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ASX & Media Release

AGL Energy Limited Financial Results – Half Year Ended 31 December 2017

8 February 2018

Attached are the following documents relating to AGL Energy Limited's results for the half year ended 31 December 2017:

- Appendix 4D – Half Year Report
- Directors' Report
- Interim Financial Report.

John Fitzgerald

Company Secretary

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About AGL

AGL is committed to helping shape a sustainable energy future for Australia. We operate the country's largest electricity generation portfolio, we're its largest ASX-listed investor in renewable energy, and we have more than 3.6 million customer accounts. Proudly Australian, with more than 180 years of experience, we have a responsibility to provide sustainable, secure and affordable energy for our customers. Our aim is to prosper in a carbon-constrained world and build customer advocacy as our industry transforms. That's why we have committed to exiting our coal-fired generation by 2050 and why we will continue to develop innovative solutions for our 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 2017

				31 December 2017 $A million	31 December 2016 $A million
Revenue	**Up**	**7.0%**	to	**6,450**	6,030
Statutory Profit after tax attributable to shareholders	**Up**	**91.4%**	to	**622**	325
Underlying Profit after tax attributable to shareholders	**Up**	**26.7%**	to	**493**	389
				31 December 2017 cents	31 December 2016 cents
Statutory Earnings per share	**Up**	**96.7%**	to	**94.8**	48.2
Underlying Earnings per share	**Up**	**30.3%**	to	**75.2**	57.7
				31 December 2017 $A	30 June 2017 $A
Net tangible asset backing per share	**Up**	**6.3%**	to	**6.95**	6.54
				Amount cents	Franked amount cents
Interim dividend per ordinary share				54.0	43.2
Prior interim dividend per ordinary share				41.0	32.8

Record date for determining entitlements to the interim dividend:
23 February 2018 and payable 26 March 2018.

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

Statutory Profit after tax of $622 million included a gain of $2 million after tax treated as significant items and a gain of $127 million after tax from the changes in the fair value of financial instruments. Excluding these items, the Underlying Profit after tax was $493 million, 26.7% up on the prior corresponding period.

Underlying Profit after tax is 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 after tax 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.

This report should be read in conjunction with the AGL Directors' Report incorporating the Operating and Financial Review and the Interim Financial Report for the half-year ended 31 December 2017 released to the market on 8 February 2018.

AGL Energy Limited
and controlled entities

Directors' Report

for the half-year ended 31 December 2017

(including the Operating & Financial Review)

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 2017 (the period). Financial comparisons used in this report are of results for the half-year ended 31 December 2016 (the prior corresponding period) for statement of profit or loss and cash flow analysis, and 30 June 2017 for statement of financial position analysis.

Directors in Office

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

	First Appointed
Current Directors:	
Graeme Hunt – Chairman	01 September 2012 (Appointed as Chairman on 27 September 2017 at the conclusion of the Annual General Meeting)
Andrew Vesey – Managing Director	12 February 2015
Leslie Hosking	01 November 2008
John Stanhope	09 March 2009
Belinda Hutchinson	22 December 2010
Jacqueline Hey	21 March 2016
Diane Smith-Gander	28 September 2016
Peter Botten	21 October 2016
Former Directors:	
Jerry Maycock – Chairman	09 October 2006 (Retired 27 September 2017 at the conclusion of the Annual General Meeting)

Subsequent Events

Apart from the matters identified below and elsewhere in this Directors' Report and the Interim Financial Report, the Directors are not aware of any other matter or circumstance that has arisen since 31 December 2017 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 the future.

Dividends

The Directors have declared an interim dividend of 54.0 cents per share, compared with 41.0 cents per share for the prior interim dividend. The dividend will be 80% franked and will be paid on 26 March 2018. The record date to determine shareholders' entitlements to the interim dividend is 23 February 2018. Shares will commence trading ex-dividend on 22 February 2018.

AGL's dividend policy is to target a payout ratio of approximately 75% of annual Underlying Profit after tax and a minimum franking level of 80%. 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.

AGL is able to pay the unfranked component of the dividend out of certain foreign source income (conduit foreign income, or CFI). This is relevant only for non-resident shareholders. The effect is that the unfranked portion of the dividend will not be subject to Australian dividend withholding tax.

Unfranked dividends sourced from CFI have no tax implications for Australian resident shareholders.

The AGL Dividend Reinvestment Plan (DRP) will operate in respect of the 2018 interim dividend. AGL will acquire shares on market and allot them to DRP participants at no discount to the simple average of the daily weighted-average price on each of the 10 trading days commencing 27 February 2018. The last date for shareholders to elect to participate in the DRP for the 2018 interim dividend is 26 February 2018.

Non-IFRS Financial Information

The Operating & Financial Review attached to and forming part of this Directors' Report includes a number of non-International Financial Reporting Standards (IFRS) financial measures. AGL management uses these non-IFRS financial measures to assess the performance of the business and make decisions on the allocation of resources.

Principal among these non-IFRS financial measures is Underlying Profit. This measure is Statutory Profit/(Loss) adjusted for:

- significant items (which are material items of revenue or expense that are unrelated to the underlying performance of the business); and
- 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 financial instruments and the underlying asset differently).

AGL believes that Underlying Profit provides a better understanding of its financial performance than Statutory Profit/(Loss) and allows for a more relevant comparison of financial performance between financial periods.

Underlying Profit is presented with reference to the Australian Securities & Investment Commission (ASIC) 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.

Rounding

AGL is an entity to which ASIC Corporations Instrument 2016/191 applies and, in accordance with that Instrument, amounts in the Interim Financial Report and this Directors' Report have been rounded to the nearest million dollars, unless otherwise stated.

Auditor's Independence Declaration

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

Graeme Hunt

Chairman

Sydney, 8 February 2018

AGL Energy Limited

Operating & Financial Review

for the half-year ended 31 December 2017

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1. About AGL

AGL is a leading integrated energy business that has been operating for more than 180 years and is committed to helping shape a sustainable energy future for Australia. AGL operates the country's largest private electricity generation portfolio, its total capacity of 10,245 MW accounting for 25% of total generation within the National Electricity Market in the financial half-year ended 31 December 2017. AGL is also the largest ASX-listed investor in renewable energy, an active participant in gas and electricity wholesale markets and has more than 3.6 million gas and electricity customer accounts.

1.1 Operating Segments

AGL manages its business in four key operating segments: Wholesale Markets, Customer Markets, Group Operations and Investments. Further detail on the activities of each operating segment is provided further below.

In accordance with Australian Accounting Standard AASB 8 *Operating Segments*, AGL reports segment information on the same basis as its internal management structure. As a result, the Wholesale Markets and Customer Markets operating segments report the majority of the revenue and margin from AGL's activities, while the Group Operations operating segment reports the majority of the expenses.

AGL manages and reports a number of expense items including information technology under Centrally Managed Expenses. These costs are not formally reallocated to the other operating segments because their management is the responsibility of various corporate functions.

Included within Centrally Managed Expenses is New Energy, which pursues opportunities to create value for AGL customers through the development of innovative solutions and channel partnerships. New Energy invests in emerging technologies and technology-enabled disruptive business models. The direct investments that are made by New Energy are reported in the Investments segment.

On 13 December 2017, AGL published restated segmental results to reflect the split of the former Energy Markets operating segment into Wholesale Markets and Customer Markets. This change was effective 1 July 2017. Refer to section 6.6.

1.1.1 Wholesale Markets

Wholesale Markets comprises Wholesale Electricity, Wholesale Gas and Eco Markets and is responsible for managing the price risk associated with procuring electricity and gas for AGL's customers and for managing AGL's obligations in relation to renewable energy schemes. Wholesale Markets also controls the dispatch of AGL's owned and contracted generation assets and an associated portfolio of energy hedging products.

- Wholesale Electricity is responsible for managing the procurement of key fuel inputs and hedging of AGL's wholesale electricity requirements, for commercial management of the generation portfolio and for wholesale pricing to support AGL's consumer and business customer bases.
- Wholesale Gas is responsible for sourcing and managing AGL's gas supply and transportation portfolio to maximise wholesale price effectiveness. Wholesale Gas supplies other retailers, internal and third-party gas-fired generators, and other gas customers. Wholesale Gas is also responsible for the management of the price exposures related to AGL's oil-linked wholesale gas contracts.
- Eco Markets is responsible for managing AGL's liabilities relating to both voluntary and mandatory renewable energy schemes, the largest being the Small Scale Renewable Energy Scheme (SRES) and the Large Scale Renewable Energy Target (LRET).

1.1.2 Customer Markets

Customer Markets comprises the Consumer, Business and New Energy Services customer portfolios and is responsible for the retailing of electricity, gas, solar and energy efficiency products and services to residential and business customers. Customer Markets sources its energy from Wholesale Markets at a transfer price based on methodologies that reflect the prevailing wholesale market conditions and other energy costs in each state.

- The Consumer business is responsible for the sales and service experience of customers and includes product innovation, sales, marketing, brand and operations. Customer markets is also leading the customer experience digital transformation; delivering new ways for customers to engage with energy, including giving customers convenience, simplicity and control of their energy.
- Business Customers is responsible for the sale of electricity and gas to high consuming commercial and industrial customers and for assisting customers to manage risks associated with energy markets.
- New Energy Services sells and installs residential and commercial solar together with business energy efficiency solutions.

1.1.3 Group Operations

Group Operations comprises AGL's power generation portfolio and other key sites and operating facilities, comprising four business units: Thermal, Renewables, Natural Gas, and Other operations.

- Thermal primarily comprises: AGL Macquarie (4,640 MW), consisting of the Bayswater and Liddell black coal power plants in New South Wales; AGL Loy Yang (2,210 MW), a brown coal mine and power plant in Victoria; and AGL Torrens (1,280 MW), a gas power plant in South Australia.
- Renewables primarily comprises 924 MW of wind power generation in South Australia and Victoria; 788 MW of hydro-electric power stations in Victoria and New South Wales; and 156 MW of solar power in New South Wales.
- Natural Gas includes the Newcastle Gas Storage Facility in New South Wales, the Silver Springs underground gas storage facility in Queensland, the natural gas production assets at Camden in New South Wales and the North Queensland gas assets, including the Moranbah Gas Project. AGL has entered into an agreement to sell the North Queensland gas assets (refer section 1.3 below).

- Other operations primarily consists of National Assets which is currently held for sale, and the Active Stream metering business, which was sold in November 2017 (refer section 1.3 below).

1.1.4 Investments

Investments includes AGL's interests in the ActewAGL Retail Partnership, Powering Australian Renewables Fund and New Energy investments including: Advanced Microgrid Solutions, Energy Impact Partners' Fund, Solar Analytics Pty Limited and Sunverge Energy Inc.

1.2 Portfolio Reporting

In addition to segmental reporting, AGL reports a Portfolio Review for both its Electricity and Gas businesses. This provides a consolidated margin for each fuel across operating segments. Refer section 7 below.

1.3 Significant Changes to Assets

On 25 August 2017, AGL agreed to sell its North Queensland gas assets to a consortium of Shandong Order Gas Co. Ltd and Orient Energy Pty Ltd. The sale remains subject to a number of conditions precedent including regulatory approval.

On 30 November 2017, AGL completed the sale of its Active Stream metering business for proceeds of $165 million. A post tax gain of $29 million was recognised in profit or loss for the period.

The sale process for AGL's National Asset portfolio continues to progress. Non-current assets of $74 million have been presented as held for sale in the 31 December 2017 financial position.

2. Review of Financial Position

AGL's financial position is consistent with the strong profitability of its operations, the strong conversion of income to cash flow and the essential nature of the services AGL provides to its customers.

AGL maintained its credit rating of Baa2 as provided by Moody's Investor Services throughout the period. Key metrics consistent with this credit rating at 31 December 2017 are set out in section 5.

AGL's dividend policy is to target a payout ratio of 75% of annual Underlying Profit after tax and a minimum franking level of 80%. Total dividends declared for the period of $354 million were 29% higher than the prior corresponding period, consistent with AGL's strong profit and cash flow growth.

The Dividend Reinvestment Plan (DRP) continued to operate during the period, at nil discount. During the year, AGL acquired shares for allotment to DRP participants on market, thereby preventing any dilutive impact that would have occurred if new shares were issued.

Refer to section 5 for more details in relation to AGL's financial position.

2.1 Hedging Position

AGL's primary hedging activities relate to its wholesale markets risk management. Details of AGL's hedging position and strategy at any particular time are not disclosed for reasons of commercial confidence.

AGL has in place a governance framework that establishes the policy guidelines 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 and AGL's risk appetite objectives are not endangered.

A full description of AGL's risk management framework is provided in the annual Corporate Governance Statement.

3. Group Results Summary

3.1 Reconciliation of Statutory Profit to Underlying Profit

3.1.1 Profit after Tax

	Half-year ended 31 December 2017 $m	Half-year ended 31 December 2016 $m
Statutory Profit after tax	**622**	325
Adjust for:		
Significant items after tax		
Sunverge impairment	**27**	–
Active Stream gain on divestment	**(29)**	–
(Gain)/loss on fair value of financial instruments after tax	**(127)**	64
Underlying Profit after tax	**493**	389

Statutory Profit after tax attributable to shareholders was $622 million, up 91.4% compared with the prior corresponding period. This included two items excluded from Underlying Profit:

- A change in fair value of financial instruments of $127 million compared with ($64 million) in the prior corresponding period. The gain in the current period was largely driven by the initial mark to market adjustment on the Powering Australian Renewables Fund electricity purchase contracts combined with less volatility in wholesale prices compared to the prior corresponding period. The negative movement in the prior corresponding period was mainly driven by a significant increase in wholesale electricity prices compared with certain wholesale electricity supply contracts.
- Significant items of $2 million from impairments and divestments.

Underlying Profit after tax was $493 million, up 26.7% from the prior corresponding period. A description of the factors driving Underlying Profit is included in section 3.2.

	Half-year ended 31 December 2017	Half-year ended 31 December 2016
Earnings per share on Statutory Profit[1]	**94.8 cents**	48.2 cents
Earnings per share on Underlying Profit[1]	**75.2 cents**	57.7 cents

1. EPS calculations have been based upon a weighted average number of ordinary shares of 655,825,043 (31 December 2016: 673,809,793)

3.1.2 Earnings before Interest and Tax (EBIT)

	Half-year ended 31 December 2017 $m	Half-year ended 31 December 2016 $m
Statutory EBIT	**997**	592
Significant items	**3**	–
(Gain)/loss on fair value of financial instruments	**(183)**	91
Finance income included in Underlying EBIT	**2**	2
Underlying EBIT	**819**	685

3.1.3 Summary of Underlying EBIT by Business Unit

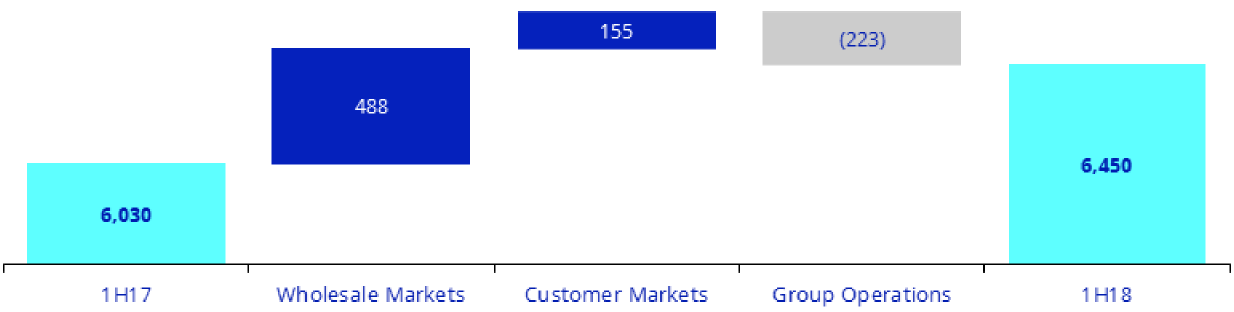
	Half-year ended 31 December 2017 $m	Half-year ended 31 December 2016 $m
Wholesale Markets	**1,233**	985
Customer Markets	**154**	229
Group Operations	**(439)**	(410)
Investments	**16**	11
Centrally Managed Expenses	**(145)**	(130)
Underlying EBIT	**819**	685

Refer to section 6 for detailed Business Unit analysis.

3.2 Group Financial Performance

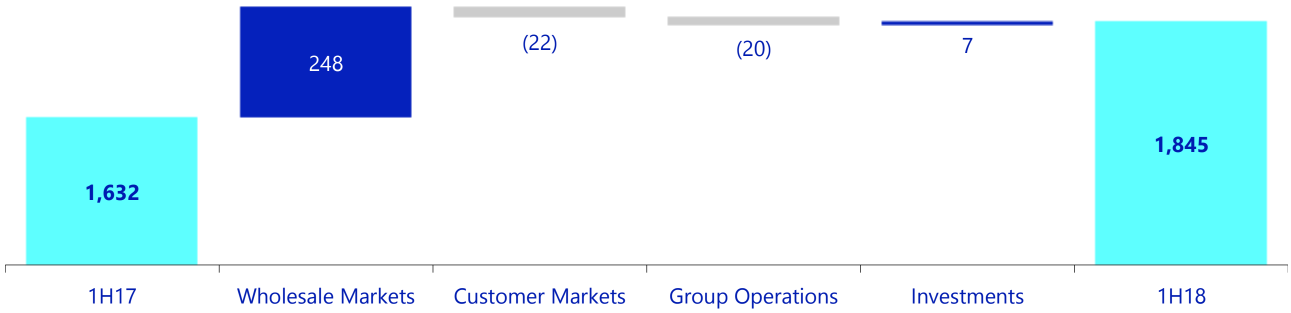
	Half-year ended 31 December 2017 $m	Half-year ended 31 December 2016 $m
Revenue	**6,450**	6,030
Cost of sales	**(4,628)**	(4,211)
Other income/(loss)	**23**	(187)
Gross margin	**1,845**	1,632
Operating costs (excluding depreciation & amortisation)	**(761)**	(708)
Underlying EBITDA	**1,084**	924
Depreciation & amortisation	**(265)**	(239)
Underlying EBIT	**819**	685
Net finance costs	**(116)**	(116)
Underlying Profit before tax	**703**	569
Income tax expense	**(210)**	(180)
Underlying Profit after tax	**493**	389

3.2.1 Period-on-period movement in revenue ($m)



Total revenue in the period was $6,450 million, up 7.0%, driven predominantly by the increase of the unit price of electricity generated and sold into the National Electricity Market pool and increased customer revenue reflecting higher electricity prices. The increases were partially offset by the non-recurrence of revenue in Group Operations associated with asset divestments that occurred in the prior corresponding period. Further analysis on the movement in gross margin is provided below.

3.2.2 Period-on-period movement in gross margin ($m)



Total gross margin was $1,845 million, up 13.1%. The increase was largely attributable to Wholesale Markets benefitting from higher wholesale electricity prices and higher per unit wholesale gas revenue more than offsetting higher gas supply costs. Offsetting the higher Wholesale Markets gross margin was a small decrease in Customer Markets gas margin, resulting from higher commodity prices and higher discounting, and a minor decrease in Group Operations reflecting the non-recurrence of a one-off margin benefit of $21 million in the prior corresponding period from the divestment of solar assets into the Powering Australian Renewables Fund. The solar divestment comprised government grant revenue of $223 million recognised within revenue, and a loss on disposal of ($202 million) recognised in other income/(loss).

Other income/(loss) includes equity accounted investments and the profit or loss on asset disposals. The prior corresponding period other income/(loss) of ($187 million) was driven by the divestment of the solar assets as noted above.

3.2.3 Operating costs

	Half-year ended 31 December 2017 $m	Half-year ended 31 December 2016 $m
Wholesale Markets	**(10)**	(10)
Customer Markets	**(271)**	(221)
Group Operations	**(347)**	(359)
Investments	**(2)**	-
Centrally Managed Expenses	**(131)**	(118)
Operating Costs (excluding depreciation & amortisation)	**(761)**	(708)
Depreciation & amortisation	**(265)**	(239)
Operating Costs (including depreciation & amortisation)	**(1,026)**	(947)

Total operating costs excluding depreciation & amortisation were $761 million, up 7.5%. Costs associated with growth and transformation were $53 million. Business as usual costs were $708 million, in line with prior corresponding period. The increase in operating costs is in line with expectations previously communicated but remains an area of significant ongoing focus.

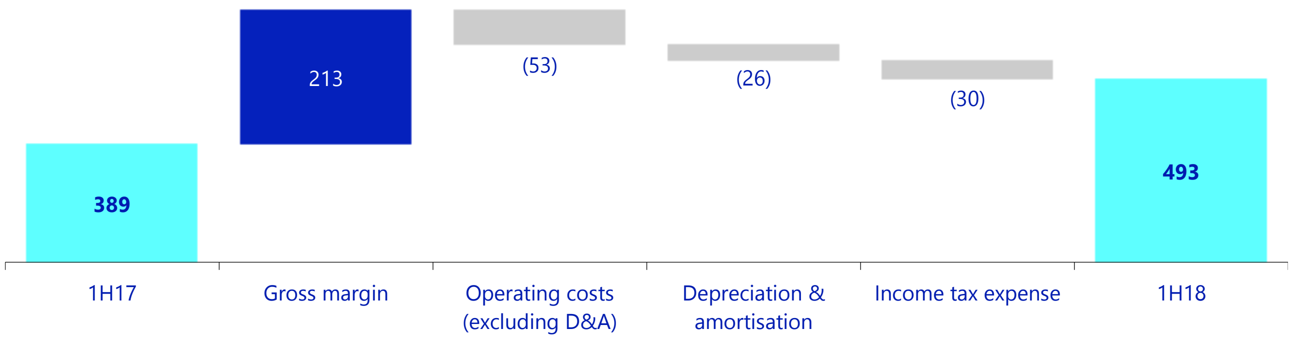
The largest driver of the increase in costs excluding depreciation & amortisation was a $50 million increase in Customer Markets. This was driven by increased market activity costs due to higher retail prices, high levels of publicity in relation to the energy sector, and increased competition. Market activity costs include the flow-on impacts associated with increasing consumer prices in particular acquisition and retention activity (up 29%), calls to call centres, bad and doubtful debts expense and channel costs. The higher market activity costs were reflected in campaign and advertising costs (including the relaunch of AGL's brand), labour and contractor costs, and bad and doubtful debts.

Centrally Managed Expenses operating costs excluding depreciation & amortisation increased $13 million, driven by costs incurred to respond to changes in regulatory landscape, investment in New Energy projects and transformation activity. Centralised labour costs excluding growth and market activity were flat.

The reduction in Group Operations operating costs excluding depreciation & amortisation of $12 million was primarily attributable to lower Natural Gas maintenance and well workover activities, and higher capitalisation of costs due to increased major outage activity at Loy Yang and Macquarie. This was partly offset by initiatives to maintain plant availability, and transformation costs at Loy Yang.

Higher depreciation & amortisation, principally in Group Operations, reflected a higher asset base at AGL Macquarie as a result of capital expenditure to achieve life attainment relative to a short depreciation schedule given the closure of Liddell Power Station in 2022. In addition, depreciation on the Torrens A power station increased reflecting an asset life revision due to a decision to mothball the station.

3.2.4 Period-on-period movement in Underlying Profit after tax ($m)



Underlying Profit after tax was $493 million, up 26.7%. The principal driver of the increase was the strong margin growth in Wholesale Markets driven by higher wholesale electricity prices (refer section 6.1) This was offset to some degree by higher operating costs in Customer Markets and higher depreciation & amortisation (refer section 3.2.3 above).

Finance costs were $116 million, in line with the prior corresponding period. Underlying tax expense was $210 million, up 16.7% broadly reflecting the increase in profit. The underlying effective tax rate was 29.9% down from 31.6% in the prior corresponding period. The higher prior corresponding period effective tax rate was primarily driven by a provision raised on the divestment of the solar assets to the Powering Australian Renewables Fund.

3.3 Significant Items

3.3.1 Asset and business disposals

Current period

On 30 November 2017 AGL completed the disposal of its Active Stream metering business. A post tax profit of $29 million was recognised in the period.

AGL started the Active Stream business in May 2015 as part of its New Energy strategy. Since that time, Active Stream has installed more than 230,000 digital meters across New South Wales, Queensland and South Australia. AGL's decision to divest Active Stream reflects the evolution of AGL's strategy to become technology agnostic in the development of innovative, data-enabled energy products and services that are accessible to all customers, regardless of meter provider. Post the sale, Active Stream will continue to provide digital metering services to AGL on a non-exclusive basis.

Prior corresponding period

Nil.

3.3.2 Asset impairments

Current period

During the period AGL impaired the carrying value of its investment interest in Sunverge Energy Inc and related assets, following rapid technological changes in the market. A total post tax impairment loss of $27 million was recognised in the period.

AGL acquired a 22% share in Sunverge Energy Inc in January 2016 as part of its strategy, which prioritised the ability to be a first-mover in the orchestration of both large and small customer-owned energy assets. This investment enabled the launch of the Virtual Power Plant (VPP) pilot in South Australia and further enhanced AGL's orchestration knowledge which will underpin future customer led initiatives.

Prior corresponding period

Nil.

3.4 Changes in Fair Value of Financial Instruments

AGL, in large part, uses financial instruments to manage energy and oil price risks ("derivatives"), but also to manage its exposure to interest rates and foreign exchange rates arising in the normal course of business. AGL considers this activity to be hedging in nature.

Australian Accounting Standard AASB 139 *Financial Instruments: Recognition and Measurement* requires derivatives and certain assets and liabilities, to be reported at their 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. 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.

Changes in the fair value of derivatives between reporting periods for "ineffective hedges" and other assets and liabilities carried at fair value, are recognised in the statement of profit or loss.

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. However, it does not adequately address the more complex exposures from managing energy price risk. This means that a significant number of AGL's energy derivatives are not considered effective hedges under AASB 139.

The change in fair value of financial instruments reported in profit and loss for the half-year ended 31 December 2017 was a gain of $127 million after tax. For the half-year ended 31 December 2016, the change in fair value of financial instruments was a loss of $64 million after tax.

A reconciliation of the statement of financial position movement in financial instruments carried at fair value, which balances to the amount included in the statement of profit or loss for the half-year ended 31 December 2017 is presented in the following table:

Net Assets/(Liabilities)	31 December 2017 $m	30 June 2017 $m	Change $m
Energy derivative contracts	**(367)**	(486)	119
Cross currency and interest rate swap derivative contracts	**(50)**	(38)	(12)
Total net liabilities for financial instruments	**(417)**	(524)	107
Change in net liability	**107**		
Premiums paid	**(54)**		
Premium roll off	**73**		
Total change in fair value	**126**		
Recognised in equity hedge reserve	**(37)**		
Recognised in borrowings	**(20)**		
Recognised in profit and loss – pre tax	**183**		
Total change in fair value	**126**		

4. Cash Flow

4.1 Reconciliation of Underlying EBITDA to Cash Flow

		Half-year ended 31 December 2017 $m		Half-year ended 31 December 2016 $m
Underlying EBITDA		**1,084**		924
Equity accounted income (net of dividend received)		**(7)**		(12)
Accounting for onerous contracts		**(16)**		(20)
Gain on divestments		**-**		(21)
Movement in other assets / liabilities and non-cash items		**(26)**		(46)
Working capital movements				
(Increase) / decrease in receivables	**(2)**		105	
Increase / (decrease) in creditors	**(21)**		(205)	
(Increase) / decrease in inventories	**(44)**		87	
Net derivative premiums paid / roll-offs	**(9)**		(25)	
(Increase) / decrease in other financial assets (margin calls)	**10**		(112)	
Net movement in green assets / liabilities	**38**		9	
Other	**(14)**		15	
Total working capital movements		**(42)**		(126)
Underlying operating cash flow before interest & tax		**993**		699
Net finance costs paid		**(87)**		(84)
Income taxes paid		**(110)**		(144)
Net cash provided by operating activities		**796**		471
Net cash used in investing activities		**(147)**		-
Net cash (used in)/provided by financing activities		**(720)**		246
Net (decease)/increase in cash and cash equivalents		**(71)**		717

Underlying operating cash flow before interest & tax of $993 million was up $294 million compared with the prior corresponding period. Cash conversion rate was 92% up from 76% in the prior corresponding period.

Movement in other assets / liabilities and non-cash items predominantly related to the timing of employee provisions.

Total working capital movements for the half-year ended 31 December 2017 were ($42 million):

- Lower cash flow from receivables compared to the prior corresponding period reflected higher consumer and wholesale energy prices, and the timing of wholesale settlements with AEMO for electricity generation.
- Higher cash flow from trade creditors compared to the prior corresponding period was driven by lower network costs, higher wholesale energy prices and the timing of wholesale settlements with AEMO for electricity purchases.
- Lower cash flow from inventory compared to the prior corresponding period was driven by i) a lower coal stockpile at 30 June 2017 due to delivery delays and an increase in coal rates in the current period; ii) increase in Active Stream trading stock prior to the divestment of the business. The disposal of the trading stock was reflected in sale proceeds (within investing cash flows); and iii) in the prior corresponding period AGL utilised significant gas inventory balances available under contractual arrangements.
- Higher cash flow from margin calls compared to the prior corresponding period as a result of large increases in wholesale electricity prices in the prior year. The cash out flows in the prior corresponding period are beginning to reverse as expected in the current period as existing positions roll-off. In the current period the positive impact has been largely offset by new margin calls arising from new movements in forward electricity prices.

The decrease in income tax paid was largely due to the prior corresponding period including the tax payable on the sale of Macarthur wind farm.

Investing cash flow increased due to higher capital expenditure and lower proceeds from asset sales compared with the prior corresponding period.

Financing cash flow includes dividends paid of ($328 million) and a net borrowing repayment of ($382 million) including the CPI Bonds Purchase. The prior corresponding period included the issuance of unsecured senior notes.

4.2 Capital Expenditure

	Half-year ended 31 December 2017 $m	Half-year ended 31 December 2016 $m
Wholesale Markets	**6**	1
Customer Markets	**77**	39
Group Operations	**202**	176
Centrally Managed Expenses	**42**	12
Total capital expenditure	**327**	228

4.2.1 Summary of capital expenditure split between growth and sustaining.

	Half-year ended 31 December 2017 $m	Half-year ended 31 December 2016 $m
Growth	**122**	93
Sustaining	**205**	135
Total capital expenditure	**327**	228

Total capital expenditure was $327 million (prior corresponding period: $228 million).

- Sustaining capital expenditure was $205 million (prior corresponding period: $135 million). The increase from the prior corresponding period was driven by higher life attainment spend principally at Loy Yang including the scheduled Unit 1 outage. It also included higher major outage spend at AGL Macquarie, including the Liddell 2 unplanned outage. The increase at Liddell is reflective of higher planned spend to achieve life attainment.
- Growth capital expenditure was $122 million (prior corresponding period: $93 million) driven by spend on transformation initiatives including the Customer Experience Transformation and the PT3 enterprise resource planning upgrade.

5. Summary Statement of Financial Position

	31 December 2017 $m	30 June 2017 $m
Assets		
Cash and cash equivalents	**83**	154
Other current assets	**3,565**	3,471
Property, plant and equipment	**6,512**	6,447
Intangible assets	**3,278**	3,286
Other non-current assets	**919**	1,100
Total assets	**14,357**	14,458
Liabilities		
Borrowings	**2,950**	3,346
Other liabilities	**3,571**	3,538
Total liabilities	**6,521**	6,884
Net assets / total equity	**7,836**	7,574

At 31 December 2017, AGL's total assets were $14,357 million, a small decrease from $14,458 million at 30 June 2017. There was no significant change to the composition of AGL's assets during the period.

Total liabilities at 31 December 2017 were $6,521 million, down from $6,884 million at 30 June 2017. The primary change related to a decrease in borrowings due to the repayment of CPI bonds and other borrowings.

Total equity at 31 December 2017 was $7,836 million. AGL's return on equity is calculated on a rolling twelve month basis (i.e. Underlying Profit after tax divided by average monthly equity for the previous 12 months). For the 12 month period ended 31 December 2017 return on equity was 11.7%, an improvement from 8.9% for the 12 months ended 31 December 2016. The improvement in return on equity reflects an increase in Underlying Profit as well as a reduction in average monthly equity from $8,058 million to $7,734 million, due to on-market share buybacks carried out between October 2016 and June 2017.

	31 December 2017 $m	30 June 2017 $m
Net debt reconciliation		
Borrowings	**2,950**	3,346
Less: Adjustment for cross currency swap hedges and deferred borrowing costs	**5**	(14)
Cash and cash equivalents	**(83)**	(154)
Net debt	**2,872**	3,178

Net debt at 31 December 2017 was $2,872 million, down from $3,178 million at 30 June 2017 reflecting the repayment of CPI bonds and other borrowings as noted above.

AGL's gearing (measured as the ratio of net debt to net debt plus equity) at 31 December 2017 was 26.8% compared with 29.6% at 30 June 2017.

AGL maintained its credit rating of Baa2 throughout the period as provided by Moody's Investor Services. Key metrics consistent with this credit rating at 31 December 2017 (annualised) and calculated with a similar methodology were:

- Interest cover: 6.6 times
- Funds from operations to net debt: 32%

AGL's funds from operations has been calculated with a similar methodology to Moody's whereby the movement in all current and non-current tax assets and liabilities is treated as working capital. As in prior years, a calculation has been undertaken to normalise for material changes in non-current tax assets and liabilities (including movements in fair value and tax loss utilisation). The normalised interest cover for the period is 7.6 times and normalised funds from operations to net debt is 38%.

6. Review of Operations

Summary of Underlying EBIT and EBITDA

	Half-year ended 31 December 2017 $m	Half-year ended 31 December 2016 $m
Gross margin	**1,845**	1,632
Operating costs (excluding depreciation & amortisation)	**(761)**	(708)
Underlying EBITDA	**1,084**	924
Depreciation & amortisation	**(265)**	(239)
Underlying EBIT	**819**	685

6.1 Wholesale Markets Underlying EBIT

	Half-year ended 31 December 2017 $m	Half-year ended 31 December 2016 $m
Wholesale Electricity gross margin	**996**	772
Wholesale Gas gross margin	**240**	164
Eco Markets gross margin	**11**	63
Gross margin	**1,247**	999
Operating costs (excluding depreciation & amortisation)	**(10)**	(10)
Underlying EBITDA	**1,237**	989
Depreciation & amortisation	**(4)**	(4)
Underlying EBIT	**1,233**	985

Wholesale Markets Underlying EBIT was $1,233 million, up 25.2% as increases in Wholesale Electricity and Wholesale Gas gross margin more than offset lower Eco Markets gross margin.

- Wholesale Electricity gross margin was $996 million, up 29.0%. Wholesale prices in the National Electricity Market increased in the current period driven by the closure of non-AGL power plants in South Australia and Victoria and higher fuel costs (mainly gas and black coal). Higher wholesale prices resulted in the Wholesale Electricity business increasing the transfer price charged to the Customer Markets businesses and higher per unit revenue on external electricity sales, including to wholesale customers.

  Offsetting higher revenue was an increase in fuel costs from $16.3/MWh in the prior corresponding period to $20.1/MWh, reflecting higher coal and gas prices. The increase in coal costs was mainly due to a higher use of short-term contracts because of rail infrastructure congestion in the NSW Hunter Valley, reducing the availability of lower cost coal to AGL Macquarie. Fuel costs were also impacted by higher wholesale gas prices. In addition, Wholesale Electricity gross margin was impacted by lower generation volume. Total pool generation volume was 21,327 GWh, down 878 GWh compared with the prior corresponding period, mainly due to planned and unplanned outages at AGL Macquarie's Liddell Power Station.

- Wholesale Gas gross margin was $240 million, up 46.3%. The increase was driven by a higher transfer price across the consumer and business portfolios, reflecting a step-up in wholesale prices. This was partly offset by gas purchase costs, which increased to $5.0/GJ from $4.6/GJ in the prior corresponding period. In addition, a number of wholesale contracts rolled off in the prior year, reducing wholesale customer margins in the current period. Although Business Customer volumes declined by 44.8% compared with the prior corresponding period (refer section 7.2), the margin impact from these contracts to Wholesale Gas was relatively minor.

- Eco Markets gross margin was $11 million, down 82.5% as compliance costs increased due to AGL sourcing a larger portion of Large-scale Renewable Energy Certificates (LRECs) through on-market purchases. In the prior corresponding period AGL sourced a greater proportion of its obligation through self-generation and drawdown of existing inventory. This was not repeated in the current period due to the lower opening inventory of certificates and the increased compliance obligation per MWh consistent with the step-up through to 2030 under the Renewable Energy Target.

6.2 Customer Markets Underlying EBIT

	Half-year ended 31 December 2017 $m	Half-year ended 31 December 2016 $m
Consumer Electricity gross margin	**263**	244
Consumer Gas gross margin	**127**	150
Business Electricity gross margin	**20**	18
Business Gas gross margin	**23**	38
New Energy Services gross margin	**(1)**	5
Fees, charges and other margin	**39**	38
Gross margin	**471**	493
Operating costs (excluding depreciation & amortisation)	**(271)**	(221)
Underlying EBITDA	**200**	272
Depreciation & amortisation	**(46)**	(43)
Underlying EBIT	**154**	229

Customer Markets Underlying EBIT was $154 million, down 32.8% largely due to costs associated with substantial market activity in Consumer Electricity, driven by higher commodity prices being reflected in consumer pricing. Higher consumer pricing impacted the level of customer switching and market churn, impacting customer discounting and operating costs.

- Consumer Electricity gross margin was $263 million, up 7.8%. Disciplined and effective price management across the portfolio was reflected in consumer price increases as a result of higher wholesale market prices. This was partially offset by higher wholesale electricity costs (transfer price) and increased discounting due to market activity and customer product switching. Total average consumption per customer decreased by 0.8%, largely due to changes to customer portfolio mix. Average residential consumption per customer declined 0.8%. Small business consumption per customer increased 1.5%.
- Consumer Gas gross margin was $127 million, down 15.3%, as a result of increased gas commodity costs (transfer price) and increased discounting within a highly competitive market. Gas volumes increased 2.4% largely due to colder weather. Average consumption per customer increased by 3.0% overall, with a 3.0% increase in average residential consumption per customer and a 4.2% increase in average small business consumption per customer.
- Business Electricity gross margin was $20 million, up 11.1%, as a result of favourable customer mix due to strategic customer acquisition and retention activities in a volatile and competitive market. This was partly offset by a 13.6% decrease in volumes.
- Business Gas gross margin was $23 million down 39.5%, due to a 44.8% decline in volumes due to tight market conditions and the loss of two large customers in 2H FY17.
- New Energy Services gross margin was ($1 million), down $6 million, driven by a one-off cost of $4 million incurred as part of the integration of the New Energy Services business into Customer Markets.
- The modest increase in fees, charges and other margin to $39 million reflected increases in paper bill and disconnection recovery fees, partly offset by lower late payment fees, reflecting a positive trend of customers paying on time and AGL's focus on customer affordability.

6.2.1 Customer Markets Net Operating Costs

	Half-year ended 31 December 2017 $m	Half-year ended 31 December 2016 $m
Labour and contractor services	**(85)**	(78)
Bad and doubtful debts	**(50)**	(39)
Campaigns and advertising	**(71)**	(48)
Net other expenditure	**(26)**	(18)
Net Operating costs (excluding depreciation & amortisation)	**(232)**	(183)
Less: fees, charges and other margin	**39**	38
Operating costs (excluding depreciation & amortisation)	**(271)**	(221)
Add: depreciation & amortisation	**(46)**	(43)
Operating costs (including depreciation & amortisation)	**(317)**	(264)

Customer Markets operating costs excluding depreciation & amortisation of $271 million increased $50 million.

- Labour and contractor services costs increased by $7 million, or 9.0%, as a result of ensuring customer facing staff levels were sufficient in a time of high market activity, entering the Western Australian gas market and restructuring the Energy Markets business to form Customer Markets.
- Bad and doubtful debts increased $11 million, or 28.2%, due to higher revenues and customer debt due to price increases.
- Campaigns and advertising costs increased by $23 million, or 47.9% due to increased sales and retention costs driven by intense marketing activity with sales and retentions increasing 28.8%, costs associated with entering the Western Australian gas market and brand transformation activities.
- Net other expenditure increased $8 million, or 44.4%, due to an increase in payment channel costs charged by providers, higher communication costs and an increase in ombudsman compliance costs despite a lower volume of complaints. This was combined with a reduction in net fees, charges and other margin to $11 million from $13 million in the prior corresponding period largely due to a decline in late payment fees reflecting a higher proportion of customers paying on time and AGL's continued focus on customer affordability.

Depreciation & amortisation of $46 million was $3 million higher than the prior corresponding period because of increased capital expenditure compared with the prior period, reflecting the customer experience transformation program. Depreciation will increase in future years as the program is delivered.

6.2.2 Consumer Customer Profitability and Operating Efficiency

	Half-year ended 31 December 2017	Half-year ended 31 December 2016
Gross margin	**$390m**	$394m
Net operating costs (including depreciation & amortisation)	**($251m)**	($204m)
EBIT	**$139m**	$190m
Average customer accounts	**3,659,256**	3,668,295
Gross margin per customer account	**$107**	$107
Net operating costs per customer account	**($69)**	($56)
EBIT per account	**$38**	$52
Net operating costs as percentage of gross margin	**64.4%**	51.8%
Cost to Serve	**($150m)**	($133m)
Cost to Grow	**($101m)**	($71m)
Cost to Serve per account	**($41)**	($36)
Cost to Grow per new account	**($90)**	($82)

Consumer EBIT per customer account decreased $14 per account or 26.9% driven by increased net operating costs. Consumer gross margin per customer account was flat year on year at $107 as gross margin decreased $4 million or 1.0% and average customer accounts decreased 9,039 or 0.2% due to multisite losses and disconnection for non-identification in the second half of FY17.

Consumer net operating costs per customer account increased $13 per account or 23.2% and Consumer net operating costs as a percentage of gross margin increased 12.6 ppts to 64.4%. Higher customer prices resulted in an increase in market activity costs as noted above.

Cost to Serve per customer account has increased by $5 per account with the increase in customer pricing driving higher bad and doubtful debts expense, payment channel and debt collection costs in line with the increases in billed revenue.

Cost to Grow per customer account includes the consumer operating costs related to acquiring and retaining customers divided by the number of customers acquired and retained. Cost to Grow per account increased $8 due to marketing campaign activity associated with AGL entering the Western Australia gas market, brand transformation activity and increased costs associated with acquisition and retention activity. Acquisitions and retentions increased 28.8% driven by increased market activity. Internal acquisitions and retentions increased 37.5% with a strong focus on internal retention activity and improving the internal and external channel mix. Digital acquisitions and retentions increased 51.8% driven by AGL's Customer Experience Transformation. Discounts continued to increase across the portfolio as a result of market activity.

6.2.3 Customer Numbers and Churn

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

	31 December 2017 ('000)	30 June 2017 ('000)
Consumer Electricity	**2,245**	2,237
New South Wales	**824**	807
Victoria	**651**	638
South Australia	**383**	388
Queensland	**387**	404
Consumer Gas	**1,413**	1,402
New South Wales	**654**	657
Victoria	**537**	531
South Australia	**132**	132
Queensland	**83**	82
Western Australia	**7**	-
Total Consumer accounts	**3,658**	3,639
Total Business Customer accounts	**15**	14
Total Customer accounts	**3,673**	3,653

AGL churn increased by 1.1 ppts to 17.5% from 16.4% reported at 30 June 2017 due to increased competition and market activity. The Rest of Market churn increased 3.6 ppts to 23.8% from 20.2% reported at 30 June 2017, increasing the favourable gap between AGL and the rest of the market from 3.8% as at 30 June 2017 to 6.3% as at 31 December 2017.

Electricity customer accounts increased 0.4% due to increased acquisitions and retentions through sales and marketing campaigns. Gas customer accounts increased 0.8% due to entering the Western Australian market and increased market activity.

6.3 Group Operations Underlying EBIT

	Half-year ended 31 December 2017 $m	Half-year ended 31 December 2016 $m
Gross Margin	**109**	129
Operating costs (excluding depreciation & amortisation)	**(347)**	(359)
Underlying EBITDA	**(238)**	(230)
Depreciation & amortisation	**(201)**	(180)
Underlying EBIT	**(439)**	(410)

The following tables provide a breakdown of the contributors to Underlying EBITDA and Underlying EBIT:

Thermal	**(200)**	(204)
Renewables	**(22)**	(4)
Natural Gas	**(7)**	(14)
Other operations	**(9)**	(8)
Underlying EBITDA	**(238)**	(230)

Thermal	**(366)**	(346)
Renewables	**(35)**	(18)
Natural Gas	**(23)**	(26)
Other operations	**(15)**	(20)
Underlying EBIT	**(439)**	(410)

Group Operations Underlying EBIT was ($439 million), down 7.1%.

- Thermal Underlying EBIT was ($366 million), down 5.8%, largely attributed to higher depreciation of $24 million which reflected a higher asset base at AGL Macquarie as a result of increased capital expenditure to achieve life attainment relative to a short depreciation schedule given the committed closure date of Liddell Power Station of 2022. In addition, depreciation on the Torrens A power station increased reflecting an asset life revision due to a decision to mothball the station. Thermal operating costs also increased reflecting initiatives to maintain plant availability, CPI and wage escalation, and transformation costs at Loy Yang.

  The increase in thermal operating costs was partly offset by higher coal sales to Loy Yang B and additional capitalisation of costs at Macquarie and Loy Yang due to increased major outage activity.

- Renewables Underlying EBIT was ($35 million), down 94.4%, largely reflecting a one-off margin benefit of $21 million in the prior corresponding period for the divestment of solar assets into the Powering Australian Renewables Fund, partly offset by lower depreciation from Hydro assets.

- Natural Gas Underlying EBIT was ($23 million), up 11.5%, primarily a result of lower Silver Springs and Camden well workover and maintenance activity and lower Moranbah field development. This was partly offset by reduced Moranbah revenue driven by lower sale volumes and increased depreciation in Camden due to changes in useful life in Camden in line with the current exit strategy.

- Other operations Underlying EBIT was ($15 million), up 25.0%, primarily attributable to the discontinuation of Distributed Energy Services depreciation from April 2017 with assets being held-for-sale, and impact of Active Stream divestment in November 2017.

6.3.1 Group Operations Operating Costs

	Half-year ended 31 December 2017 $m	Half-year ended 31 December 2016 $m
Labour	**(165)**	(159)
Contractor services	**(89)**	(91)
Other operations	**(93)**	(109)
Operating costs (excluding depreciation & amortisation)	**(347)**	(359)

Group Operations operating costs excluding depreciation & amortisation of $347 million decreased $12 million, primarily due to lower Natural Gas maintenance and well workover activities, higher capital recoveries driven by Macquarie and Loy Yang major outage activity, and lower solar operating costs following the divestment of Nyngan and Broken Hill solar plants. This was partly offset by initiatives to maintain plant availability, Loy Yang transformation costs, and CPI and wage escalation across the fleet.

6.4 Centrally Managed Expenses Underlying EBIT

	Half-year ended 31 December 2017 $m	Half-year ended 31 December 2016 $m
Underlying EBITDA	**(131)**	(118)
Depreciation & amortisation	**(14)**	(12)
Underlying EBIT	**(145)**	(130)

The following table provides a more detailed breakdown of Centrally Managed Expenses operating costs excluding depreciation & amortisation.

	Half-year ended 31 December 2017 $m	Half-year ended 31 December 2016 $m
Labour	**(60)**	(56)
Hardware and software costs	**(36)**	(32)
Consultants and contractor services	**(9)**	(6)
Insurance premiums	**(9)**	(10)
Other	**(17)**	(14)
Operating costs (excluding depreciation & amortisation)	**(131)**	(118)

Centrally Managed Expenses Underlying EBIT was ($145 million), down 11.5%, reflecting costs incurred to respond to changes to the regulatory landscape, investment in New Energy projects, and hardware and software costs to drive transformation activities. Depreciation & amortisation costs were higher driven by additional investment in capital expenditure relating to technology projects. Labour costs excluding growth and market activity was flat.

6.5 Investments Underlying EBIT

	Half-year ended 31 December 2017 $m	Half-year ended 31 December 2016 $m
ActewAGL	**18**	15
New Energy investments	**(1)**	(2)
Other	**(1)**	(2)
Underlying EBIT	**16**	11

ActewAGL Retail partnership contributed an equity share of profits of $18 million for the period compared with $15 million in the prior corresponding period. The increase was due to increased customer pricing from 1 July 2017.

New Energy is creating a portfolio of innovative, technology investments that align with AGL's strategic imperatives. Investments to date include: Advanced Microgrid Solutions (orchestration and demand response technology), Energy Impact Partners (investment fund with a focus on energy efficiency, storage, connected devices and energy management), Solar Analytics Pty Limited (solar monitoring) and Sunverge Energy Inc (energy storage hardware and software). During the period, AGL's investment in August Home Inc was sold to a third party resulting in AGL recouping the capital amount invested.

6.6 Segment Restatement

On 13 December 2017, AGL published restated segmental results to reflect the split of the previous Energy Markets operating segment into two new operating segments, Wholesale Markets and Customer Markets. New Energy Services was also incorporated into Customer Markets and there was a minor update to reflect the transfer of the Health, Safety & Environment function from Group Operations to Centrally Managed Expenses (People & Culture).

Prior corresponding period

Revised Structure	Half-year ended 31 December 2016 $m
Wholesale Markets	985
Customer Markets	229
Group Operations	(410)
Investments	11
Centrally Managed Expenses	(130)
Underlying EBIT	685

Previous Structure	Half-year ended 31 December 2016 $m
Energy Markets	1,214
Group Operations	(416)
Investments	11
Centrally Managed Expenses	(124)
Underlying EBIT	685

7. Portfolio Review

7.1 Electricity Portfolio

Electricity portfolio review reporting combines the Wholesale Markets, Customer Markets (Consumer and Business) and Group Operations businesses to reflect the procurement and hedging of AGL's electricity requirements, the costs of managing and maintaining AGL's owned and contracted generation assets, and the margin from external customers.

All volume generated is sold into the National Electricity Market ("the pool") for which AGL receives pool generation revenue. Pool generation revenue is driven by volume and pool prices, which are set by the real-time market and differ by state. The total volume demanded by AGL customers is then purchased from the pool according to the geographical profile of customer demand and is reported as pool purchase costs. Where pool generation volumes exceed volumes purchased for customers, the net generation volume surplus drives revenue from indirect customers, which is incorporated within the pool generation revenue. Costs incurred in generating volume sold into the pool are reported as costs of generation, of which Wholesale Markets manages the cost of sales and Group Operations manages generation operation costs and asset depreciation.

	Half-year ended 31 December 2017 GWh	Half-year ended 31 December 2016 GWh	Movement %
Consumer customers pool purchase volume	**7,411**	7,552	(1.9)
Business customers & Wholesale Markets pool purchase volume	**13,260**	12,074	9.8
Pool purchase volume	**20,671**	19,626	5.3
Add: Net generation volume surplus	**656**	2,579	(74.6)
Pool generation volume	**21,327**	22,205	(4.0)
Consumer customer sales	**6,949**	7,023	(1.1)
Business customer sales	**5,014**	5,805	(13.6)
Wholesale customer sales	**7,982**	5,880	35.7
Total customer sales volume	**19,945**	18,708	6.6
Energy losses	**726**	918	(20.9)
Pool purchase volume	**20,671**	19,626	5.3

Pool generation volumes were 878 GWh lower than the prior corresponding period, mainly due to lower generation at Liddell. Total customer sales volumes increased 1,237 GWh or 6.6% to 19,945 GWh. Consumer customer sales volumes decreased 74 GWh or 1.1% driven by lower average consumption due to unfavourable customer mix changes across the residential and small business portfolios, particularly within the PowerDirect branded portfolio. Business customer sales volumes were 791 GWh or 13.6% lower predominately due to the loss of two large customers. Wholesale customer sales volumes were up 2,102 GWh, or 35.7%, driven by increased commercial load from new and existing Wholesale Customers, and this resulted in pool purchase volumes increasing 1,045 GWh or 5.3% to 20,671 GWh.

	Portfolio Margin		Per Unit		Volume Denominator	
	Half-year ended 31 December 2017 $m	Half-year ended 31 December 2016 $m	Half-year ended 31 December 2017 $/MWh	Half-year ended 31 December 2016 $/MWh	Half-year ended 31 December 2017 GWh	Half-year ended 31 December 2016 GWh
Consumer customers[1]	**2,076**	1,897	**298.7**	270.1	**6,949**	7,023
Business customers[1]	**761**	775	**151.8**	133.5	**5,014**	5,805
Wholesale customers & Eco Markets[1, 7]	**439**	265	**55.0**	45.1	**7,982**	5,880
Group Operations (Thermal & Renewables)	**52**	68				
Total revenue[1]	**3,328**	3,005	**166.9**	160.6	**19,945**	18,708
Consumer network costs[1]	**(857)**	(889)	**(123.3)**	(126.6)	**6,949**	7,023
Consumer other cost of sales[1]	**(257)**	(222)	**(37.0)**	(31.6)	**6,949**	7,023
Business customers network costs[1]	**(290)**	(321)	**(57.8)**	(55.3)	**5,014**	5,805
Business customers other cost of sales[1]	**(116)**	(93)	**(23.1)**	(16.0)	**5,014**	5,805
Customer network and other cost of sales[1]	**(1,520)**	(1,525)	**(127.1)**	(118.9)	**11,963**	12,828
Fuel costs[3]	**(428)**	(361)	**(20.1)**	(16.3)	**21,327**	22,205
Generation running costs[3]	**(262)**	(263)	**(12.3)**	(11.8)	**21,327**	22,205
Depreciation & amortisation[3]	**(179)**	(157)	**(8.4)**	(7.1)	**21,327**	22,205
Costs of generation (a) [3]	**(869)**	(781)	**(40.7)**	(35.2)	**21,327**	22,205
Pool generation revenue[5, 7]	**1,930**	1,311	**90.5**	59.0	**21,327**	22,205
Pool purchase costs[2, 7]	**(1,843)**	(1,240)	**(89.2)**	(63.2)	**20,671**	19,626
Net derivative (cost)/revenue[5]	**(138)**	(40)	**(6.5)**	(1.8)	**21,327**	22,205
Net Portfolio Management (b) [4]	**(51)**	31	**(2.6)**	1.7	**19,945**	18,708
Total wholesale costs (a + b) [2]	**(920)**	(750)	**(44.5)**	(38.2)	**20,671**	19,626
Total costs[4]	**(2,440)**	(2,275)	**(122.3)**	(121.6)	**19,945**	18,708
Portfolio margin[6]	**888**	730	**44.5**	39.0	**19,945**	18,708
Consumer customers	**263**	244				
Business customers	**20**	18				
Wholesale Electricity	**996**	772				
Eco Markets	**10**	60				
Group Operations (Thermal & Renewables)	**(401)**	(364)				

1. Customer sales volume – revenue and cost is driven by customer sales volume, which is utilised to calculate $/MWh for key Consumer, Business and Wholesale Customer metrics.
2. Pool purchase volume – as Wholesale Markets manage the purchase of pool volume to meet customer demand, pool purchase volume is utilised to calculate the $/MWh cost.
3. Pool generation volume – this is the direct driver of all costs of generation (fuel costs, generation running costs and depreciation & amortisation) and is used to calculate the $/MWh cost.
4. Customer sales volume – excluding generation volumes, which drive generation running costs, the portfolio comprises volumes sold to customers. Sold volumes is utilised to calculate the net portfolio management $MWh.
5. Pool generation volume – pool generation revenue is directly earned on pool generation volume, which is utilised calculate a $/MWh value. Additionally, derivative instruments are used to manage hedging requirements of the consumer and business customer loads, as well as the long energy position where generation volume is more than the internal AGL portfolio (the net generation volume surplus).
6. Customer sales volume – whilst various drivers exist within total cost of sales metrics and overall portfolio margin, ultimately the volume sold to customers is the key driver of calculating margin and is used to calculate the $/MWh value.
7. Pool generation revenue, Wholesale electricity revenue and pool purchase costs include amounts from certain wholesale contracts that are treated as derivatives for statutory reporting purposes. In the statutory accounts the amounts associated with these contracts are recognised within cost of sales.

Electricity portfolio margin increased to $44.5 per MWh from $39.0 per MWh driven by higher wholesale prices and customer pricing discipline.

Total revenue increased by $323 million. Revenue from Consumer customers increased $179 million to $2,076 million driven by price changes reflecting higher wholesale market prices, offset by lower sales volumes and increased customer discounting within a competitive market. Business customer revenue decreased $14 million to $761 million due to lower sales volumes. Wholesale Electricity & Eco Markets revenue increased $174 million reflecting the 2,102 GWh increase in Wholesale customer sales volumes and contract price increases.

Total wholesale costs increased by $170 million, or $6.3 per MWh. Net portfolio management costs increased $82 million or $4.3 per MWh driven by higher pool prices and increased forward contract prices following closure of non-AGL power stations in South Australia and Victoria. Fuel costs increased $67 million or $3.8 per MWh reflecting increased short-term coal purchase and higher gas cost. Increased depreciation is predominantly due to a higher asset base at AGL Macquarie and a revision of Torrens A Station's useful life.

Lower network rates and customer sales volumes resulted in lower network costs.

In addition to the commentary above, Electricity portfolio margin is discussed in sections 6.1 and 6.2.

7.2 Gas Portfolio

The gas portfolio review reporting combines the Wholesale Markets and Customer Markets (Consumer and Business) businesses to reflect the procurement and hedging of AGL's gas requirements and the margin from external customers.

	Half-year ended 31 December 2017 PJ	Half-year ended 31 December 2016 PJ	Movement %
Consumer customers	**34.2**	33.4	2.4
Business customers	**21.6**	39.1	(44.8)
Wholesale Markets & generation	**44.5**	58.2	(23.5)
Total customer sales volume	**100.3**	130.7	(23.3)
Energy losses	**1.4**	2.5	(44.0)
Gas purchase volume	**101.7**	133.2	(23.6)

Total customer sales volume decreased 30.4 PJ or 23.3% to 100.3 PJ due to the loss of large Business Customers and Wholesale customers driven by gas supply constraints in the market. The increase in Consumer customer volumes was driven by colder weather.

	Portfolio Margin		Per Unit		Volume Denominator	
	Half-year ended 31 December 2017 $m	Half-year ended 31 December 2016 $m	Half-year ended 31 December 2017 $/GJ	Half-year ended 31 December 2016 $/GJ	Half-year ended 31 December 2017 PJ	Half-year ended 31 December 2016 PJ
Consumer customers	**825**	755	**24.1**	22.6	**34.2**	33.4
Business customers	**212**	290	**9.8**	7.4	**21.6**	39.1
Wholesale Gas & Eco Markets	**366**	454	**8.2**	7.8	**44.5**	58.2
Total revenue	**1,403**	1,499	**14.0**	11.5	**100.3**	130.7
Consumer network costs	**(294)**	(280)	**(8.6)**	(8.4)	**34.2**	33.4
Consumer other cost of sales	**(20)**	(23)	**(0.6)**	(0.7)	**34.2**	33.4
Business customers network costs	**(20)**	(30)	**(0.9)**	(0.8)	**21.6**	39.1
Business customers other cost of sales	**(5)**	(8)	**(0.2)**	(0.2)	**21.6**	39.1
Customer network and other cost of sales	**(339)**	(341)	**(6.1)**	(4.7)	**55.8**	72.5
Gas purchases	**(504)**	(607)	**(5.0)**	(4.6)	**100.3**	130.7
Haulage, storage & other	**(169)**	(196)	**(1.7)**	(1.5)	**100.3**	130.7
Total wholesale costs	**(673)**	(803)	**(6.7)**	(6.1)	**100.3**	130.7
Total costs	**(1,012)**	(1,144)	**(10.1)**	(8.8)	**100.3**	130.7
Portfolio margin	**391**	355	**3.9**	2.7	**100.3**	130.7
Consumer customers	**127**	150				
Business customers	**23**	38				
Wholesale Gas	**240**	164				
Eco Markets	**1**	3				

Gas portfolio margin increased by $1.2 per GJ to $3.9 per GJ driven by an increase in the market price.

Total revenue decreased by $96 million to $1,403 million largely due to a reduction in Business customers and Wholesale customers sales revenue. The reduction in Business Customers revenue was due to a decrease in volumes sold due to tight market conditions and the loss of two large customers in 2H FY17. The decrease in Wholesale Customers was driven by the roll-off of a number of wholesale customers. Consumer revenue increased $70 million to $825 million due to consumer price increases driven by higher wholesale prices and higher volumes driven by colder weather, partially offset by increased discounting in a competitive market.

Total cost of sales decreased $132 million mainly due to lower gas sales volumes. Cost escalation of network, gas supply and haulage contracts have been offset through higher customer prices. Network cost increase is due to an increase in total customer sales volumes and increased network prices.

In addition to the commentary above, Gas portfolio margin is discussed in sections 6.1 and 6.2.

Appendix 1 – Consolidated Financial Performance by Operating Segment

Half-year ended 31 December 2017 $m	Wholesale Markets	Customer Markets	Group Operations	Centrally Managed Expenses	Investments	Inter-segment	**Total Group**
Revenue	4,275	3,930	122	-	-	(1,877)	**6,450**
Cost of sales	(3,028)	(3,459)	(18)	-	-	1,877	**(4,628)**
Other income/(loss)	-	-	5	-	18	-	**23**
Gross margin	**1,247**	**471**	**109**	-	**18**	**-**	**1,845**
Operating costs (excluding depreciation & amortisation)	(10)	(271)	(347)	(131)	(2)	-	**(761)**
Underlying EBITDA	**1,237**	**200**	**(238)**	**(131)**	**16**	**-**	**1,084**
Depreciation & amortisation	(4)	(46)	(201)	(14)	-	-	**(265)**
Underlying EBIT	**1,233**	**154**	**(439)**	**(145)**	**16**	**-**	**819**
Net finance costs							**(116)**
Underlying Profit before tax							**703**
Income tax expense							**(210)**
Underlying Profit after tax							**493**

Half-year ended 31 December 2016 $m	Wholesale Markets	Customer Markets	Group Operations	Centrally Managed Expenses	Investments	Inter-segment	**Total Group**
Revenue	3,565	3,781	346	-	**-**	(1,662)	**6,030**
Cost of sales	(2,566)	(3,288)	(19)	-	**-**	1,662	**(4,211)**
Other income/(loss)	**-**	**-**	(198)	**-**	11	-	**(187)**
Gross margin	**999**	**493**	**129**	-	**11**	**-**	**1,632**
Operating costs (excluding depreciation & amortisation)	(10)	(221)	(359)	(118)	-	-	**(708)**
Underlying EBITDA	**989**	**272**	**(230)**	**(118)**	**11**	**-**	**924**
Depreciation & amortisation	(4)	(43)	(180)	(12)	-	-	**(239)**
Underlying EBIT	**985**	**229**	**(410)**	**(130)**	**11**	**-**	**685**
Net finance costs							**(116)**
Underlying Profit before tax							**569**
Income tax expense							**(180)**
Underlying Profit after tax							**389**

Appendix 2 – Portfolio Review Reconciliation

Reconciliation of Portfolio Margin Reporting to Segmental Reporting

Half-year ended 31 December 2017 $m	Electricity Portfolio	Gas Portfolio	Other AGL	Adjustments (a)	**Total Group**
Wholesale Markets	439	366	-	1,649	**2,454**
Customer Markets	2,837	1,037	55	(22)	**3,907**
Group Operations	52	-	68	(31)	**89**
Revenue	**3,328**	**1,403**	**123**	**1,596**	**6,450**
Wholesale Markets	(467)	(673)	-	(1,845)	**(2,985)**
Customer Markets	(1,520)	(339)	(17)	242	**(1,634)**
Group Operations	-	-	(16)	7	**(9)**
Cost of sales	**(1,987)**	**(1,012)**	**(33)**	**(1,596)**	**(4,628)**
Other income/(loss)	-	-	23	-	**23**
Gross margin	**1,341**	**391**	**113**	**-**	**1,845**
Operating costs (excluding depreciation & amortisation)	(274)	-	(487)	-	**(761)**
Depreciation & amortisation	(179)	-	(86)	-	**(265)**
Portfolio Margin / Underlying EBIT	**888**	**391**	**(460)**	**-**	**819**

Notes:

(a) Key adjustments include:

- Wholesale Markets electricity pool sales in the statutory accounts has been reallocated to cost of sales (net portfolio management) in the Portfolio Review where it is combined with pool purchase costs and derivatives to reflect AGL's net position.
- Wholesale Markets other revenue in the statutory accounts has been reallocated to cost of sales (generation running costs) in the Portfolio Review including ancillary services revenue, brown coal sales and wind farm asset management fees.
- Within Wholesale Markets, derivatives from certain wholesale contracts are recognised within cost of sales in the statutory accounts. In the Portfolio Review the revenue and costs have been separately disclosed.
- Intra-segment and inter-segment eliminations include: Gas sales from Wholesale Gas to Wholesale Electricity; gas sales from Group Operations (Natural Gas) to Wholesale Markets; electricity sales from Group Operations (National Assets) to Wholesale Markets; and metering sales from Group Operations (Active Stream) to Customer Markets. Elimination adjustment also includes the reallocation of green costs from Wholesale Markets (Eco-Markets) to Consumer and Business customer other cost of sales.

Half-year ended 31 December 2016 $m	Electricity Portfolio	Gas Portfolio	Other AGL	Adjustments (a)	**Total Group**
Wholesale Markets	265	454	-	1,247	**1,966**
Customer Markets	2,672	1,045	63	(28)	**3,752**
Group Operations	68	-	278	(34)	**312**
Revenue	**3,005**	**1,499**	**341**	**1,185**	**6,030**
Wholesale Markets	(319)	(803)	-	(1,390)	**(2,512)**
Customer Markets	(1,525)	(341)	(21)	198	**(1,689)**
Group Operations	-	-	(17)	7	**(10)**
Cost of sales	**(1,844)**	**(1,144)**	**(38)**	**(1,185)**	**(4,211)**
Other income/(loss)	-	-	(187)	-	**(187)**
Gross margin	**1,161**	**355**	**116**	**-**	**1,632**
Operating costs (excluding depreciation & amortisation)	(274)	-	(434)	-	**(708)**
Depreciation & amortisation	(157)	-	(82)	-	**(239)**
Portfolio Margin / Underlying EBIT	**730**	**355**	**(400)**	**-**	**685**

Notes:

(a) Key adjustments include:

- Wholesale Markets electricity pool sales in the statutory accounts has been reallocated to cost of sales (net portfolio management) in the Portfolio Review where it is combined with pool purchase costs and derivatives to reflect AGL's net position.
- Wholesale Markets other revenue in the statutory accounts has been reallocated to cost of sales (generation running costs) in the Portfolio Review, including ancillary services revenue, brown coal sales and wind farm asset management fees.
- There were no derivative reallocations in the half year ended 31 December 2016 (refer page 28).
- Intra-segment and inter-segment eliminations as noted on page 28.

AGL Energy Limited
and controlled entities

Interim Financial Report

for the half-year ended 31 December 2017

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AGL Energy Limited and controlled entities

Condensed Consolidated Statement of Profit or Loss

for the half-year ended 31 December 2017

	Note	31 Dec 2017 $m	31 Dec 2016 $m
Continuing operations			
Revenue	3	**6,450**	6,030
Other income	4	**28**	-
Expenses	5	**(5,234)**	(5,211)
Share of profits of associates and joint ventures	10	**18**	12
Profit before net financing costs, depreciation and amortisation		**1,262**	831
Depreciation and amortisation	6	**(265)**	(239)
Profit before net financing costs		**997**	592
Finance income		**4**	6
Finance costs		**(118)**	(120)
Net financing costs	7	**(114)**	(114)
Profit before tax		**883**	478
Income tax expense	8	**(261)**	(153)
Profit for the period		**622**	325
Profit attributable to:			
Owners of AGL Energy Limited		**622**	325
		622	325
Earnings per share			
Basic earnings per share	14	**94.8 cents**	48.2 cents
Diluted earnings per share	14	**94.7 cents**	48.2 cents

The Condensed Consolidated Statement of Profit or Loss should be read in conjunction with the notes to the financial statements.

AGL Energy Limited and controlled entities

Condensed Consolidated Statement of Comprehensive Income

for the half-year ended 31 December 2017

	Note	31 Dec 2017 $m	31 Dec 2016 $m
Profit for the period		**622**	325
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss			
Remeasurement gain on defined benefit plans		**-**	115
Income tax relating to items that will not be reclassified subsequently	8	**-**	(34)
		-	81
Items that may be reclassified subsequently to profit or loss			
Cash flow hedges			
Gain in fair value of cash flow hedges		**2**	95
Reclassification adjustments transferred to profit or loss		**(39)**	(5)
Income tax relating to items that may be reclassified subsequently	8	**11**	(27)
		(26)	63
Other comprehensive (loss)/income for the period, net of income tax		**(26)**	144
Total comprehensive income for the period		**596**	469
Total comprehensive income attributable to:			
Owners of AGL Energy Limited		**596**	469
		596	469

The Condensed Consolidated Statement of Comprehensive Income should be read in conjunction with the notes to the financial statements.

Condensed Consolidated Statement of Financial Position

as at 31 December 2017

	Note	31 Dec 2017 $m	30 June 2017 $m
Current assets			
Cash and cash equivalents		**83**	154
Trade and other receivables		**1,904**	1,944
Inventories		**373**	351
Current tax assets		**83**	-
Other financial assets		**745**	744
Other assets		**386**	231
		3,574	3,424
Assets classified as held for sale	11	**74**	201
Total current assets		**3,648**	3,625
Non-current assets			
Inventories		**19**	20
Other financial assets		**219**	142
Investments in associates and joint ventures		**66**	80
Property, plant and equipment		**6,512**	6,447
Intangible assets		**3,278**	3,286
Deferred tax assets		**555**	792
Other assets		**60**	66
Total non-current assets		**10,709**	10,833
Total assets		**14,357**	14,458
Current liabilities			
Trade and other payables		**1,619**	1,507
Borrowings	12	**18**	173
Provisions		**177**	201
Current tax liabilities		**-**	13
Other financial liabilities		**713**	827
Other liabilities		**-**	10
Total current liabilities		**2,527**	2,731
Non-current liabilities			
Borrowings	12	**2,932**	3,173
Provisions		**519**	520
Other financial liabilities		**360**	293
Other liabilities		**183**	167
Total non-current liabilities		**3,994**	4,153
Total liabilities		**6,521**	6,884
Net assets		**7,836**	7,574
Equity			
Issued capital	13	**6,223**	6,223
Reserves		**(16)**	16
Retained earnings		**1,629**	1,335
Total equity		**7,836**	7,574

The Condensed Consolidated Statement of Financial Position should be read in conjunction with the notes to the financial statements.

	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 2017	**6,223**	**1**	**15**	**1,335**	**7,574**	**-**	**7,574**
Profit for the period	**-**	**-**	**-**	**622**	**622**	**-**	**622**
Other comprehensive (loss)/income for the period, net of income tax	**-**	**-**	**(26)**	**-**	**(26)**	**-**	**(26)**
Total comprehensive (loss)/income for the period	**-**	**-**	**(26)**	**622**	**596**	**-**	**596**
Transactions with owners in their capacity as owners:							
Payment of dividends	**-**	**-**	**-**	**(328)**	**(328)**	**-**	**(328)**
Share-based payments	**-**	**(6)**	**-**	**-**	**(6)**	**-**	**(6)**
Balance at 31 December 2017	**6,223**	**(5)**	**(11)**	**1,629**	**7,836**	**-**	**7,836**
Balance at 1 July 2016	6,696	1	(25)	1,243	7,915	11	7,926
Profit for the period	-	-	-	325	325	-	325
Other comprehensive income for the period, net of income tax	-	-	63	81	144	-	144
Total comprehensive income for the period	-	-	63	406	469	-	469
Transactions with owners in their capacity as owners:							
On-market share buy-back	(51)	-	-	-	(51)	-	(51)
Payment of dividends	-	-	-	(243)	(243)	-	(243)
Share-based payments	-	(2)	-	-	(2)	-	(2)
Acquisition of non-controlling interests	-	-	-	(5)	(5)	(11)	(16)
Balance at 31 December 2016	6,645	(1)	38	1,401	8,083	-	8,083

The Condensed Consolidated Statement of Changes in Equity should be read in conjunction with the notes to the financial statements.

Condensed Consolidated Statement of Cash Flows

for the half-year ended 31 December 2017

	Note	31 Dec 2017 $m	31 Dec 2016 $m
Cash flows from operating activities			
Receipts from customers		**7,075**	6,504
Payments to suppliers and employees		**(6,096)**	(5,807)
Dividends received		**12**	-
Finance income received		**4**	5
Finance costs paid		**(89)**	(87)
Income taxes paid		**(110)**	(144)
Net cash provided by operating activities		**796**	471
Cash flows from investing activities			
Payments for property, plant and equipment		**(318)**	(230)
Payments for other assets		**-**	(1)
Payments for investments in associates and joint ventures		**-**	(13)
Payments for available-for-sale financial assets		**(13)**	(5)
Government grants received		**-**	1
Proceeds from sale of property, plant and equipment		**24**	248
Proceeds from sale of subsidiaries and businesses, net of transaction costs	15	**160**	-
Net cash used in investing activities		**(147)**	-
Cash flows from financing activities			
Payments for buy-back of shares		**-**	(51)
Purchase of shares on-market for equity based remuneration		**(10)**	(7)
Proceeds from borrowings		**465**	731
Repayment of borrowings		**(847)**	(168)
Payments to acquire non-controlling interests		**-**	(16)
Dividends paid	9	**(328)**	(243)
Net cash (used in)/provided by financing activities		**(720)**	246
Net (decrease)/increase in cash and cash equivalents		**(71)**	717
Cash and cash equivalents at the beginning of the financial year		**154**	252
Cash and cash equivalents at the end of the financial period		**83**	969

The Condensed Consolidated Statement of Cash Flows should be read in conjunction with the notes to the financial statements.

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 Corporations Instrument 2016/191*, dated 24 March 2016, and in accordance with that Instrument, 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 2017 annual financial report for the year ended 30 June 2017, except for the update to 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) Standards and Interpretations in issue not yet adopted - update

AASB 9 *Financial Instruments* (AASB 9) and the related subsequent amendments replaces AASB 139 *Financial Instruments: Recognition and Measurement* and applies to the classification, measurement and derecognition of financial instruments.

In the FY18 interim period, management has focussed on ascertaining the financial impact of adopting the expected credit loss model and refining hedge accounting policies and processes to align with the requirements of AASB 9. The financial impact of the expected credit loss adoption model is undergoing internal scrutiny to ensure robustness. It is expected that the adoption of the expected credit loss model will primarily impact the unbilled revenue amounts.

The project team has provided periodic updates to management, the Audit & Risk Management Committee and AGL’s auditors.

While a considerable portion of the FY18 interim period has been spent progressing AGL’s assessment of the potential impact of AASB 9, at this stage, management cannot reasonably estimate and quantify the impact.

Application date and transition approach

AGL plans to adopt the new standard on the required effective date, being the period ending 30 June 2019 financial statements.

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

(d) Standards and Interpretations in issue not yet adopted - update (cont'd)

AASB 15 *Revenue from Contracts with Customers* (AASB 15) and the related subsequent amendments replaces all existing revenue requirements (AASB 111 *Construction Contracts*, AASB 118 *Revenue* and related Interpretations) and applies to all revenue from contracts with customers.

A sample of contracts in each of AGL's major revenue streams have now been assessed against the requirements of AASB 15, compared to AGL's current accounting policies and practices, and potential differences identified. For the majority of revenue streams, key judgements and assumptions have been determined and documented, with a revenue recognition approach and policy currently being drafted. The key judgements and assumptions identified are undergoing review by internal stakeholders and AGL's auditors. The extrapolation of the sampled contract reviews will be completed throughout the second half of FY18 to ensure key judgements are applicable to the remaining contract population. This will be followed by consideration of the adoption approach and broader business impacts.

The project team has provided periodic updates to management, the Audit & Risk Management Committee and AGL's auditors.

While a considerable portion of the FY18 interim period has been spent progressing AGL's assessment of the potential impact of AASB 15, at this stage, management cannot reasonably estimate and quantify the potential impact.

Application date and transition approach

AGL plans to adopt the new standard on the required effective date. AGL is still in the process of assessing which transition method it will adopt. This decision will depend in part upon the completion of, and impact arising from, the evaluation of our revenue arrangements.

AASB 16 *Leases* (AASB 16) replaces all existing lease requirements (AASB 117 *Leases*, Interpretation 4 *Determining whether an Arrangement contains a Lease* and related Interpretations).

The leases project team has commenced its review of the in scope operating lease contracts, to identify the key terms required to calculate the lease liabilities and related right of use assets, and to identify key decisions made under the existing lease arrangements which may affect the lease calculation. Key assumptions have been determined and documented and are undergoing review by internal stakeholders. The financial impact on each of the adoption scenarios continues to be refined. Communication of the financial impact and selection of an adoption method is planned to occur in the second half of FY18. The initial selection process for lease management software has been undertaken, with the assessment of software capabilities and business needs to occur concurrently with the assessment of the financial impact.

AGL has concluded that it intends to apply the grandfathering provision in accordance with AASB 16 at the date of initial application. This therefore means the focus of the project team has been, and will continue to be, on analysing the current operating lease contracts that will be impacted by AASB 16 and identifying and assessing the key terms which will impact the calculation of the lease-related balances.

The project team has provided periodic updates to management, the Audit & Risk Management Committee and AGL's auditors.

While a considerable portion of the FY18 interim period has been spent progressing AGL's assessment of the potential impact of AASB 16, at this stage, management cannot reasonably estimate and quantify the impact.

Application date and transition approach

AGL is still in the process of assessing the appropriate adoption date of AASB 16 and which transition method it will adopt. This decision will depend in part upon our completion of, and impact arising from, the evaluation of the lease arrangements.

In addition to the above Standards, which are applicable in future years, other issued amendments and new Standards are not expected to materially impact AGL's financial statements upon adoption.

Note 2 - Segment information

Operating segments

AGL reports segment information on the same basis as the internal management reporting structure. The operating segments reflect the manner in which products are sold, whether retail or wholesale, and the nature of the services provided.

On 24 May 2017, AGL announced changes to its segment reporting. The previous Energy Markets operating segment was split into two new segments, one comprising the Wholesale Markets business unit and one comprising the Customer and New Energy Services business units titled Customer Markets. These changes were effective 1 July 2017.

The previous operating segments were: Energy Markets, Group Operations, and Investments.

AGL views the business as four interrelated segments collectively servicing our customer's needs. AGL's segments are:

- **Customer Markets** sells electricity, gas, and energy-related products and services to consumer and business customers.
- **Wholesale Markets** comprises Wholesale Electricity, Wholesale Gas and Eco Markets and is responsible for managing the price risk associated with procuring electricity and gas for AGL's customers and for managing AGL's obligations in relation to renewable energy schemes.
- **Group Operations** comprises AGL's power generation portfolio and other key sites and operating facilities including the Newcastle Gas Storage Facility.
- **Investments** includes AGL's interests in the ActewAGL Retail Partnership, Powering Australian Renewables Fund, Energy Impact Partners' Fund and Sunverge Energy.

In the segment financial results, the 'Other' category consists of the various Corporate activities which includes the head office and central support functions and the innovation accelerator portion of the previous New Energy segment. These are not considered to be reportable segments.

Segment comparative information has been restated to reflect the changes described above.

Segment financial results

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

AGL operates as an integrated business and uses a portfolio approach to manage the operations and assets to drive value and efficiency. AASB 8 *Operating Segments* requires AGL to report segment information on the same basis as the internal management structure. As a result, the Customer Markets and Wholesale Markets segments report the revenue and margin associated with satisfying the gas and electricity requirements of AGL's wholesale, consumer and business customer portfolio. In contrast, the Group Operations segment reports the majority of expenses associated with these operations and is therefore a cost centre.

For the purposes of reviewing the carrying values of AGL assets the segments impute a revenue transfer between Customer Markets and Wholesale Markets and Group Operations. Revenues are derived to approximate prices similar to transactions with third parties.

Note 2 - Segment information (cont'd)

	Customer Markets $m	Wholesale Markets $m	Group Operations $m	Investments $m	Other $m	Total $m
Half-year ended 31 December 2017						
Revenue						
Total segment revenue	**3,930**	**4,275**	**122**	**-**	**-**	**8,327**
Inter-segment revenue	**(23)**	**(1,821)**	**(33)**	**-**	**-**	**(1,877)**
External revenue	**3,907**	**2,454**	**89**	**-**	**-**	**6,450**
Underlying earnings before interest, tax, depreciation and amortisation (Underlying EBITDA)	**200**	**1,237**	**(238)**	**16**	**(131)**	**1,084**
Depreciation and amortisation	**(46)**	**(4)**	**(201)**	**-**	**(14)**	**(265)**
Underlying EBIT	**154**	**1,233**	**(439)**	**16**	**(145)**	**819**
Net financing costs						**(116)**
Underlying profit before tax						**703**
Income tax expense						**(210)**
Underlying profit after tax						**493**
Segment assets						
As at 31 December 2017	**2,747**	**2,950**	**7,267**	**109**	**140**	**13,213**
As at 30 June 2017	2,770	2,762	7,399	109	123	13,163
Segment liabilities						
As at 31 December 2017	**542**	**1,047**	**751**	**3**	**155**	**2,498**
As at 30 June 2017	548	925	770	1	161	2,405
Other segment information						
Share of profits of associates and joint ventures	**-**	**-**	**-**	**18**	**-**	**18**
Investments in associates and joint ventures	**-**	**-**	**3**	**63**	**-**	**66**
Additions to non-current assets	**77**	**6**	**202**	**13**	**42**	**340**

Note 2 - Segment information (cont'd)

	Customer Markets $m	Wholesale Markets $m	Group Operations $m	Investments $m	Other $m	Total $m
Half-year ended 31 December 2016						
Revenue						
Total segment revenue	3,781	3,565	346	-	-	7,692
Inter-segment revenue	(29)	(1,599)	(34)	-	-	(1,662)
External revenue	3,752	1,966	312	-	-	6,030
Underlying earnings before interest, tax, depreciation and amortisation (Underlying EBITDA)	272	989	(230)	11	(118)	924
Depreciation and amortisation	(43)	(4)	(180)	-	(12)	(239)
Underlying EBIT	229	985	(410)	11	(130)	685
Net financing costs						(116)
Underlying profit before tax						569
Income tax expense						(180)
Underlying profit after tax						389
Other segment information						
Share of profits of associates and joint ventures	-	-	-	12	-	12
Investments in associates and joint ventures	-	-	2	93	-	95
Additions to non-current assets	45	2	186	17	6	256

	31 Dec 2017 $m	31 Dec 2016 $m
Segment Underlying EBIT reconciliation to the statement of profit or loss		
Reconciliation of segment Underlying EBIT to profit before tax is as follows:		
Underlying EBIT for reportable segments	**964**	815
Other	**(145)**	(130)
	819	685
Amounts excluded from underlying results:		
- gain/(loss) on fair value of financial instruments	**183**	(91)
- significant items	**(3)**	-
Finance income included in Underlying EBIT	**(2)**	(2)
Finance income	**4**	6
Finance costs	**(118)**	(120)
Profit before tax	**883**	478

	31 Dec 2017 $m	31 Dec 2016 $m
Note 3 - Revenue		
Revenue from sale of goods	**6,381**	5,729
Revenue from rendering of services	**69**	76
Other revenue - government grants	**-**	225
	6,450	6,030
Note 4 - Other income		
Net gain on disposal of property, plant and equipment	**3**	-
Gain on disposal of subsidiaries and businesses	**25**	-
	28	-
Note 5 - Expenses		
Cost of sales	**4,628**	4,211
Administrative expenses	**128**	113
Employee benefits expense	**314**	292
Other expenses		
(Gain)/loss on fair value of financial instruments	**(183)**	91
Impairment loss on trade receivables (net of bad debts recovered)	**50**	43
Impairment loss on investment in an associate and related assets	**28**	-
Net loss on disposal of property, plant and equipment	**-**	201
Operating lease rental expenses	**12**	12
Other	**257**	248
	5,234	5,211
Note 6 - Depreciation and amortisation		
Property, plant and equipment	**257**	231
Intangible assets	**8**	8
	265	239
Note 7 - Net financing costs		
Finance income		
Interest income		
Other entities	**4**	6
	4	6
Finance costs		
Interest expense (a)	**86**	87
Unwinding of discounts on provisions and other liabilities	**16**	16
Unwinding of discount on deferred consideration	**12**	12
Other finance costs	**4**	5
	118	120
Net financing costs	**114**	114

(a) Interest expense for the half-year ended 31 December 2017 is presented net of capitalised interest of $4 million (2016: $2 million).

	31 Dec 2017 $m	31 Dec 2016 $m

Note 8 - Income tax

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 2017 $m	31 Dec 2016 $m
Profit before tax	**883**	478
Income tax expense calculated at the Australian tax rate of 30% (Dec 2016: 30%)	**265**	143
Impairment/(amortisation) of non-current assets	**2**	(3)
Non-deductible expenses	**7**	5
Share of profits of associates and joint ventures	**-**	1
Recognition of previously unrecognised capital losses	**(17)**	-
Adjustments in relation to current tax of prior years	**4**	7
Income tax recognised in the statement of profit or loss	**261**	153

Income tax recognised in other comprehensive income

Deferred tax

	31 Dec 2017 $m	31 Dec 2016 $m
Cash flow hedges	**(11)**	27
Remeasurement gain on defined benefit plans	**-**	34
	(11)	61

Note 9 - Dividends

Recognised amounts

Final dividend

	31 Dec 2017 $m	31 Dec 2016 $m
Final dividend for 2017 of 50.0 cents per share, franked to 80%, paid 22 September 2017 (Dec 2016: Final dividend for 2016 of 36.0 cents per share, fully franked, paid 22 September 2016)	**328**	243
Dividends paid as per the statement of cash flows	**328**	243

Unrecognised amounts

	31 Dec 2017 $m	31 Dec 2016 $m
Since the end of the financial period, the Directors have declared an interim dividend for 2018 of 54.0 cents per share, franked to 80%, (Dec 2016: 41.0 cents per share, franked to 80%), payable 26 March 2018.	**354**	276

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 operate in respect of the 2018 interim dividend. AGL will acquire shares on market and allot them to DRP participants at no discount to the simple average of the daily weighted average price at which AGL's ordinary shares trade during each of the 10 trading days commencing 27 February 2018. The last date for shareholders to elect to participate in the DRP for the 2018 interim dividend is 26 February 2018.

Note 10 - Investments in associates and joint ventures

	Ownership interest		Contribution to net profit	
	As at		Half-year ended	
	31 Dec 2017	31 Dec 2016	31 Dec 2017	31 Dec 2016
Name of entity	%	%	$m	$m
Associates				
CSM Energy Limited	**35**	35	**-**	-
Matter Technology Ltd	**19.9**	19.9	**-**	-
Solar Analytics Pty Ltd	**37.2**	37.2	**-**	(1)
Sunverge Energy Inc	**22**	22	**-**	(2)
Joint ventures				
ActewAGL Retail Partnership	**50**	50	**18**	15
Energy Infrastructure Management Pty Ltd	**50**	50	**-**	-
Central Queensland Pipeline Pty Ltd	**50**	50	**-**	-
Powering Australian Renewables Fund	**20**	20	**-**	-
			18	12

All of the above entities are incorporated and operate in Australia except for Sunverge Energy Inc, which is incorporated and predominantly operating in the USA.

During the period the carrying value of the Sunverge Energy Inc investment was impaired to nil. An impairment loss before tax of $28 million, comprised of the investment in associate and related assets, was recognised in profit or loss for the period.

	31 Dec 2017	30 June 2017
	$m	$m
Note 11 - Assets and liabilities classified as held for sale		
Assets of disposal groups held for sale	**74**	201

Disposal groups held for sale

National Assets portfolio

A sale process is currently underway to sell AGL's National Assets portfolio within the Distributed Energy Services business of Group Operations. The assets located throughout Australia include landfill gas, biogas and biomass generation, co-generation and compressed natural gas refuelling ($42 million of receivables and $32 million of property, plant and equipment). The assets are expected to be sold within one year and as such have been classified as held for sale.

North Queensland gas assets

On 25 August 2017, AGL agreed to sell its North Queensland gas assets to a consortium of Shandong Order Gas Co. Ltd and Orient Energy Pty Ltd. The sale remains subject to a number of conditions precedent including regulatory approval. The carrying value of non-current assets relating to the North Queensland gas assets is nil (Dec 2016: nil) primarily due to previous impairment losses.

Disposal groups sold

Active Stream Pty Limited

On 30 November 2017, AGL completed the divestment of 100% of the shares in its digital metering subsidiary, Active Stream Pty Ltd, and associated metering assets for consideration of $165 million.

Refer to Note 15 for further information.

	31 Dec 2017 $m	30 June 2017 $m
Note 12 - Borrowings		
Current - at amortised cost		
Bank loans - unsecured	**-**	150
CPI bonds - unsecured	**7**	12
Other loans - unsecured	**11**	11
	18	173
Non-current - at amortised cost		
USD senior notes - unsecured	**918**	938
Subordinated notes - unsecured	**650**	650
Medium term notes - unsecured	**598**	598
Bank loans - unsecured	**525**	680
CPI bonds - unsecured	**84**	148
Other loans - unsecured	**139**	144
Finance lease liabilities - secured	**31**	30
Deferred transaction costs	**(13)**	(15)
	2,932	3,173

On 8 September 2017, the $150 million unsecured syndicated loan facility was repaid and terminated. No new borrowing arrangements have been executed during the financial period.

Note 13 - Issued capital

	31 Dec 2017 $m	30 June 2017 $m
655,825,043 fully-paid ordinary shares (30 June 2017: 655,825,043)	**6,223**	6,223

	31 Dec 2017 Number	31 Dec 2017 $m	30 June 2017 Number	30 June 2017 $m
Movement in fully-paid ordinary shares				
Balance at beginning of financial year	**655,825,043**	**6,223**	674,712,378	6,696
On-market share buy-back (a)	**-**	**-**	(18,887,335)	(473)
Balance at end of financial period	**655,825,043**	**6,223**	655,825,043	6,223

(a) During the prior year, AGL completed the buy-back of 18,887,335 shares. This was part of AGL's on-market share buy-back program for up to five percent of its issued share capital, or 33,735,619 shares from 13 October 2016 to 12 October 2017. As at 30 June 2017, the total consideration paid for shares bought back on market was $473 million and at an average price of $25.04.

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding-up of the Parent Entity in proportion to the number of shares held. Every ordinary Shareholder present at a meeting of the Parent Entity, in person or by proxy, is entitled to one vote per share.

Note 14 - Earnings per share (EPS)

	Half-year ended 31 Dec 2017 $m	Half-year ended 31 Dec 2016 $m
Statutory earnings per share		
Basic earnings per share	**94.8 cents**	48.2 cents
Diluted earnings per share	**94.7 cents**	48.2 cents
Underlying earnings per share		
Basic earnings per share	**75.2 cents**	57.7 cents
Diluted earnings per share	**75.1 cents**	57.7 cents

	31 Dec 2017 $m	31 Dec 2016 $m
Earnings used in calculating basic and diluted earnings per share		
Profit for the period attributable to owners of AGL Energy Limited	**622**	325
Statutory earnings used to calculate basic and diluted EPS	**622**	325
Significant income items after income tax	**(2)**	-
(Gain)/loss on fair value of financial instruments after income tax	**(127)**	64
Underlying earnings used to calculate basic and diluted EPS	**493**	389

	31 Dec 2017 Number	31 Dec 2016 Number
Weighted average number of ordinary shares		
Number of ordinary shares used in the calculation of basic EPS	**655,825,043**	673,809,793
Effect of dilution - share performance rights	**1,055,431**	789,744
Number of ordinary shares used in the calculation of diluted EPS	**656,880,474**	674,599,537

Note 15 - Disposal of subsidiaries and businesses

Half-year ended 31 December 2017

Disposal of Active Stream Pty Ltd

On 30 November 2017, AGL completed the divestment of 100% of the shares in its digital metering subsidiary, Active Stream Pty Ltd, and associated metering assets for consideration of $165 million.

The major classes of assets and liabilities disposed were as follows:

	31 Dec 2017 $m
Assets	
Trade and other receivables	**1**
Inventories	**18**
Property, plant and equipment	**115**
Liabilities	
Trade and other payables	**(4)**
Net assets disposed	**130**
Consideration	
Consideration received in cash	**165**
Costs directly attributable to the disposal	**(5)**
Liability assumed	**(5)**
	155
Gain on disposal of subsidiaries and businesses	
Consideration	**155**
Net assets disposed	**(130)**
	25
Net cash inflow on disposal of subsidiaries and businesses	
Consideration received in cash	**165**
Costs directly attributable to the disposal paid	**(5)**
	160

Control was not gained or lost over any other entities during the half-year ended 31 December 2017. During this period, the following entities were incorporated: AGL Financial Energy Solutions Pty Limited (24 July 2017), Wellington North Solar Farm Pty Limited (5 September 2017), AGL Barker Inlet Pty Limited (19 October 2017) and AGL New Energy ACP Pty Limited (17 November 2017). Each of these entities is 100% owned by the AGL Group and incorporated in Australia.

Note 16 - 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 Corporations (Wholly-owned Companies) Instrument 2016/785,* 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 2017 are expected to arise.

Note 17 - Financial instruments

Fair value measurements

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).

	Carrying Amount $m	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
31 December 2017					
Financial assets					
Available-for-sale financial assets					
- Unlisted equity securities	**17**	**-**	**-**	**17**	**17**
- Unlisted investment funds	**27**	**-**	**-**	**27**	**27**
Derivative financial instruments					
- Cross currency swap contracts - cash flow and fair value hedges	**63**	**-**	**63**	**-**	**63**
- Interest rate swap contracts - cash flow hedges	**2**	**-**	**2**	**-**	**2**
- Energy derivatives - cash flow hedges	**67**	**-**	**67**	**-**	**67**
- Energy derivatives - economic hedges	**291**	**32**	**102**	**157**	**291**
	467	**32**	**234**	**201**	**467**
Financial liabilities					
Derivative financial instruments					
- Cross currency swap contracts - cash flow and fair value hedges	**(64)**	**-**	**(64)**	**-**	**(64)**
- Interest rate swap contracts - cash flow hedges	**(51)**	**-**	**(51)**	**-**	**(51)**
- Energy derivatives - cash flow hedges	**(32)**	**-**	**(32)**	**-**	**(32)**
- Energy derivatives - economic hedges	**(693)**	**(334)**	**(129)**	**(230)**	**(693)**
	(840)	**(334)**	**(276)**	**(230)**	**(840)**
30 June 2017					
Financial assets					
Available-for-sale financial assets					
- Unlisted equity securities	15	-	-	15	15
- Unlisted investment funds	16	-	-	16	16
Derivative financial instruments					
- Cross currency swap contracts - cash flow and fair value hedges	75	-	75	-	75
- Interest rate swap contracts - cash flow hedges	4	-	4	-	4
- Energy derivatives - cash flow hedges	84	-	84	-	84
- Energy derivatives - economic hedges	186	57	92	37	186
	380	57	255	68	380

Note 17 - Financial instruments (cont'd)

Fair value measurements (cont'd)

	Carrying Amount $m	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
30 June 2017					
Financial liabilities					
Derivative financial instruments					
- Cross currency swap contracts - cash flow and fair value hedges	(55)	-	(55)	-	(55)
- Interest rate swap contracts - cash flow hedges	(62)	-	(62)	-	(62)
- Energy derivatives - cash flow hedges	(7)	-	(7)	-	(7)
- Energy derivatives - economic hedges	(749)	(383)	(201)	(165)	(749)
	(873)	(383)	(325)	(165)	(873)

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.

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 derivatives is calculated as the present value of expected future cash flows relating to the difference between the contracted 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.

Note 17 - Financial instruments (cont'd)

Fair value measurements (cont'd)

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

	31 Dec 2017 $m	30 June 2017 $m
Opening balance	**(97)**	(12)
Total gains or losses recognised in profit or loss		
- Settlements during the year	**99**	27
- Changes in fair value	**(58)**	(128)
Premiums	**14**	(15)
Purchases	**13**	31
Closing balance	**(29)**	(97)

Fair value gains or losses on energy derivatives are included in other expenses in the line item "(gain)/loss on fair value of financial instruments" in Note 5.

The sensitivity of level 3 contracts with significant unobservable inputs, where the inputs are higher by 10 percent is ($294) million and lower by 10 percent is $290 million (profit after tax increase/(decrease)). Input changes were applied to forward prices, cost-based indexes, contract volumes and management assumption of long-term curve used.

Note 18 - 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:

Interim dividend

On 8 February 2018, the Directors of AGL resolved to pay an interim dividend of 54.0 cents per share, franked to 80%, amounting to $354 million. The record date for the interim dividend is 23 February 2018 with payment to be made on 26 March 2018. Shares will commence trading ex-dividend on 22 February 2018.

The AGL Dividend Reinvestment Plan (DRP) will operate in respect of the 2018 interim dividend. AGL will acquire shares on market and allot them to DRP participants at no discount to the simple average of the daily weighted average price at which AGL's ordinary shares trade during each of the 10 trading days commencing 27 February 2018. The last date for shareholders to elect to participate in the DRP for the 2018 interim dividend is 26 February 2018.

The Directors of AGL Energy Limited declare that, in their opinion:

(a) there are reasonable grounds to believe that AGL Energy Limited will be able to pay its debts as and when they become due and payable;

(b) the attached financial statements and notes of AGL Energy Limited and its controlled entities for the half-year ended 31 December 2017 are in accordance with the *Corporations Act 2001* , including:

(i) giving a true and fair view of the financial position and performance of AGL Energy Limited and its controlled entities for the half-year ended 31 December 2017; and

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

Signed in accordance with a resolution of the Directors

Graeme Hunt
Chairman
Sydney, 8 February 2018

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The Board of Directors
AGL Energy Limited
200 George Street
Sydney NSW 2000

8 February 2018

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 2017, I declare that to the best of my knowledge and belief, there have been no contraventions of:

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

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

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Jason Thorne
Partner
Chartered Accountants

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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 2017 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, notes comprising a summary of significant accounting policies and other explanatory information, 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 3 to 22.

Directors' Responsibility for the Half-Year Financial Report

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

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of AGL Energy Limited's financial position as at 31 December 2017 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of AGL Energy Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Deloitte.

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 2017 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

Jason Thorne
Partner
Chartered Accountants
Sydney, 8 February 2018