
Earnings before interest, tax, depreciation and amortisation (EBITDA)	194	654	(4)	4	(113)	735
Depreciation and amortisation	(35)	(132)	(6)	-	(14)	(187)
Operating EBIT	159	522	(10)	4	(127)	548
Net financing costs						(117)
Underlying profit before income tax						431
Income tax expense						(129)
Underlying profit						302
Other segment information						
Share of profits of associates and joint ventures	-	-	-	12	-	12
Additions to non-current assets	24	1,726	69	83	6	1,908
Gain in fair value of financial instruments	-	194	-	-	(3)	191
Significant expense items	(10)	(132)	-	-	(24)	(166)

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 2013						
Revenue						
Total segment revenue	2,918	3,480	35	-	-	6,433
Inter-segment revenue	(14)	(1,121)	(11)	-	-	(1,146)
External revenue	2,904	2,359	24	-	-	5,287
Earnings before interest, tax, depreciation and amortisation (EBITDA)	179	531	(1)	14	(101)	622
Depreciation and amortisation	(43)	(98)	(12)	-	(14)	(167)
Operating EBIT	136	433	(13)	14	(115)	455
Net financing costs						(113)
Underlying profit before income tax						342
Income tax expense						(100)
Underlying profit						242
Other segment information						
Share of profits of associates and joint ventures	-	-	-	14	-	14
Additions to non-current assets	189	288	59	-	18	554
Gain in fair value of financial instruments	-	53	-	-	(2)	51
Significant expense items	(22)	-	-	-	-	(22)
Segment assets						
As at 31 December 2014	**3,599**	**9,125**	**1,172**	**213**	**114**	**14,223**
As at 30 June 2014	3,933	7,251	1,113	155	131	12,583
Segment liabilities						
As at 31 December 2014	**381**	**1,665**	**106**	**8**	**98**	**2,258**
As at 30 June 2014	543	1,227	105	-	101	1,976

Note 2 - Segment information (cont'd)

	Half-year ended 31 Dec 2014 $m	Half-year ended 31 Dec 2013 $m
Segment revenue reconciliation to the statement of profit or loss		
Reconciliation of segment revenue to total revenue is as follows:		
Total segment revenue for reportable segments	**6,122**	6,433
Elimination of inter-segment revenue	**(939)**	(1,146)
Total revenue	**5,183**	5,287
Revenue from major products and services		
The following is an analysis of AGL's revenue from its major products and services:		
Electricity	**3,070**	3,286
Gas	**1,437**	1,245
Generation sales to pool	**527**	599
Other goods and services	**149**	157
Total revenue	**5,183**	5,287
Segment Operating EBIT reconciliation to the statement of profit or loss		
Reconciliation of segment Operating EBIT to Profit before tax is as follows:		
Operating EBIT for reportable segments	**675**	570
Other	**(127)**	(115)
	548	455
Amounts excluded from underlying results:		
- gain in fair value of financial instruments	**191**	51
- significant expense items	**(166)**	(22)
Finance income included in Operating EBIT	**(2)**	(2)
Finance income	**10**	11
Finance costs	**(125)**	(122)
Profit before tax	**456**	371

Note 2 - Segment information (cont'd)

	As at	
	31 Dec 2014 $m	30 June 2014 $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	**14,109**	12,452
Other	**114**	131
	14,223	12,583
Cash and cash equivalents	**385**	456
Cash and cash equivalents included in disposal groups held for sale	**6**	10
Deferred tax assets	**656**	631
Derivative financial instruments	**653**	454
Total assets	**15,923**	14,134
Segment liabilities reconciliation to the statement of financial position		
Reconciliation of segment liabilities to total liabilities is as follows:		
Segment liabilities for reportable segments	**2,160**	1,875
Other	**98**	101
	2,258	1,976
Borrowings	**3,686**	3,714
Current tax liabilities	**83**	49
Deferred tax liabilities	**40**	50
Derivative financial instruments	**536**	515
Deferred consideration liabilities	**352**	242
Total liabilities	**6,955**	6,546

	Half-year ended 31 Dec 2014 $m	Half-year ended 31 Dec 2013 $m
Note 3 - Revenue		
Revenue from sale of goods	**5,112**	5,223
Revenue from rendering of services	**71**	63
Other revenue	**-**	1
	5,183	5,287

Note 4 - Expenses

	31 Dec 2014 $m	31 Dec 2013 $m
Cost of sales	**3,814**	4,149
Administration expenses	**119**	103
Employee benefits expense	**323**	264
Other expenses		
Gain in fair value of financial instruments	**(191)**	(51)
Impairment loss on trade receivables (net of bad debts recovered)	**50**	44
Cumulative loss reclassified from equity on acquisition of a business	**37**	-
Acquisition and integration costs	**106**	22
Restructuring and other costs	**23**	-
Operating lease rental expenses	**10**	11
Other	**146**	110
	4,437	4,652

Note 5 - Depreciation and amortisation

	31 Dec 2014 $m	31 Dec 2013 $m
Property, plant and equipment	**166**	126
Oil and gas assets	**3**	10
Intangible assets	**15**	28
Other	**3**	3
	187	167

Note 6 - Finance costs

	31 Dec 2014 $m	31 Dec 2013 $m
Interest expense		
Other entities	**111**	102
Finance costs capitalised	**(10)**	(6)
Unwinding of discounts on provisions	**8**	8
Unwinding of discount on deferred consideration	**13**	13
Other finance costs	**3**	5
	125	122

Note 7 - Significant expense items

Significant expense items before income tax

	31 Dec 2014 $m	31 Dec 2013 $m
Acquisition and integration costs	**106**	22
Cumulative loss reclassified from equity on acquisition of a business	**37**	-
Restructuring and other costs	**23**	-
	166	22

	Half-year ended 31 Dec 2014 $m	Half-year ended 31 Dec 2013 $m

Note 8 - 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:

	31 Dec 2014 $m	31 Dec 2013 $m
Profit before tax	**456**	371
Income tax expense calculated at the Australian tax rate of 30% (Dec 2013: 30%)	**137**	111
Non-deductible expenses	**14**	4
Share of profits of associates and joint ventures	**1**	1
Adjustments in relation to current tax of prior years	**(4)**	(6)
Income tax recognised in the statement of profit or loss	**148**	110

Note 9 - Dividends

Recognised amounts

Final dividend

	31 Dec 2014 $m	31 Dec 2013 $m
Final dividend for 2014 of 33.0 cents per share, fully franked at 30%, paid 30 September 2014 (Dec 2013: Final dividend for 2013 of 33.0 cents per share, fully franked at 30%, paid 27 September 2013)	**185**	183
Total dividends	**185**	183
Dividends satisfied by the issue of shares under the AGL Dividend Reinvestment Plan	**(21)**	(63)
Dividends paid as per the statement of cash flows	**164**	120

Unrecognised amounts

	31 Dec 2014 $m	31 Dec 2013 $m
Since the end of the financial period, the Directors have declared an interim dividend for 2015 of 30.0 cents per share, fully franked at 30%, (Dec 2013: 30.0 cents fully franked), payable 25 March 2015.	**202**	168

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. No discount will apply to shares allocated under the DRP. Shares will be allocated to plan participants at the volume weighted average price at which AGL shares trade during each of the 10 trading days commencing on 2 March 2015. The last date for shareholders to elect to participate in the DRP for the FY15 interim dividend is 27 February 2015.

Note 10 - Investments in associates and joint ventures

	Ownership interest		Contribution to net profit	
	As at		Half-year ended	
Name of entity	31 Dec 2014 %	31 Dec 2013 %	31 Dec 2014 $m	31 Dec 2013 $m
Associates				
CSM Energy Limited	**35**	35	**-**	-
Joint ventures				
ActewAGL Retail Partnership	**50**	50	**15**	14
Diamantina Holding Company Pty Limited	**50**	50	**(3)**	-
Energy Infrastructure Management Pty Ltd	**50**	50	**-**	-
Central Queensland Pipeline Pty Ltd	**50**	50	**-**	-
			12	14

	As at	
	31 Dec 2014 $m	30 June 2014 $m
Note 11 - Borrowings		
Current		
Bank loans - secured	**753**	34
Other loans - unsecured	**11**	11
Finance lease liabilities - secured	**1**	-
	765	45
Non-current		
USD senior notes - unsecured	**402**	339
Subordinated notes - unsecured	**650**	650
Medium term notes - unsecured	**597**	-
Bank loans - secured	**263**	1,255
Bank loans - unsecured	**840**	1,250
Other loans - unsecured	**172**	178
Finance lease liabilities - secured	**16**	16
Deferred borrowing costs	**(19)**	(19)
	2,921	3,669
Total borrowings	**3,686**	3,714

Medium term notes

On 5 November 2014, AGL issued A$600 million of senior unsecured, seven year fixed rate medium term notes. The notes were issued at a spread of swap plus 170 basis points, equating to a 5% coupon.

The funds were used to repay the $350 million Macquarie Generation debt bridge facility and to partially pre-pay the Loy Yang A senior debt facility due to mature in November 2015.

Note 12 - Issued capital

	As at			
	31 Dec 2014		**30 June 2014**	
	Number of shares	**$m**	**Number of shares**	**$m**
Movement in fully paid ordinary shares				
Balance at beginning of financial year	**559,719,746**	**5,437**	554,210,005	5,354
Shares issued under the institutional and retail rights offers (a)	**111,981,107**	**1,232**	-	-
Shares issued under AGL Dividend Reinvestment Plan (b)	**1,510,250**	**21**	5,433,903	82
Shares issued to shareholders with unpresented or unclaimed dividend payments (c)	**13,440**	**-**	75,838	1
Transaction costs relating to the institutional and retail rights offers		**(22)**		-
Deferred tax credit recognised directly in equity		**6**		-
Balance at end of financial period	**673,224,543**	**6,674**	559,719,746	5,437

(a) On 2 September 2014, 46,901,978 ordinary shares were issued at $11.00 per share to participating institutional shareholders under the institutional rights offer. On 25 September 2014, 65,079,129 ordinary shares were issued at $11.00 per share to participating retail shareholders under the retail rights offer.

The terms of the rights offer was one new AGL Energy Limited ordinary share offered for every five existing shares at $11.00 per share. The institutional and retail issues were fully underwritten. The net proceeds from the rights issues of $1,210 million were used to partially fund the acquisition of the Macquarie Generation assets.

The rights issues were at a discount to the then market price. Accordingly, earnings per share for all periods up to the date on which the shares were issued have been adjusted for the bonus element of the rights issues being 1.04048. The comparative earnings per share for the half year ended 31 December 2013 have been restated accordingly.

(b) On 30 September 2014, 1,510,250 ordinary shares were issued at $13.79 per share to participating shareholders under the AGL Dividend Reinvestment Plan.

(c) On 30 September 2014, 13,440 ordinary shares were issued at $13.79 per share to shareholders with unpresented or unclaimed dividend payments.

	Half-year ended 31 Dec 2014	Half-year ended 31 Dec 2013 (Restated)
Note 13 - Earnings per share (EPS)		
Statutory earnings per share		
Basic earnings per share	**48.6 cents**	45.1 cents
Diluted earnings per share	**48.6 cents**	45.0 cents
Underlying earnings per share		
Basic earnings per share	**47.7 cents**	41.8 cents
Diluted earnings per share	**47.6 cents**	41.8 cents

	Half-year ended 31 Dec 2014 $m	Half-year ended 31 Dec 2013 $m
Earnings used in calculating basic and diluted earnings per share		
Profit for the period attributable to owners of AGL Energy Limited	**308**	261
Statutory earnings used to calculate basic and diluted EPS	**308**	261
Significant expense items after income tax	**128**	17
Gain in fair value of financial instruments after income tax	**(134)**	(36)
Underlying earnings used to calculate basic and diluted EPS	**302**	242

	Half-year ended 31 Dec 2014 Number	Half-year ended 31 Dec 2013 (Restated) Number
Weighted average number of ordinary shares		
Number of ordinary shares used in the calculation of basic EPS pre adjusting for bonus element of the rights issue	**625,994,731**	556,388,343
Bonus element of the rights issue	**7,757,715**	22,522,600
Number of ordinary shares used in the calculation of basic EPS	**633,752,446**	578,910,943
Effect of dilution - LTIP share performance rights	**383,849**	490,512
Number of ordinary shares used in the calculation of diluted EPS	**634,136,295**	579,401,455

(a) In accordance with AASB 133 *Earnings per Share,* the comparative earnings per share calculations for the half year ended 31 December 2013 have been restated for the bonus element of the one-for-five share rights issue undertaken in September 2014. The previously reported 31 December 2013 weighted average number of shares has been adjusted by a factor of 1.04048 being the market price of one ordinary share at the close of the last day at which the shares traded together with the rights of $14.35, divided by the theoretical ex-rights price per share of $13.7917.

	As at 31 Dec 2014 $m	As at 31 Dec 2013 $m

Note 14 - Cash flow information

Reconciliation of cash and cash equivalents

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

	31 Dec 2014 $m	31 Dec 2013 $m
Cash at bank and on hand	**178**	129
Short-term deposits	**207**	441
Cash and cash equivalents included in disposal groups held for sale	**6**	-
	391	570

Restricted cash balances

Great Energy Alliance Corporation Pty Limited, a wholly-owned subsidiary, has cash and cash equivalents at 31 December 2014 of $192 million (30 June 2014: $189 million) which are held in reserve accounts which may only be used for the purposes specified under the project financing documents. This includes up to six months of debt repayments, a diminishing percentage of budgeted capital expenditure and payment of the carbon emissions liability.

Non-cash financing and investing activities

	31 Dec 2014 $m	31 Dec 2013 $m
Dividends satisfied by the issue of shares under the AGL Dividend Reinvestment Plan	**21**	63

Note 15 - Contingent liabilities

Details of contingent liabilities which Directors consider should be disclosed are set out below. The Directors are of the opinion that provisions are not required in respect of these matters, as it is either not probable that a future sacrifice of economic benefits will be required or the amount is not capable of reliable measurement.

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

(b) Pursuant to ASIC Class Order 98/1418 (as amended), the Parent Entity and certain wholly-owned Australian subsidiaries have entered in to a Deed of Cross Guarantee. The effect of the Deed is that the Parent Entity guarantees to each creditor, payment in full of any debt in the event of winding up of any of the subsidiaries under certain provisions of the Corporations Act 2001. The subsidiaries have also given a similar guarantee in the event that the Parent Entity is wound up. No liabilities subject to the Deed of Cross Guarantee at 31 December 2014 are expected to arise.

Note 16 - Acquisition of subsidiaries and businesses

Half-year ended 31 December 2014

Acquisition of Macquarie Generation

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

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

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

The power stations give AGL ownership of the lowest cost, large-scale base load generators in NSW and increase AGL's registered generation capacity by approximately 82 percent to more than 10,400 MW.

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

From the date of acquisition, it is not practicable to disclose Macquarie Generation's contribution to revenue and profit as the operations have been integrated into AGL's operating segments.

Half-year ended 31 December 2013

Acquisition of Australian Power and Gas Company Limited

On 25 October 2013, AGL completed the acquisition of 100% of the voting shares in Australian Power and Gas Company Limited (APG) by way of an off-market takeover. For consolidation purposes, AGL obtained control of APG on 16 September 2013. The purchase consideration of $102 million was paid in cash.

APG was an energy retailer, with its principal activity being the sale of electricity and gas to residential customers in Victoria, New South Wales and Queensland.

Acquisition-related costs of $4 million were excluded from the consideration paid and were recognised as an expense in profit or loss in the December 2013 half-year, within the 'other expenses' line item.

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

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

Assets acquired and liabilities assumed	Macquarie Generation 31 Dec 2014 $m	Other acquisition 31 Dec 2014 $m	Total 31 Dec 2014 $m	Australian Power and Gas 31 Dec 2013 $m	Other acquisition 31 Dec 2013 $m	Total 31 Dec 2013 $m
Current assets						
Cash and cash equivalents	**-**	**-**	**-**	24	-	24
Trade and other receivables (a)	**79**	**-**	**79**	69	-	69
Inventories	**183**	**-**	**183**	2	-	2
Other financial assets	**86**	**-**	**86**	-	-	-
Other assets	**11**	**-**	**11**	10	-	10
Total current assets	**359**	**-**	**359**	105	-	105
Non-current assets						
Other financial assets	**41**	**-**	**41**	-	-	-
Property, plant and equipment	**1,423**	**-**	**1,423**	-	-	-
Intangible assets	**11**	**-**	**11**	49	-	49
Deferred tax assets	**82**	**-**	**82**	31	-	31
Total non-current assets	**1,557**	**-**	**1,557**	80	-	80
Total assets	**1,916**	**-**	**1,916**	185	-	185
Current liabilities						
Trade and other payables	**54**	**-**	**54**	106	-	106
Borrowings	**-**	**-**	**-**	72	-	72
Provisions	**47**	**-**	**47**	1	-	1
Other financial liabilities	**28**	**-**	**28**	20	-	20
Total current liabilities	**129**	**-**	**129**	199	-	199
Non-current liabilities						
Provisions	**72**	**-**	**72**	-	-	-
Other financial liabilities	**196**	**-**	**196**	-	-	-
Other liabilities	**211**	**-**	**211**	-	-	-
Total non-current liabilities	**479**	**-**	**479**	-	-	-
Total liabilities	**608**	**-**	**608**	199	-	199
Net assets	**1,308**	**-**	**1,308**	(14)	-	(14)
Goodwill arising on acquisition	**-**	**5**	**5**	116	2	118
Fair value of net assets acquired	**1,308**	**5**	**1,313**	102	2	104
Purchase consideration	**1,505**	**5**	**1,510**	102	2	104
Less: working capital and other adjustments	**(104)**	**-**	**(104)**	-	-	-
Less: stamp duty	**(93)**	**-**	**(93)**	-	-	-
Net consideration	**1,308**	**5**	**1,313**	102	2	104
Cash paid	**1,211**	**5**	**1,216**	102	1	103
Consideration payable	**97**	**-**	**97**	-	1	1
Net consideration	**1,308**	**5**	**1,313**	102	2	104

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

(a) Trade and other receivables acquired with a fair value of $79 million (Dec 2013: $69 million) had gross contractual amounts of $79 million (Dec 2013: $118 million). The best estimate at acquisition date of the contractual cash flows not expected to be collected is $nil (Dec 2013: $49 million).

The initial accounting for the above acquisitions 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,* AGL 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 Dec 2014 $m	**31 Dec 2013 $m**
Net cash outflow on acquisitions		
Cash paid	**1,216**	103
Less: cash and cash equivalent balances acquired	**-**	(24)
	1,216	79

Note 17 - Disposal of subsidiaries

There were no disposals of subsidiaries made during the half year ended 31 December 2014 (Dec 2013: nil).

Note 18 - Financial instruments

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

• Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.

• Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices).

• Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

31 December 2014	Carrying amount $m	Level 1 $m	Level 2 $m	Level 3 $m	Total fair value $m
Financial assets					
Derivative financial instruments					
- Cross currency swap contracts - cash flow and fair value hedges	**52**	**-**	**52**	**-**	**52**
- Interest rate swap contracts - cash flow hedges	**7**	**-**	**7**	**-**	**7**
- Energy derivatives - cash flow hedges	**8**	**-**	**8**	**-**	**8**
- Energy derivatives - economic hedges	**588**	**14**	**164**	**410**	**588**
	655	**14**	**231**	**410**	**655**
Financial liabilities					
Derivative financial instruments					
- Interest rate swap contracts - cash flow hedges	**(97)**	**-**	**(97)**	**-**	**(97)**
- Energy derivatives - cash flow hedges	**(11)**	**-**	**(11)**	**-**	**(11)**
- Energy derivatives - economic hedges	**(428)**	**(13)**	**(59)**	**(356)**	**(428)**
	(536)	**(13)**	**(167)**	**(356)**	**(536)**
30 June 2014					
Financial assets					
Derivative financial instruments					
- Interest rate swap contracts - cash flow hedges	6	-	6	-	6
- Energy derivatives - cash flow hedges	3	-	3	-	3
- Energy derivatives - economic hedges	445	5	87	353	445
	454	5	96	353	454
Financial liabilities					
Derivative financial instruments					
- Cross currency swap contracts - cash flow and fair value hedges	(12)	-	(12)	-	(12)
- Interest rate swap contracts - cash flow hedges	(73)	-	(73)	-	(73)
- Energy derivatives - cash flow hedges	(90)	-	(90)	-	(90)
- Energy derivatives - economic hedges	(340)	(13)	(198)	(129)	(340)
	(515)	(13)	(373)	(129)	(515)

Management have assessed that the carrying value of financial assets (excluding derivative financial assets) and financial liabilities (excluding derivative financial liabilities) to be comparable to fair value.

Note 18 - Financial instruments (cont'd)

Estimation of fair values

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

a) Receivables/payables with a remaining life of less than 6 months, the notional amount is deemed to reflect the fair value. All other receivables/payables are discounted to determine the fair value if the effect of discounting is material.

b) The fair value of forward foreign exchange contracts and energy swap contracts is calculated as the present value of expected future cash flows relating to the difference between the contract rates and the market forward rates at the end of the reporting period. Interest rate and cross currency swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates that reflect the credit risk of various counterparties.

c) The fair value of borrowings is determined as the present value of future contracted cash flows and credit adjustments. Cash flows are discounted using standard valuation techniques at applicable market yield having regard to timing of cash flows.

d) The fair value of energy derivatives is determined as the present value of future contracted cash flows and credit adjustments. Cash flows are discounted using standard valuation techniques at applicable market yield having regard to timing of cash flows.

e) The fair value of lease liabilities is estimated as the present value of future cash flows discounted where the effect of discounting is material.

f) The fair value of deferred consideration is determined as the present value of future contracted cash flows and credit adjustments. Cash flows are discounted using standard valuation techniques at applicable market yield having regard to timing of cash flows.

The following table provides a reconciliation of fair value movements in Level 3 financial instruments.

	As at	
	31 Dec 2014	**30 June 2014**
Energy derivatives	**$m**	**$m**
Opening balance	**224**	224
Total gains and losses recognised in profit or loss		
- Settlements during the year	**33**	22
- Changes in fair value	**10**	(15)
Purchases	**3**	(7)
Transfers in from Level 2	**(61)**	-
Acquisition through business combination	**(155)**	-
Closing balance	**54**	224

The total gains or losses for the year included a gain of $37 million relating to energy derivative contracts held at the end of the reporting period (June 2014: a gain of $8 million). Fair value gains or losses on energy derivatives are included in other expenses in the line item ‘gain in fair value of financial instruments' in Note 4.

The sensitivity of level 3 contracts with significant unobservable inputs, where the inputs are higher by 10% is $155 million and lower by 10% is ($80) million (profit after tax increase/(decrease)). Inputs changes were applied to WACC and other relevant indices in cost plus models and to unpublished future market prices in market based contracts.

Note 19 - Subsequent events

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

Debt facility refinance

On 4 February 2015, AGL executed a $410 million 6.5-year debt facility with a group of Asian banks. These funds will be used on 12 February 2015 to partially repay the Loy Yang A Senior Debt facility. Following this repayment, there will remain $332 million outstanding on this facility, which requires refinancing prior to the loan maturing in November 2015.

Retirement of CEO

Mr Michael Fraser retires as Managing Director and CEO effective 11 February 2015. Mr Andy Vesey has been appointed as Mr Fraser's successor.

Interim dividend

On 11 February 2015, the Directors of AGL resolved to pay a fully franked interim dividend of 30.0 cents per share, amounting to $202 million. The record date for the interim dividend is 26 February 2015 with payment to be made on 25 March 2015. Shares will commence trading ex-dividend on 24 February 2015.

The AGL Dividend Reinvestment Plan (DRP) will be in operation. No discount will apply to shares allocated under the DRP. Shares will be allocated to plan participants at the volume weighted average price at which AGL shares trade during each of the 10 trading days commencing on 2 March 2015. The last date for shareholders to elect to participate in the DRP for the FY15 interim dividend is 27 February 2015.

Note 20 - Information on audits or review

1. This report has been prepared in accordance with AASB Standards, other AASB authoritative pronouncements and Interpretations or other standards acceptable to ASX.
2. This report, and the accounts upon which the report is based (if separate), use the same accounting policies.
3. This report does give a true and fair view of the matters disclosed.
4. This report is based on accounts to which one of the following applies.

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

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

AGL Energy Limited and controlled entities

Directors' Declaration
For the half-year ended 31 December 2014

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 2014 and of the performance for the half-year ended on that date of AGL; and

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

The Directors also declare that, in their opinion:

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

Signed in accordance with a resolution of the Directors

Jeremy Maycock
Chairman
Sydney, 11 February 2015

Deloitte.

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

11 February 2015

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 2014, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the Corporations Act 2001 in relation to the review; and

(ii) any applicable code of professional conduct in relation to the review.

Yours sincerely

DELOITTE TOUCHE TOHMATSU

G Couttas
Partner
Chartered Accountants

Deloitte.

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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 2014 and the condensed Consolidated Statement of Profit or Loss, the condensed Consolidated Statement of Comprehensive Income, the condensed Consolidated Statement of Cash Flows and the condensed Consolidated Statement of Changes in Equity for the half-year ended on that date, 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 2 to 25.

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 gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of AGL Energy Limited's financial position as at 31 December 2014 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

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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 2014 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

G. Couttas

G Couttas
Partner
Chartered Accountants
Sydney, 11 February 2015