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 2019

				31 December 2019 $A million	31 December 2018 $A million
Revenue	**Down**	**0.4%**	to	**6,312**	6,337
Statutory Profit after tax attributable to shareholders	**Up**	**11.4%**	to	**323**	290
Underlying Profit after tax attributable to shareholders	**Down**	**19.6%**	to	**432**	537
				31 December 2019 cents	31 December 2018 cents
Statutory Earnings per share	**Up**	**12.4%**	to	**49.7**	44.2
Underlying Earnings per share	**Down**	**18.9%**	to	**66.4**	81.9
				31 December 2019 $A	30 June 2019 $A
Net tangible asset backing per share	**Down**	**8.2%**	to	**6.57**	7.16
				Amount cents	Franked amount cents
Interim dividend per ordinary share				47.0	37.6
Prior interim dividend per ordinary share				55.0	44.0

Record date for determining entitlements to the interim dividend:
27 February 2020 and payable 27 March 2020.

Dividend reinvestment plan:
The AGL Dividend Reinvestment Plan (DRP) will operate in respect of the 2020 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 10 trading days commencing 2 March 2020. The last date for shareholders to elect to participate in the DRP for the 2020 interim dividend is 28 February 2020.

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 $323 million included a loss of $17 million after tax treated as significant items and a loss of $92 million after tax from the changes in the fair value of financial instruments. Excluding these items, the Underlying Profit after tax was $432 million, 19.6% down 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 Half-Year Financial Report for the half-year ended 31 December 2019 released to the market on 13 February 2020.

AGL Energy Half-Year Report

For the period ended
31 December 2019

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Directors' Report

In accordance with a resolution of the Board, the Directors present their report on the consolidated entity (AGL) consisting of AGL Energy Limited and its controlled entities at the end of or during the half-year ended 31 December 2019 (the period). Financial comparisons used in this report are of results for the half-year ended 31 December 2018 (the prior corresponding period) for statement of profit or loss and cash flow analysis, and 30 June 2019 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:

Current Directors	First Appointed
Graeme Hunt – Chairman	1 September 2012 (appointed as Chairman on 27 September 2017)
Brett Redman – Managing Director	1 January 2019
Leslie Hosking	1 November 2008
John Stanhope	9 March 2009
Jacqueline Hey	21 March 2016
Diane Smith-Gander	28 September 2016
Peter Botten	21 October 2016
Patricia McKenzie	1 May 2019

Review and results of operations

A review of AGL's operations during the half-year and the results of those operations is set out in the Operating and Financial Review, commencing on page 3.

Subsequent Events

Apart from the matters identified below and elsewhere in this Directors' Report and the Half-Year Financial Report, the Directors are not aware of any other matter or circumstance that has arisen since 31 December 2019 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 47.0 cents per share, compared with 55.0 cents per share for the prior interim dividend. The dividend will be 80% franked and will be paid on 27 March 2020. The record date to determine shareholders' entitlements to the interim dividend is 27 February 2020. Shares will commence trading ex-dividend on 26 February 2020.

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.

The AGL Dividend Reinvestment Plan (DRP) will operate in respect of the 2020 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 2 March 2020. The last date for shareholders to elect to participate in the DRP for the 2020 interim dividend is 28 February 2020.

Directors' Report

Non-IFRS Financial Information

The Operating and 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 Half-Year 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, 13 February 2020

Operating and Financial Review

For the half-year ended 31 December 2019

1. Financial Performance

About AGL

AGL supplies energy and other services to more than 3.7 million customer accounts. AGL operates Australia's largest electricity portfolio comprising owned or controlled capacity of 11,330 MW including traditional coal and gas-fired generation, and renewables including wind, hydro and solar.

Principal activities

AGL's principal activities consist of the operation of energy businesses and investments, including electricity generation, gas storage and the sale of electricity and gas to residential, business and wholesale customers. There were no significant changes in the principal activities of AGL during the period.

1.1 Group Results Summary

1.1.1 Reconciliation of Statutory Profit to Underlying Profit

1.1.1.1 Profit after tax

	31 Dec 2019 $m	31 Dec 2018 $m
Statutory Profit after tax	**323**	290
Adjust for:		
Significant items after tax		
National Assets gain on divestment	–	(37)
Residential Solar operations impairment	–	38
Proceeds from Yandin wind farm development rights	–	(5)
Powering Australian Renewables Fund (PARF) partial impairment	**10**	–
Perth Energy acquisition costs	**7**	–
Loss on fair value of financial instruments after tax	**92**	251
Underlying Profit after tax	**432**	537

Statutory Profit after tax was $323 million, up 11.4% compared with the prior corresponding period. There were two items excluded from Underlying Profit:

- The loss on fair value of financial instruments of $92 million decreased $159 million compared with the loss in the prior corresponding period. This net loss reflected negative fair value movement in AGL's long-term net sold electricity derivative contracts as a result of higher long-term forward electricity prices, and a negative fair value movement in AGL's short-term purchased electricity derivative contracts as a result of lower short-term forward electricity prices. See section 1.1.5 for more detail.
- Significant items of $17 million from acquisitions and impairments (see section 1.1.3).

Underlying Profit after tax was $432 million, down 19.6% from the prior corresponding period. A description of the factors driving Underlying Profit is included in section 1.1.2.

	31 Dec 2019	31 Dec 2018
Earnings per share on Statutory Profit[1]	**49.7 cents**	44.2 cents
Earnings per share on Underlying Profit[1]	**66.4 cents**	81.9 cents

1. EPS calculations have been based upon a weighted average number of ordinary shares of 650,471,038 (31 December 2018: 655,825,043).

1.1.1.2 Earnings before Interest and Tax (EBIT)

	31 Dec 2019 $m	31 Dec 2018 $m
Statutory EBIT	**540**	514
Significant items	**21**	(10)
Loss on fair value of financial instruments	**132**	358
Underlying EBIT	**693**	862

Operating and Financial Review

For the half-year ended 31 December 2019

1.1.1.3 Summary of Underlying EBIT by Business Unit

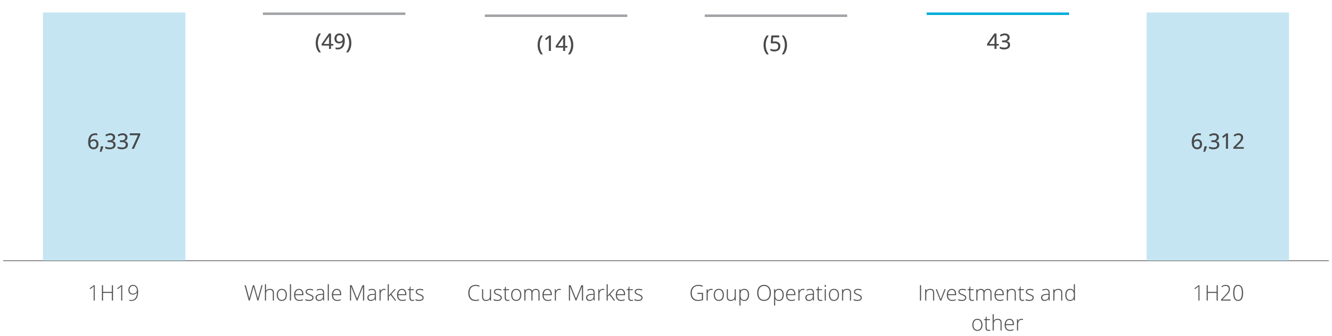
	31 Dec 2019 $m	31 Dec 2018 $m
Wholesale Markets	**1,295**	1,398
Customer Markets	**138**	93
Group Operations	**(542)**	(505)
Investments	**10**	18
Centrally Managed Expenses	**(208)**	(142)
Underlying EBIT	**693**	862

Refer to section 1.4 for detailed Business Unit analysis.

1.1.2 Group Underlying Financial Performance

	31 Dec 2019 $m	31 Dec 2018 $m
Revenue	**6,312**	6,337
Cost of sales	**(4,481)**	(4,435)
Other income	**5**	19
Gross margin	**1,836**	1,921
Operating costs (excluding depreciation and amortisation)	**(768)**	(764)
Underlying EBITDA	**1,068**	1,157
Depreciation and amortisation	**(375)**	(295)
Underlying EBIT	**693**	862
Net finance costs	**(87)**	(100)
Underlying Profit before tax	**606**	762
Income tax expense	**(174)**	(225)
Underlying Profit after tax	**432**	537

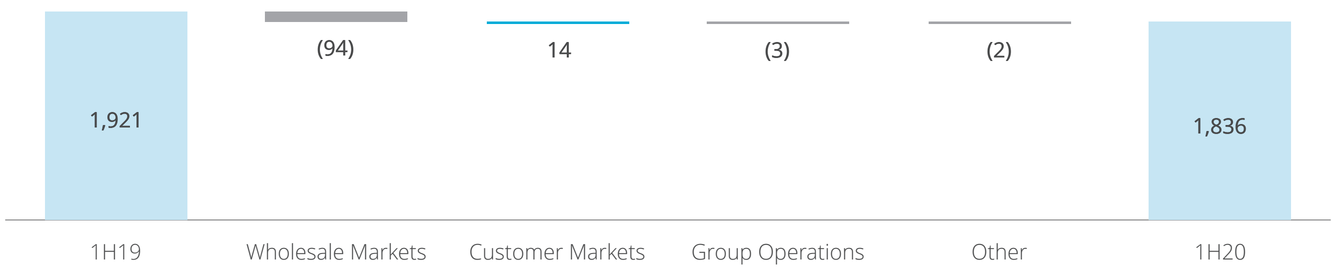
1.1.2.1 Period-on-period movement in revenue ($m)



Total revenue was $6,312 million, down 0.4%, driven by lower gas volumes and pool generation revenue. Gas volumes were impacted by the loss of Large Business and Wholesale customers. Pool generation was lower due to lower average electricity pool prices compared with the prior corresponding period. This was partly offset by higher electricity volumes and revenue from the Perth Energy business that was acquired in September 2019 (included within Investments during initial integration).

Other income, which primarily relates to equity accounted and joint venture income, was $5 million, down 73.7%. This was mainly due to lower ActewAGL equity accounted income.

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



Total gross margin was $1,836 million, down 4.4%. The decrease was largely attributable to Wholesale Markets and reflected the major outage at Loy Yang A Unit 2, lower wholesale customer gas volumes and lower large-scale generation certificate (LGC) prices. Refer to section 1.4 for further analysis on the movement in gross margin for each operating segment.

1.1.2.3 Operating costs

	31 Dec 2019 $m	31 Dec 2018 $m
Wholesale Markets	**(20)**	(13)
Customer Markets	**(218)**	(264)
Group Operations	**(353)**	(355)
Investments	**(5)**	–
Centrally Managed Expenses	**(172)**	(132)
Operating costs (excluding depreciation and amortisation)	**(768)**	(764)

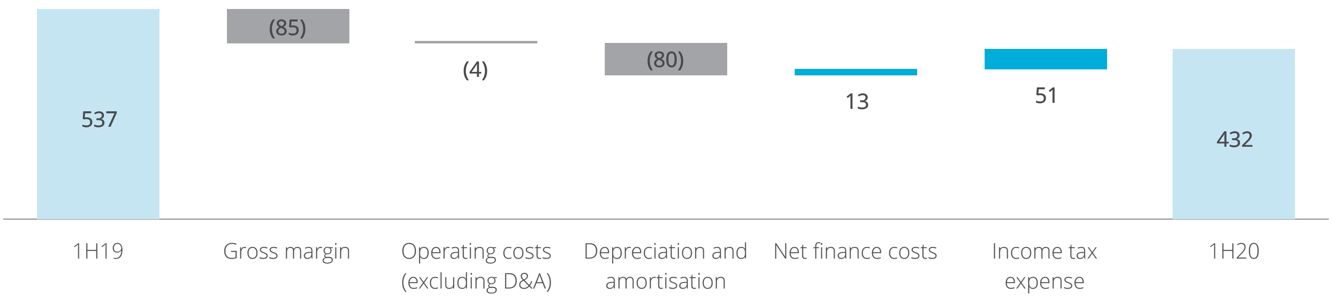
Total operating costs (excluding depreciation and amortisation) were $768 million, up 0.5%. This was driven in Centrally Managed Expenses by increased investment in technology and higher insurance costs, and in Group Operations by increased costs to maintain plant availability (excluding impact of operating cost transfers following internal reorganisation). It also included operating costs from the Perth Energy business that was acquired in September 2019 (included within Investments during initial integration). This was partly offset by the non-recurrence of one-off debt forgiveness actions and reduced market activity in Customer Markets. Refer to section 1.4 for further analysis on the movement in operating costs for each operating segment.

1.1.2.4 Depreciation and amortisation (D&A)

	31 Dec 2019 $m	31 Dec 2018 $m
Wholesale Markets	**(7)**	(5)
Customer Markets	**(63)**	(48)
Group Operations	**(267)**	(231)
Investments	**(2)**	–
Centrally Managed Expenses	**(36)**	(11)
Depreciation and amortisation	**(375)**	(295)

Depreciation and amortisation of $375 million was up 27.1%. This was principally in Group Operations, which reflected a higher asset base at AGL Macquarie as a result of increased reliability focused capital expenditure relative to a short depreciation schedule given the planned closure of Liddell Power Station from April 2022 to April 2023. There were also increases in Customer Markets and Centrally Managed Expenses as a result of the recent investment in the Customer Experience Transformation program and upgrades to AGL's enterprise resource planning system.

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



Underlying Profit after tax was $432 million, down 19.6%. The principal drivers of the decrease were the Loy Yang A Unit 2 outage, lower LGC prices, and higher depreciation and amortisation.

Net finance costs were $87 million, down 13.0%, largely due to lower average debt rates compared with the prior corresponding period. Underlying tax expense was $174 million, down 22.7%, reflecting the decrease in profit. The underlying effective tax rate was 28.7%, a small decrease on the prior corresponding period.

1.1.3 Significant Items

1.1.3.1 Asset and business acquisitions/disposals

Current period

On 2 September 2019, AGL completed the purchase of 100% of the outstanding share capital of Perth Energy Holdings Pty Ltd. Acquisition related transaction costs of $7 million post-tax were recognised as a Significant Item in the period.

Prior corresponding period

On 11 September 2018, AGL completed the sale of a portfolio of small generation and compressed natural gas refuelling assets, known as AGL's National Assets portfolio, to Sustainable Energy Infrastructure, a consortium led by Whitehelm Capital. A post-tax profit of $37 million was recognised in the period.

In December 2018, AGL disposed of the option to purchase the Yandin wind farm development rights in Western Australia. A post tax profit of $5 million was recognised as a Significant Item in the period.

1.1.3.2 Asset impairments

Current period

During the period, AGL partially impaired the carrying value of its investments interest in the Powering Australia Renewable Fund (PARF), reflecting revised market pricing and generation output assumptions for operations sites. A post-tax impairment loss of $10 million was recognised as a Significant Item in the period.

Prior corresponding period

On 11 September 2018, AGL announced the decision to exit the residential solar installation operations, rendering many of the residential solar assets obsolete. A post-tax loss of $38 million was recognised as a Significant Item in the period to account for the write down of goodwill, systems related assets, inventory and other business closure costs.

1.1.4 Hedging

AGL's approach to managing energy price risks, both through physical ownership of energy generation and through financial hedging, reflects the need to provide pricing certainty to customers and limit exposure to adverse market outcomes.

AGL generates electricity in excess of its customers' demand in some states. In other states, AGL generates less than its customers' demand. As such, AGL manages risk exposure by determining the appropriate timing and degree of contracting activities, provided the overall AGL risk appetite is not exceeded.

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, compliance management and regular reporting to the Board. The risk policy represents the Board's and Senior Management's commitment to an effective risk management function to ensure appropriate management and oversight of AGL's risks related to Wholesale Markets.

The policy allows for commercial optimisation of the portfolio provided AGL adheres to overall earnings-at-risk limits that reflects its risk appetite.

1.1.5 Changes in Fair Value of Financial Instruments

AGL uses certain financial instruments (derivatives) to manage energy price risks and to manage its exposure to interest and foreign exchange rates arising in the normal course of business. The majority of these financial instruments exchange a fixed price for a floating market based price of a given commodity, interest rate, currency or a quoted asset, with only the net differential being settled with the counterparty.

Energy price risk

AGL is exposed to price volatility on the sale and purchase of energy related commodities in the normal course of business, and therefore enters into instruments that minimise the price risk to AGL on both sold and purchased forecast exposures. Certain purchased contracts traded prior to 1 July 2019 are designated as hedge relationships when they can be matched to forecast transactions with sufficient probability of the forecast transaction occurring.

Derivative instruments assigned to an effective hedge relationship have movements in fair value deferred to an equity hedge reserve until the transactions to which those instruments are matched, occur. Derivative instruments not assigned to an effective hedge relationship have movements in fair value recognised in profit or loss.

AGL's energy-related derivatives assigned to hedge relationships are purchased derivative contracts, where AGL pays a fixed price in exchange for a floating price received from the counterparty. The energy-related derivatives recognised in profit or loss are in a net sold position, where AGL receives a fixed price from a counterparty in exchange for a floating price paid to the counterparty.

AGL is required to make margin payments in respect of futures contracts traded through the Australian Securities Exchange (ASX). Initial margin call payments are made at the time contracts are entered in order to manage intra-day credit exposure. The quantum of initial margin depends on the volume traded, the expected market volatility as well as forward electricity prices at the time. The initial margin call can move subsequently as forward prices move. AGL also receives or makes payments known as variation margin calls, which cover mark to market movements of AGL's open futures position. These typically reverse through future earnings as contract positions roll off.

Treasury related risk

AGL's treasury related risk primarily relates to interest and foreign currency rate fluctuations. Contracts to minimise the exposure to market-based fluctuations are executed pursuant to AGL's treasury risk management policy. These contracts primarily result in fixed interest and foreign currency rates. These contracts are designated in hedge relationships when they can be matched to forecast transactions with sufficient probability of the forecast transaction occurring.

In addition to the above, AGL is counterparty to cross-currency interest rate swap arrangements to convert its fixed interest rate US dollar private placement borrowing instruments to floating interest rate Australian dollar equivalent borrowing instruments. The cross-currency interest rate swap arrangements are designated as fair value and cash flow hedge relationships.

Movement in fair value

The initial fair value of a derivative is the consideration paid or received (the premium). Fair value movements in any given period are a function of changes to underlying indices, market prices or currencies and the roll-off of realised contractual volumes or amounts.

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 period ended 31 December 2019 is presented in the following table:

Net assets/(Liabilities)	31 Dec 2019 $m	30 June 2019 $m	Change $m
Energy derivative contracts	**(165)**	(31)	(134)
Cross currency and interest rate swap derivative contracts	**93**	80	13
Total net assets/(liabilities) for financial instruments	**(72)**	49	(121)
Change in net assets/(liabilities)	**(121)**		
Premiums paid	**(33)**		
Premium roll off	**38**		
Equity accounted fair value	**(38)**		
Total change in fair value	**(154)**		
Recognised in equity hedge reserve and other	**(25)**		
Recognised in borrowings	**3**		
Recognised in profit and loss – pre-tax	**(132)**		
Total change in fair value	**(154)**		

The movement in net derivative assets/(liabilities) in 1H20 was $(121) million to $(72) million. This movement is summarised in the table below:

		Unrealised fair value recognised in:					
	30 June 2019 $m	Profit or loss	Hedge reserve	Borrowings	Currency basis	Premiums and roll offs paid/ (received)	31 Dec 2019 $m
Cross currency and interest rate swap contracts	**80**	–	11	3	(1)	–	**93**
Energy derivative contracts	**(31)**	(94)	(35)	–	–	(5)	**(165)**
Net asset/(liability)	**49**	**(94)**	**(24)**	**3**	**(1)**	**(5)**	**(72)**
Fair value recognised within equity accounted investments	–	(38)					
Profit or loss	**49**	**(132)**					

The fair value movement driving the change in the net derivative assets/(liabilities) position reflected unrealised fair value movements as follows:

- A decrease in the fair value of net sold energy-related derivatives of $(94) million was recognised in profit or loss (excluded from Underlying Profit). This net loss reflected a negative fair value movement in AGL's long-term electricity derivative contracts as a result of higher long-term forward electricity prices, partly offset by the net gain in other short-term net sold electricity derivatives as a result of lower short-term forward electricity prices.
- A decrease in the fair value of purchased energy-related derivatives designated as a hedge relationship of $(35) million, which was recognised in the equity hedge reserve. This decrease primarily reflected lower short-term electricity market prices relative to contracted purchase prices.
- Currency related fair value gain of $3 million recognised in borrowings. This related primarily to the decrease of the AUD forward interest rate curve during the period.

1.2 Cash Flow

1.2.1 Reconciliation of Underlying EBITDA to Cash Flow

		31 Dec 2019 $m		31 Dec 2018 $m	Change $m
Underlying EBITDA		**1,068**		1,157	(89)
Equity accounted income (net of dividends received)		**(3)**		(9)	6
Accounting for onerous contracts		**(15)**		(15)	–
Movement in other assets/liabilities and non-cash items		**4**		(34)	38
Working capital movements					
(Increase)/decrease in receivables	**50**		107		(57)
Increase/(decrease) in creditors	**(131)**		(84)		(47)
(Increase)/decrease in inventories	**(5)**		(54)		49
Net derivative premiums paid/roll-offs	**5**		3		2
(Increase)/decrease in other financial assets (margin calls)	**156**		(146)		302
Net movement in green assets/liabilities	**73**		(52)		125
Other	**(3)**		6		(9)
Total working capital movements		**145**		(220)	365
Operating cash flow before significant items, interest and tax		**1,199**		879	320
Net finance costs paid		**(62)**		(76)	14
Income taxes received/(paid)		**5**		(125)	130
Cash flow relating to significant items		**(7)**		–	(7)
Net cash provided by operating activities		**1,135**		678	457
Net cash used in investing activities		**(462)**		(279)	(183)
Net cash used in financing activities		**(495)**		(434)	(61)
Net increase/(decrease) in cash and cash equivalents		**178**		(35)	213

Operating cash flow before interest and tax was $1,199 million, up $320 million. As a result, the rate of conversion of EBITDA to cash flow was 112%, up from 76% in the prior corresponding period.

The principal reason for stronger cash flow was a positive working capital movement, compared with negative in the prior corresponding period. Total working capital movements were $145 million, compared with $(220) million in the prior corresponding period. Components of working capital movement were:

- Receivables cash flow of $50 million reflected the seasonality of customer consumption which each year results in a higher opening receivables balance at 1 July compared with 31 December. The prior corresponding period receivables cash flow of $107 million reflected a reduction in receivables due to one-off debt forgiveness actions.
- Trade creditors cash flow of $(131) million reflected lower electricity pool prices on contract positions, the same seasonality of customer consumption trend affecting receivables and the timing of creditor payments. The prior corresponding period trade creditors cash flow of $(84) million primarily reflected higher AGL Loy Yang mine coal royalty payments.
- Inventory cash flow of $(5) million was lower than the prior corresponding period inventory cash flow of $(54) million due to the non-recurrence of increases in the coal stockpile at AGL Macquarie following AGL's focus on removing bottlenecks from the coal supply chain.
- Margin call cash flow of $156 million reflected a net cash inflow of variation margin calls due to lower forward electricity prices. This contrasted to the prior corresponding period cash flow of $(146) million where there was a net cash outflow on open positions due to higher wholesale electricity forward prices at that time. In the prior corresponding period there were also cash outflows relating to margin payments due to higher electricity forward prices.
- Green assets and liabilities relating to renewable schemes cash flow of $73 million was driven by the timing of certificate purchases in the prior year.

The tax cash flow of $5 million was net of PAYG tax instalments and a refund received for the prior year.

Higher investing cash flows reflected the Perth Energy and Southern Phone Company acquisitions and a small increase in capital expenditure. In addition, the prior corresponding period included proceeds relating to the sale of the National Assets portfolio.

Financing cash flow included dividends paid of $(420) million, $(323) million of share buy-back purchases, and proceeds from net borrowings of $255 million. The prior corresponding period included dividends of $(413) million and a net borrowing drawdown of $(16) million.

1.2.2 Capital Expenditure

	31 Dec 2019 $m	31 Dec 2018 $m
Wholesale Markets	**17**	21
Customer Markets	**43**	64
Group Operations	**327**	275
Centrally Managed Expenses	**26**	46
Total capital expenditure	**413**	406

1.2.2.1 Summary of capital expenditure split between growth and sustaining

Sustaining	**296**	268
Growth and transformation	**117**	138
Total capital expenditure	**413**	406

Total capital expenditure was $413 million, an increase of $7 million compared with the prior corresponding period.

- Sustaining capital expenditure was $296 million, an increase of $28 million. This comprised $210 million of expenditure on AGL's thermal plants, a small decrease of $7 million on the prior corresponding period, driven by a decrease in spend at AGL Loy Yang largely offset by increased spend at AGL Macquarie. Other sustaining capital expenditure was $86 million, up $35 million, largely due to increased systems spend in Customer Markets reflecting product and pricing changes, digital uplift and regulatory system upgrades.
- Growth capital expenditure was $117 million, a decrease of $21 million. This comprised spend on the new Barker Inlet Power Station ($61 million) and the flexibility upgrade to the Bayswater power station at AGL Macquarie ($19 million).

1.3 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 Investors Service throughout the period.

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 $300 million were 16.9% lower than the prior corresponding period, consistent with AGL's reduction in profit. The Dividend Reinvestment Plan (DRP) continued to operate during the period, at nil discount. During the period, AGL acquired shares for allotment to DRP participants on market, thereby preventing any dilutive impact that would have occurred if new shares were issued.

In August 2019, AGL began a program to acquire up to 5% of its issued share capital (32.8 million shares) via an on-market share buy-back. At 31 December 2019, AGL had acquired 16.4 million shares under the buy-back for a total consideration of $323 million.

1.3.1 Summary Statement of Financial Position

	31 Dec 2019 $m	30 June 2019 $m
Assets		
Cash and cash equivalents	**293**	115
Other current assets	**2,945**	3,281
Property, plant and equipment	**6,722**	6,588
Intangible assets	**3,754**	3,740
Other non-current assets	**739**	1,097
Total assets	**14,453**	14,821
Liabilities		
Borrowings	**3,171**	2,850
Other liabilities	**3,257**	3,533
Total liabilities	**6,428**	6,383
Net assets / total equity	**8,025**	8,438

At 31 December 2019 AGL's total assets were $14,453 million, a decrease from $14,821 million at 30 June 2019, primarily due to the decrease in AGL's long term purchased energy swap derivatives, which is reflected in other financial assets (refer section 1.1.5 above.)

Total liabilities at 31 December 2019 were $6,428 million, an increase from $6,383 million at 30 June 2019. The primary change reflected an increase in borrowings to fund the share buy-back. This was partly offset by a reduction of liabilities associated with the revaluation of energy derivative contracts.

Total equity at 31 December 2019 was $8,025 million, down $413 million, reflecting the reduction in issued capital due to the share buy-back. AGL's return on equity, calculated on a rolling 12-month basis was 11.2%, down from 30 June 2019.

1.3.2 Net Debt Reconciliation

	31 Dec 2019 $m	30 June 2019 $m
Net debt reconciliation		
Borrowings	**3,171**	2,850
Less: Adjustment for cross currency swap hedges and deferred borrowing costs	**(135)**	(135)
Cash and cash equivalents	**(293)**	(115)
Net debt	**2,743**	2,600

Net debt at 31 December 2019 was $2,743 million, up from $2,600 million at 30 June 2019 reflecting the increase in borrowings in order to fund the share buy-back and the Sustainability Linked Loan (SLL) executed in September 2019, partly offset by an increase in cash.

AGL's gearing (measured as the ratio of net debt to net debt plus adjusted equity) at 31 December 2019 was 25.6% compared with 23.5% at 30 June 2019.

AGL maintained its credit rating of Baa2 throughout the period as provided by Moody's Investors Service. Key metrics consistent with this credit rating at 31 December 2019:

- Interest cover: 10.1 times
- Funds from operations to net debt: 42.2%

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.

1.4 Review of Operations

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 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.

1.4.1 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 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. 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 and energy efficiency schemes, the largest being the Large-scale Renewable Energy Target (LRET) and the Small-scale Renewable Energy Scheme (SRES).

1.4.1.1 Wholesale Markets Underlying EBIT

	31 Dec 2019 $m	31 Dec 2018 $m
Wholesale Electricity gross margin	**1,038**	1,088
Wholesale Gas gross margin	**243**	261
Eco Markets gross margin	**41**	67
Gross margin	**1,322**	1,416
Operating costs (excluding depreciation and amortisation)	**(20)**	(13)
Underlying EBITDA	**1,302**	1,403
Depreciation and amortisation	**(7)**	(5)
Underlying EBIT	**1,295**	1,398

Wholesale Markets Underlying EBIT was $1,295 million, down 7.4% largely due to the impact of the major outage at Loy Yang A Unit 2, the reduction in customer gas volumes sold and lower wholesale prices for electricity and large-scale generation certificates (LGCs). This was partly offset by lower coal and gas purchase costs.

The reduction in the market price of LGCs compared with the prior corresponding period impacted the allocation of fixed price electricity power purchase agreement (PPAs) costs within Wholesale Markets. These costs are comprised of LGC and electricity components and are allocated between Eco Markets and Wholesale Electricity based on market prices. The lower LGC market price, compared to the prior corresponding period, resulted in a lower proportion of PPA costs being allocated to Eco Markets, and a higher proportion of PPA costs being allocated to Wholesale Electricity.

- Wholesale Electricity gross margin was $1,038 million, down 4.6% due to reduced generation at Loy Yang A caused by the Unit 2 major outage, lower electricity prices and a higher allocation of PPA costs as noted above. This was partly offset by increased generation from AGL Macquarie, lower pool purchase costs and lower unit fuel costs for coal and gas. The reduction in coal costs was due to increased deliveries of legacy coal contracts following improvements in delivery logistics and stockpile handling. The gas cost reduction reflected supply mix benefits through the use of lower cost gas supplies.
- Wholesale Gas gross margin was $243 million, down 6.9%. The decrease was driven by lower customer volumes, partly offset by lower gas purchase costs. Gas purchase costs decreased from $6.4/GJ on average in the prior corresponding period to $6.3/GJ, largely driven by lower volumes sold in the period resulting in a supply mix benefit through the use of lower cost gas supplies. Total gas volume purchased was 5.2 PJ lower than the prior corresponding period, due to a decrease in volumes sold to Large Business and Wholesale customers.
- Eco Markets gross margin was $41 million, down $26 million, largely due to lower LGC market prices resulting in lower transfer price revenue. This was partly offset by lower prices for on-market purchases, increased generation from Coopers Gap and Silverton wind farms and the allocation of PPA costs as noted above.

Refer also to the Portfolio Margin Review at section 1.5 for additional analysis of AGL's electricity and gas portfolios.

1.4.2 Customer Markets

Customer Markets comprises the Consumer and Large Business customer portfolios and is responsible for the retailing of electricity, gas, solar and energy efficiency products and services to residential, small and large 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. Customer Markets also includes product innovation, sales, marketing, brand, and operations.

1.4.2.1 Customer Markets Underlying EBIT

	31 Dec 2019 $m	31 Dec 2018 $m
Consumer Electricity gross margin	**271**	228
Consumer Gas gross margin	**111**	139
Large Business Electricity gross margin	**18**	12
Large Business Gas gross margin	**7**	11
Fees, charges and other margin	**12**	15
Gross margin	**419**	405
Operating costs (excluding depreciation and amortisation)	**(218)**	(264)
Underlying EBITDA	**201**	141
Depreciation and amortisation	**(63)**	(48)
Underlying EBIT	**138**	93

Customer Markets Underlying EBIT was $138 million, up 48.4%, due to a lower electricity transfer price from Wholesale Markets that reflected lower wholesale electricity prices, and lower operating costs due to the non-recurrence of one-off debt forgiveness actions in the prior corresponding period, and a decrease in market activity. This more than offset the impact on retail electricity prices of: increased regulation (which included the introduction of default offers), lower consumer gas volumes, and higher depreciation and amortisation.

- Consumer Electricity gross margin was $271 million, up 18.9%, largely due to a lower transfer price to reflect lower wholesale electricity prices. Consumer electricity volumes increased by 3.1%, driven by growth in average electricity customer accounts.
- Consumer Gas gross margin was $111 million, down 20.1%, driven by the introduction of automatic discounts for all consumer customers who have been on standing offers for more than one year (Gas Safety Net) and customers switching to lower-priced products. This was partly offset by an increase in average gas customer accounts.
- Large Business Electricity gross margin was $18 million, up 50.0%, as a result of higher sales volumes compared with the prior corresponding period due to focused growth in this area, slightly offset by a decline in revenue rates as a result of the decrease in wholesale electricity costs.
- Large Business Gas gross margin was $7 million, down 36.4%, as volumes declined 29.0% due to the loss of customers.
- Fees, charges and other margin was $12 million, down 20.0%, due to a decrease in late payment fees driven by an increase in customers paying on time.

1.4.2.2 Customer Markets operating costs

	31 Dec 2019 $m	31 Dec 2018 $m
Labour and contractor services	**(89)**	(89)
Bad and doubtful debts	**(36)**	(66)
Campaigns and advertising	**(52)**	(63)
Other expenditure	**(41)**	(46)
Operating costs (excluding depreciation and amortisation)	**(218)**	(264)
Add: depreciation and amortisation	**(63)**	(48)
Operating costs (including depreciation and amortisation)	**(281)**	(312)

Customer Markets operating costs (excluding depreciation and amortisation) were $218 million, down $46 million, reflecting the non-recurrence of one-off debt forgiveness actions in the prior corresponding period and reduced costs associated with a decrease in market activity and the benefits of the Customer Experience Transformation program. In addition, the prior corresponding period included costs of $4 million associated with AGL's digital capabilities, which are now reported within Centrally Managed Expenses.

- Labour and contractor services costs were flat at $89 million due to a decline in call volumes and an increase in digital adoption, offset by an uplift in capability in order to support growth activity.
- Bad and doubtful debts were $36 million, down 45.5%, due to the non-recurrence of one-off debt forgiveness actions in the prior corresponding period.
- Campaigns and advertising costs were $52 million, down 17.5%, largely due to reduced market activity. Churn declined 3.9 ppts from the prior corresponding period as lower pricing and simplified offers reduced the amount of product switching. There were further cost reductions achieved through efficiencies from the Customer Experience Transformation program.
- Other expenditure was $41 million, down 10.9%, driven by increased digital billing and lower payment channel costs.
- Depreciation and amortisation was $63 million, up 31.3%, due to the investment in the Customer Experience Transformation program over the period FY17 to FY19.

1.4.2.3 Consumer customer profitability and operating efficiency

	31 Dec 2019	31 Dec 2018
Gross margin	**$382m**	$367m
Net operating costs (including fees, charges, recoveries and depreciation and amortisation)	**$(250)m**	$(272)m
EBIT	**$132m**	$95m
Average customer accounts ('000)	**3,711**	3,631
Gross margin per customer account	**$103**	$101
Net operating costs per customer account	**$(67)**	$(75)
EBIT per customer account	**$36**	$26
Net operating costs as percentage of gross margin	**65.4%**	74.1%
Cost to serve	**$(161)m**	$(175)m
Cost to serve per account	**$(43)**	$(48)
Acquisitions and retentions ('000)	**750**	994
Cost to grow	**$(89)m**	$(97)m
Cost to grow per account (acquired and retained)	**$(119)**	$(98)

Average customer accounts increased period-on-period due to lower churn, targeted campaign activity and growth of customers in Western Australia.

AGL churn decreased 3.9 ppts to 15.7% from 19.6% reported at 31 December 2018, and Rest of Market churn decreased 5.0 ppts to 21.0% from 26.0% reported at 31 December 2018. Overall market churn declined across all states following a decrease in the number of customers switching products due to lower pricing as a result of the regulatory environment. The gap between AGL and the rest of the market was 5.3 ppts as at 31 December 2019, down from 6.4 ppts as at 31 December 2018. Acquisitions and retentions decreased to 750 thousand, down 24.6%, primarily driven by lower retention volumes with less customers switching to lower priced products compared with the prior corresponding period.

Consumer EBIT per customer account was $36, up 38.5%, due to higher Consumer Electricity margin and lower costs.

Cost to Serve per account includes the consumer operating costs related to serving existing customers divided by the average number of customers during the reporting period. Cost to Serve per customer account was $43, down 10.4%, largely due to the non-recurrence of one-off debt forgiveness actions in the prior corresponding period, partially offset by higher depreciation cost.

Cost to Grow per account includes the consumer operating costs related to acquiring and retaining customers divided by the number of customers acquired and retained during the reporting period. Cost to Grow per account was $119, up 21.4%, largely due to lower retention volumes related to product switching than in the prior corresponding period.

1.4.2.4 Customer numbers

The following table provides a breakdown of customer numbers by state.[1]	31 Dec 2019 ('000)	30 Jun 2019 ('000)
Consumer Electricity	**2,278**	2,261
New South Wales	**852**	843
Victoria	**692**	680
South Australia	**362**	365
Queensland	**372**	373
Consumer Gas	**1,450**	1,431
New South Wales	**625**	630
Victoria	**551**	544
South Australia	**130**	130
Queensland	**85**	84
Western Australia	**59**	43
Total Consumer accounts	**3,728**	3,692
Total Large Business Customer accounts	**16**	16
Total Customer accounts	**3,744**	3,708

1. Excluding Perth Energy and Southern Phone Company customers.

Total customer account numbers increased 1.0% to 3.744 million, from 3.708 million reported at 30 June 2019. Consumer electricity customer account numbers increased largely due to growth in Victoria and New South Wales. Consumer gas customer account numbers increased predominantly in Western Australia. Declining churn and market activity coupled with targeted campaign activity has contributed to the growth in customer numbers.

1.4.3 Group Operations

Group Operations comprises AGL's power generation portfolio and other key sites and operating facilities across the Thermal, Renewables, Natural Gas, and Other business units

- Thermal primarily comprises: AGL Macquarie (4,665 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. The Barker Inlet Power Station (210 MW) was operationally completed on 28 January 2020.
- Renewables primarily comprises 786 MW of hydroelectric power stations in Victoria and New South Wales; and as the operator of 924 MW of wind power generation in South Australia and Victoria; 198 MW of wind power generation in New South Wales, 440 MW of wind power generation in Queensland, and 155 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.
- Other operations primarily consist of Power Development and Construction, and technical and business support functions.

1.4.3.1 Group Operations Underlying EBIT

	31 Dec 2019 $m	31 Dec 2018 $m
Gross margin	**78**	81
Operating costs (excluding depreciation and amortisation)	**(353)**	(355)
Underlying EBITDA	**(275)**	(274)
Depreciation and amortisation	**(267)**	(231)
Underlying EBIT	**(542)**	(505)

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

	31 Dec 2019 $m	31 Dec 2018 $m
Thermal	**(224)**	(211)
Renewables	**(31)**	(25)
Natural Gas	**(2)**	(15)
Other operations	**(18)**	(23)
Underlying EBITDA	**(275)**	(274)
Thermal	**(447)**	(392)
Renewables	**(57)**	(48)
Natural Gas	**(17)**	(29)
Other operations	**(21)**	(36)
Underlying EBIT	**(542)**	(505)

Group Operations Underlying EBIT was $(542) million, down 7.3%, driven by the non-recurrence of margin from divested assets, increased costs to maintain plant availability and higher depreciation and amortisation at AGL Macquarie. This was partly offset by the transfer of the Property, Procurement and Security, and Health, Safety and Environment functions to Centrally Managed Expenses in the current period.

- Thermal Underlying EBIT was $(447) million, down 14.0%, driven by an increase in depreciation predominantly due to a higher asset base at AGL Macquarie from increased reliability focused capital expenditure relative to a short depreciation schedule given the committed closure of Liddell Power Station. Additional costs were also incurred to maintain plant availability across the thermal fleet, particularly to support the Loy Yang A Unit 2 outage.
- Renewables Underlying EBIT was $(57) million, down 18.8%, primarily due to the settlement of Macarthur wind farm claims.
- Natural Gas Underlying EBIT was $(17) million, up 41.4%, primarily due to the decrease in field development costs relating to the Moranbah Gas Project joint venture and increased revenue from gas sales.
- Other operations Underlying EBIT was $(21) million, up 41.7% reflecting the transfer of the Property, Procurement and Security, and Health, Safety and Environment functions to Centrally Managed Expenses in the period. This was partly offset by the reduction in margin from the National Assets business (divested in September 2018).

1.4.3.2 Group Operations operating costs

	31 Dec 2019 $m	31 Dec 2018 $m
Labour	**(166)**	(165)
Contracts and materials	**(129)**	(124)
Other	**(58)**	(66)
Operating costs (excluding depreciation and amortisation)	**(353)**	(355)

Group Operations operating costs (excluding depreciation and amortisation) of $(353) million were broadly flat, primarily due to the transfer of the Property, Procurement and Security, and Health, Safety and Environment functions to Centrally Managed Expenses in the current period and a decrease in field development costs relating to the Moranbah Gas Project joint venture. This was largely offset by additional labour, contractor and maintenance costs to maintain plant availability and the settlement of historic disputed claims.

1.4.3.3 Group Operations depreciation and amortisation

	31 Dec 2019 $m	31 Dec 2018 $m
Thermal	**(223)**	(181)
Renewables	**(26)**	(23)
Natural Gas	**(15)**	(14)
Other operations	**(3)**	(13)
Depreciation and amortisation	**(267)**	(231)

1.4.4 Centrally Managed 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.

Following internal reorganisation in the period certain digital and technology functions from Customer Markets were transferred to Centrally Managed Expenses to the Future Business & Technology function. In addition, the Property, Procurement and Security, and Health, Safety and Environment functions were transferred from Group Operations to Centrally Managed Expenses. If restated, the Underlying EBIT impact to the prior corresponding period would be $(29) million, comprising $19 million of operating costs and $10 million of depreciation & amortisation. If restated, Underlying EBIT in the prior corresponding period would be $(171) million.

	31 Dec 2019 $m	31 Dec 2018 $m
Gross margin	–	1
Operating costs (excluding depreciation and amortisation)	**(172)**	(132)
Underlying EBITDA	**(172)**	(131)
Depreciation and amortisation	**(36)**	(11)
Underlying EBIT	**(208)**	(142)

The table below provides a detailed breakdown of Centrally Managed Expenses operating costs excluding depreciation and amortisation.

Labour	**(82)**	(59)
Hardware and software costs	**(46)**	(40)
Consultants and contractor services	**(13)**	(9)
Insurance premiums	**(13)**	(11)
Other	**(18)**	(13)
Operating costs (excluding depreciation and amortisation)	**(172)**	(132)

Centrally Managed Expenses Underlying EBIT was $(208) million, down 46.5%, or $66 million. Excluding the impact of transferred functions mentioned above, Underlying EBIT was down 21.6%, or $37 million. This was primarily due to investment in digital and data capabilities, product and technology innovation focusing on new business opportunities, higher insurance premiums, costs associated with increased regulatory activity and depreciation associated with the upgrade to AGL's enterprise resource planning software.

1.4.5 Investments

Investments comprises AGL's interests in the ActewAGL Retail Partnership, Perth Energy, PARF, Advanced Microgrid Solutions Inc, Energy Impact Partners' Fund, Activate Capital Partners, Solar Analytics Pty Limited, Sunverge Energy Inc and Ecobee Inc.

	31 Dec 2019 $m	31 Dec 2018 $m
ActewAGL	**6**	16
PARF	**1**	2
Perth Energy	**3**	–
Underlying EBIT	**10**	18

ActewAGL Retail partnership contributed an equity share of profits of $6 million for the period compared with $16 million in the prior corresponding period. The decrease was due to increased competition and market activity, together with an increase in customer discounts.

Perth Energy Underlying EBIT of $3 million reflected earnings from the date of acquisition on 2 September 2019.

During the period AGL partially impaired its investment in PARF by $10 million (post-tax), which is included as a Significant Item in section 1.1.3.

1.5 Portfolio Review

The portfolio review reporting for both the Electricity (section 1.5.2) and Gas (section 1.5.3) businesses provides a consolidated margin for each of the electricity and gas portfolios across operating segments. This is as an effective tool to present how value is generated in the business. The portfolio review combines the revenue from external customers and associated network and other costs, the costs of the procurement and hedging of AGL's gas and electricity requirements, and the costs of managing and maintaining AGL's owned and contracted generation assets to calculate the consolidated margin. A per unit rate ($/MWh for electricity and $/GJ for gas) is derived from each category of revenue and cost using the relevant associated volumes.

The tables in section 1.5.2 and 1.5.3 should be read in conjunction with section 1.7 to reconcile the segmental revenue and costs allocated to each portfolio with Group Underlying EBIT.

1.5.1 Portfolio Reporting Summary to Underlying Profit after Tax

	31 Dec 2019 $m	31 Dec 2018 $m
Electricity Portfolio		
Total revenue	**3,583**	3,476
Customer network and other cost of sales	**(1,600)**	(1,517)
Fuel costs	**(524)**	(515)
Generation running costs	**(368)**	(330)
Depreciation and amortisation	**(249)**	(204)
Net portfolio management	**22**	45
Electricity Portfolio Margin (a)	**864**	955
Gas Portfolio		
Total revenue	**1,337**	1,437
Customer network and other cost of sales	**(305)**	(310)
Gas purchases	**(529)**	(572)
Haulage, storage and other	**(142)**	(144)
Gas Portfolio Margin	**361**	411
Natural Gas	**(17)**	(29)
Gas Portfolio Margin (including Natural Gas) (b)	**344**	382
Other AGL		
Other margin[1]	**29**	42
Customer Markets operating costs	**(218)**	(264)
Wholesale Markets operating costs	**(20)**	(13)
Group Operations other operating costs	**(18)**	(31)
Centrally Managed Expenses operating costs	**(172)**	(132)
Investments operating costs	**(5)**	–
Other depreciation and amortisation	**(111)**	(77)
Net finance costs	**(87)**	(100)
Income tax expense	**(174)**	(225)
Total Other AGL (c)	**(776)**	(800)
Underlying Profit after Tax (a + b + c)	**432**	537

1. Other margin includes other income from investments, and gross margin from Customer Markets and National Assets in Group Operations.

1.5.2 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.

	31 Dec 2019 GWh	31 Dec 2018 GWh	Movement %
Consumer customers pool purchase volume	**7,380**	7,162	3.0%
Large Business customers and Wholesale Markets pool purchase volume	**13,424**	12,988	3.4%
Pool purchase volume	**20,804**	20,150	3.2%
Add: Net generation volume surplus	**989**	1,083	(8.7)%
Pool generation volume	**21,793**	21,233	2.6%
Consumer customers sales	**6,925**	6,715	3.1%
Large Business customers sales	**5,024**	4,711	6.6%
Wholesale customers sales	**8,191**	8,051	1.7%
Total customer sales volume	**20,140**	19,477	3.4%
Energy losses	**664**	673	(1.3)%
Pool purchase volume	**20,804**	20,150	3.2%

- Pool generation volumes were 21,793 GWh, up 2.6%. Increased generation at AGL Macquarie due to improved reliability and increased volume of coal deliveries was partly offset by reduced generation at AGL Loy Yang due to the Unit 2 outage and lower generation from AGL's Victoria hydro assets.
- Consumer customers volumes were 6,925 GWh, up 3.1% due to growth in average electricity accounts.
- Large Business customer sales volumes were 5,024 GWh, up 6.6% as a result of increased load in New South Wales and South Australia.
- Wholesale customer sales volumes were 8,191 GWh, up 1.7% driven by increased consumption from AGL's existing customer base.

Operating and Financial Review

For the half-year ended 31 December 2019

Revenue	Portfolio Margin 31 Dec 2019 $m	Portfolio Margin 31 Dec 2018 $m	Per Unit 31 Dec 2019 $/MWh	Per Unit 31 Dec 2018 $/MWh	Volume Denomination 31 Dec 2019 GWh	Volume Denomination 31 Dec 2018 GWh
Consumer customers	**2,069**	2,030	***298.8***	*302.3*	**6,925**	6,715
Large Business customers	**866**	844	***172.4***	*179.2*	**5,024**	4,711
Wholesale customers and Eco Markets[1]	**604**	560	***73.7***	*69.6*	**8,191**	8,051
Group Operations (Thermal and Renewables)	**44**	42				
Total revenue	**3,583**	3,476	***177.9***	*178.5*	**20,140**	19,477

1. Wholesale customers revenue includes 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.

Total revenue was $3,583 million, up 3.1%.

- Revenue from Consumer customers was $2,069 million, up 1.9%, with higher customer sales volumes compared with the prior corresponding period largely offset by the impact of increased regulation including the introduction of default offers.
- Large Business customer revenue was $866 million, up 2.6%, driven by higher sales volumes compared with the prior corresponding period, slightly offset by the decline in revenue rate reflecting the decrease in wholesale costs.
- Wholesale customers and Eco Markets revenue was $604 million, up 7.9%, mainly driven by an increase in green certificates sold and an increase in volumes sold to Wholesale customers.
- Group Operations revenue was broadly flat at $44 million and was primarily brown coal sold externally to Loy Yang B.

Network and other cost of sales						
Network costs	**(1,142)**	(1,110)	***(95.6)***	*(97.1)*	**11,949**	11,426
Consumer	**(853)**	(825)	***(123.2)***	*(122.9)*	**6,925**	6,715
Large Business	**(289)**	(285)	***(57.5)***	*(60.5)*	**5,024**	4,711
Green compliance costs	**(270)**	(248)	***(22.6)***	*(21.7)*	**11,949**	11,426
Other cost of sales	**(188)**	(159)	***(15.7)***	*(13.9)*	**11,949**	11,426
Total customer network and other cost of sales	**(1,600)**	(1,517)	***(133.9)***	*(132.8)*	**11,949**	11,426

Total customer network and other costs of sales were $1,600 million, up 5.5%.

- Total network costs were $1,142 million, an increase of 2.9%, driven by higher customer sales volumes and tariff increases in Victoria and South Australia.
- Green compliance costs were $270 million, up 8.9%, due to increased customer volumes and higher scheme compliance percentages, partly offset by lower cost of large-scale generation certificates.
- Other cost of sales were $188 million, up 18.2%, driven by higher solar feed-in tariffs paid to customers due to an increase in solar volumes.

Fuel costs						
Coal	**(382)**	(374)	***(21.0)***	*(21.3)*	**18,198**	17,573
Gas	**(142)**	(141)	***(104.5)***	*(114.2)*	**1,359**	1,235
Renewables	–	–	–	–	**2,236**	2,425
Total fuel costs (a)	**(524)**	(515)	***(24.0)***	*(24.3)*	**21,793**	21,233

Total fuel costs were $524 million, up 1.7% compared with the prior corresponding period.

- Coal costs were $382 million, up 2.1%, but on a per MWh basis decreased by $0.3 per MWh or 1.4%. This reflected increased deliveries of legacy coal contracts following improvements in delivery logistics and stockpile handling.
- Gas fuel costs of $142 million were broadly flat to the prior corresponding period but have decreased by $9.7 per MWh, driven by lower priced gas due to supply mix benefits through the use of lower cost gas supplies.

Operating and Financial Review

For the half-year ended 31 December 2019

Generation running costs	Portfolio Margin 31 Dec 2019 $m	Portfolio Margin 31 Dec 2018 $m	Per Unit 31 Dec 2019 $/MWh	Per Unit 31 Dec 2018 $/MWh	Volume Denomination 31 Dec 2019 GWh	Volume Denomination 31 Dec 2018 GWh
Coal	**(176)**	(167)	***(9.7)***	*(9.5)*	**18,198**	17,573
Gas	**(27)**	(23)	***(19.9)***	*(18.6)*	**1,359**	1,235
Renewables[1]	**(135)**	(100)	***(60.4)***	*(41.2)*	**2,236**	2,425
Other	**(30)**	(40)	***(1.4)***	*(1.9)*	**21,793**	21,233
Total generation running costs (b)	**(368)**	**(330)**	***(16.9)***	***(15.5)***	**21,793**	**21,233**

1. Renewables includes PPA costs.

Total generation running costs were $368 million, up 11.5%.

- Coal operating costs were $176 million, up 5.4%, due to higher labour and maintenance costs driven by increased generation volumes.
- Gas operating costs were $27 million, up 17.4%, as additional costs were incurred at gas-fired power stations to support the portfolio during the Loy Yang A Unit 2 outage.
- Renewables costs were $135 million, up 35.0% driven by the increased allocation of wind PPA costs from Eco Markets to Wholesale Electricity, as a result of the change in the relative value of LGCs and electricity, in addition to the commencement of generation from Silverton and Coopers Gap wind farms.

Depreciation and amortisation (c)	**(249)**	(204)	***(11.4)***	*(9.6)*	**21,793**	21,233

Depreciation and amortisation was $249 million, up 22.1%, predominantly due to a higher asset base at AGL Macquarie from increased reliability focused capital expenditure relative to a short depreciation schedule given the committed closure of Liddell Power Station from April 2022 to April 2023.

Net Portfolio Management						
Pool generation revenue[1]	**1,815**	1,887	***83.3***	*88.9*	**21,793**	21,233
Pool purchase costs[1]	**(1,717)**	(1,778)	***(82.5)***	*(88.2)*	**20,804**	20,150
Net derivative (cost)/revenue	**(76)**	(64)	***(3.5)***	*(3.0)*	**21,793**	21,233
Net Portfolio Management (d)	**22**	**45**	***1.1***	***2.3***	**20,140**	**19,477**

1. Pool generation 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.

Net pool generation revenue and pool purchase costs were $98 million, down 10.1%, reflecting higher generation and customer volumes but at lower pool prices.

The net derivative cost of $(76) million decreased $12 million or $0.5 per MWh, driven by the performance of wholesale market derivatives during the period.

	Portfolio Margin 31 Dec 2019 $m	Portfolio Margin 31 Dec 2018 $m	Per Unit 31 Dec 2019 $/MWh	Per Unit 31 Dec 2018 $/MWh	Volume Denomination 31 Dec 2019 GWh	Volume Denomination 31 Dec 2018 GWh
Total wholesale costs (a + b + c + d)	**(1,119)**	(1,004)	***(53.8)***	*(49.8)*	**20,804**	20,150
Total costs	**(2,719)**	(2,521)	***(135.0)***	*(129.4)*	**20,140**	19,477
Portfolio margin	**864**	955	***42.9***	*49.0*	**20,140**	19,477
Consumer customers	**271**	228				
Large Business customers	**18**	12				
Wholesale Electricity	**1,038**	1,088				
Eco Markets	**41**	67				
Group Operations (Thermal and Renewables)	**(504)**	(440)				

In addition to the commentary above, Electricity portfolio margin is discussed in sections 1.4.1 and 1.4.2.

1.5.3 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.

	31 Dec 2019 PJ	31 Dec 2018 PJ	Movement %
Consumer customers	**32.2**	32.7	(1.5)%
Large Business customers	**7.1**	10.0	(29.0)%
Wholesale Markets and generation	**45.2**	47.1	(4.0)%
Total customer sales volume	**84.5**	89.8	(5.9)%
Energy losses	**1.3**	1.2	8.3%
Gas purchase volume	**85.8**	91.0	(5.7)%

Total customer sales volume was 84.5 PJ, a decrease of 5.3 PJ or 5.9%.

- Consumer customer volumes were 32.2 PJ, down 1.5% due to lower average consumption of 3.2%. This was predominantly due to the impact of market volume revisions, where the market operator settled FY19 volumes post year-end and the final adjustment was recorded in FY20.
- Large Business customer volumes were 7.1 PJ, down 29.0% due to the loss of customers.
- Wholesale Markets and generation volume was 45.2 PJ, a decrease of 4.0%, driven by lower volumes from AGL's existing wholesale customer base as well as the roll-off of wholesale customer contracts, offset partly by higher generation volumes at Torrens Island Power Station.

Operating and Financial Review

For the half-year ended 31 December 2019

	Portfolio Margin		Per Unit		Volume Denomination	
Revenue	31 Dec 2019 $m	31 Dec 2018 $m	31 Dec 2019 $/GJ	31 Dec 2018 $/GJ	31 Dec 2019 PJ	31 Dec 2018 PJ
Consumer customers	**820**	851	***25.5***	*26.0*	**32.2**	32.7
Large Business customers	**65**	108	***9.2***	*10.8*	**7.1**	10.0
Wholesale Gas and Eco Markets	**452**	478	***10.0***	*10.1*	**45.2**	47.1
Total revenue	**1,337**	1,437	***15.8***	*16.0*	**84.5**	89.8

Total revenue was $1,337 million, down 7.0%.

- Consumer revenue was $820 million, down 3.6% due to lower volumes, the introduction of the gas safety net, and the impact of customers switching to lower-priced products. This was partly offset by an increase in average gas customer accounts.
- Large Business customers revenue was $65 million, down 39.8% due to a decrease in volumes and the loss of customers.
- Wholesale customer revenue was $452 million, down 5.4%, largely driven by lower wholesale customer volumes.

Network and other cost of sales						
Consumer network costs	**(274)**	(276)	***(8.5)***	*(8.4)*	**32.2**	32.7
Consumer other cost of sales	**(23)**	(22)	***(0.7)***	*(0.7)*	**32.2**	32.7
Large Business customers network costs	**(5)**	(9)	***(0.7)***	*(0.9)*	**7.1**	10.0
Large Business customers other cost of sales	**(3)**	(3)	***(0.4)***	*(0.3)*	**7.1**	10.0
Total network and other cost of sales	**(305)**	(310)	***(7.8)***	*(7.3)*	**39.3**	42.7

Total network costs were $279 million, down 2.1%, due to lower customer volumes.

Wholesale costs						
Gas purchases	**(529)**	(572)	***(6.3)***	*(6.4)*	**84.5**	89.8
Haulage, storage and other	**(142)**	(144)	***(1.7)***	*(1.6)*	**84.5**	89.8
Total wholesale costs	**(671)**	(716)	***(7.9)***	*(8.0)*	**84.5**	89.8

Total wholesale costs were $671 million, down 6.3% mainly due to lower gas purchase volumes. The unit cost of $7.9/GJ was down 1.3% on the prior corresponding period, driven by lower priced gas due to supply mix benefits through the use of lower cost gas supplies.

Total costs	**(976)**	(1,026)	***(11.6)***	*(11.4)*	**84.5**	89.8
Portfolio margin	**361**	411	***4.3***	*4.6*	**84.5**	89.8
Natural Gas	**(17)**	(29)				
Portfolio margin (including natural gas)	**344**	382				
Consumer customers	**111**	139				
Large Business customers	**7**	11				
Wholesale Gas	**243**	261				
Natural Gas	**(17)**	(29)				

In addition to the commentary above, Gas portfolio margin is discussed in sections 1.4.1 and 1.4.2.

1.6 Consolidated Financial Performance by Operating Segment

31 Dec 2019 $m	Wholesale Markets	Customer Markets	Group Operations	Centrally Managed Expenses	Investments	Inter-segment	Total Group
Revenue	**4,287**	**3,842**	**85**	**–**	**45**	**(1,947)**	**6,312**
Cost of sales	**(2,965)**	**(3,423)**	**(6)**	**–**	**(34)**	**1,947**	**(4,481)**
Other income/(loss)	**–**	**–**	**(1)**	**–**	**6**	**–**	**5**
Gross margin	**1,322**	**419**	**78**	**–**	**17**	**–**	**1,836**
Operating costs (excluding depreciation and amortisation)	**(20)**	**(218)**	**(353)**	**(172)**	**(5)**	**–**	**(768)**
Underlying EBITDA	**1,302**	**201**	**(275)**	**(172)**	**12**	**–**	**1,068**
Depreciation and amortisation	**(7)**	**(63)**	**(267)**	**(36)**	**(2)**	**–**	**(375)**
Underlying EBIT	**1,295**	**138**	**(542)**	**(208)**	**10**	**–**	**693**
Net finance costs							**(87)**
Underlying Profit before tax							**606**
Income tax expense							**(174)**
Underlying Profit after tax							**432**

31 Dec 2018 $m	Wholesale Markets	Customer Markets	Group Operations	Centrally Managed Expenses	Investments	Inter-segment	Total Group
Revenue	4,293	3,860	89	1	–	(1,906)	6,337
Cost of sales	(2,877)	(3,455)	(9)	–	–	1,906	(4,435)
Other income	–	–	1	–	18	–	19
Gross margin	1,416	405	81	1	18	–	1,921
Operating costs (excluding depreciation and amortisation)	(13)	(264)	(355)	(132)	–	–	(764)
Underlying EBITDA	1,403	141	(274)	(131)	18	–	1,157
Depreciation and amortisation	(5)	(48)	(231)	(11)	–	–	(295)
Underlying EBIT	1,398	93	(505)	(142)	18	–	862
Net finance costs							(100)
Underlying Profit before tax							762
Income tax expense							(225)
Underlying Profit after tax							537

1.7 Portfolio Review Reconciliation

31 Dec 2019 $m	Electricity Portfolio	Gas Portfolio	Other AGL (a)	Adjustments (b)	Total Group
Wholesale Markets	**604**	**452**	**–**	**1,312**	**2,368**
Customer Markets	**2,935**	**885**	**21**	**(3)**	**3,838**
Group Operations	**44**	**–**	**41**	**(23)**	**62**
Other	**–**	**–**	**44**	**–**	**44**
Revenue	**3,583**	**1,337**	**106**	**1,286**	**6,312**
Wholesale Markets	**(570)**	**(671)**	**–**	**(1,562)**	**(2,803)**
Customer Markets	**(1,600)**	**(305)**	**(12)**	**273**	**(1,644)**
Group Operations	**–**	**–**	**(5)**	**3**	**(2)**
Other	**–**	**–**	**(32)**	**–**	**(32)**
Cost of sales	**(2,170)**	**(976)**	**(49)**	**(1,286)**	**(4,481)**
Other income	**–**	**–**	**5**	**–**	**5**
Gross margin	**1,413**	**361**	**62**	**–**	**1,836**
Operating costs (excluding depreciation and amortisation)	**(300)**	**–**	**(468)**	**–**	**(768)**
Depreciation and amortisation	**(249)**	**–**	**(126)**	**–**	**(375)**
Portfolio Margin / Underlying EBIT	**864**	**361**	**(532)**	**–**	**693**

31 Dec 2019 $m	Electricity	Gas	Pool revenue	Other	Total Group
Portfolio Margin Reporting	**3,583**	**1,337**	**1,815**	**–**	**6,735**
Revenue reclass	**(374)**	**–**	**(34)**	**–**	**(408)**
Intragroup	**(1)**	**(141)**	**–**	**(25)**	**(167)**
Other	**(118)**	**9**	**20**	**241**	**152**
Note 3 - Revenue	**3,090**	**1,205**	**1,801**	**216**	**6,312**

31 Dec 2018 $m	Electricity Portfolio	Gas Portfolio	Other AGL (a)	Adjustments (b)	Total Group
Wholesale Markets	560	478	2	1,377	2,417
Customer Markets	2,874	959	27	(8)	3,852
Group Operations	42	–	47	(22)	67
Other	–	–	1	–	1
Revenue	3,476	1,437	77	1,347	6,337
Wholesale Markets	(521)	(716)	-	(1,605)	(2,842)
Customer Markets	(1,517)	(310)	(12)	252	(1,587)
Group Operations	–	–	(12)	6	(6)
Cost of sales	(2,038)	(1,026)	(24)	(1,347)	(4,435)
Other income	–	–	19	–	19
Gross margin	1,438	411	72	–	1,921
Operating costs (excluding depreciation and amortisation)	(279)	–	(485)	–	(764)
Depreciation and amortisation	(204)	–	(91)	–	(295)
Portfolio Margin / Underlying EBIT	955	411	(504)	–	862

31 Dec 2018 $m	Electricity	Gas	Pool revenue	Other	Total Group
Portfolio Margin Reporting	3,476	1,437	1,887	–	6,800
Revenue reclass	(381)	–	(23)	–	(404)
Intragroup	(1)	(145)	–	(26)	(172)
Other	(105)	11	–	207	113
Note 3 - Revenue	2,989	1,303	1,864	181	6,337

Notes

(a) Other AGL includes Natural Gas Underlying EBIT.

(b) 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; and electricity sales from Group Operations (National Assets) to Wholesale 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 Financial Report

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Condensed Consolidated Statement of Profit or Loss

for the half-year ended 31 December 2019

	Note	31 Dec 2019 $m	31 Dec 2018 $m
Continuing operations			
Revenue	3	**6,312**	6,337
Other income		**-**	56
Expenses	4	**(5,404)**	(5,603)
Share of profits of associates and joint ventures	9	**7**	19
Profit before net financing costs, depreciation and amortisation		**915**	809
Depreciation and amortisation		**(375)**	(295)
Profit before net financing costs		**540**	514
Finance income	5	**2**	5
Finance costs	5	**(89)**	(105)
Net financing costs		**(87)**	(100)
Profit before tax		**453**	414
Income tax expense	6	**(130)**	(124)
Profit for the period attributable to the shareholders of AGL Energy Limited		**323**	290
Earnings per share			
Basic earnings per share	12	**49.7 cents**	44.2 cents
Diluted earnings per share	12	**49.6 cents**	44.2 cents

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

Condensed Consolidated Statement of Comprehensive Income

for the half-year ended 31 December 2019

	Note	31 Dec 2019 $m	31 Dec 2018 $m
Profit for the period		**323**	290
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss			
Remeasurement gain/(loss) on defined benefit plans		**33**	(23)
Fair value gain on the revaluation of equity instrument financial assets		**6**	13
Cost of hedging subject to basis adjustment		**(1)**	8
Income tax relating to items that will not be reclassified subsequently	6	**(13)**	3
		25	1
Items that may be reclassified subsequently to profit or loss			
Cash flow hedges			
(Loss)/gain in fair value of cash flow hedges		**(15)**	56
Reclassification adjustments transferred to profit or loss		**(9)**	31
Income tax relating to items that may be reclassified subsequently	6	**8**	(26)
		(16)	61
Other comprehensive income for the year, net of income tax		**9**	62
Total comprehensive income for the period attributable to the shareholders of AGL Energy Limited		**332**	352

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

for the half-year ended 31 December 2019

	Note	31 Dec 2019 $m	30 Jun 2019 $m
Current assets			
Cash and cash equivalents		**293**	115
Trade and other receivables	8	**1,528**	1,703
Inventories		**392**	388
Current tax assets		**-**	89
Other financial assets		**651**	798
Other assets		**374**	303
Total current assets		**3,238**	3,396
Non-current assets			
Trade and other receivables		**40**	-
Inventories		**57**	57
Other financial assets		**360**	590
Investments in associates and joint ventures	9	**101**	150
Property, plant and equipment		**6,722**	6,588
Intangible assets		**3,754**	3,740
Deferred tax assets		**149**	261
Other assets		**32**	39
Total non-current assets		**11,215**	11,425
Total assets		**14,453**	14,821
Current liabilities			
Trade and other payables		**1,465**	1,556
Borrowings	10	**333**	102
Provisions		**224**	225
Current tax liabilities		**82**	27
Other financial liabilities		**545**	632
Other liabilities		**3**	4
Total current liabilities		**2,652**	2,546
Non-current liabilities			
Borrowings	10	**2,838**	2,748
Provisions		**468**	481
Deferred tax liabilities		**-**	97
Other financial liabilities		**246**	282
Other liabilities		**224**	229
Total non-current liabilities		**3,776**	3,837
Total liabilities		**6,428**	6,383
Net assets		**8,025**	8,438
Equity			
Issued capital	11	**5,900**	6,223
Reserves		**(49)**	(33)
Retained earnings		**2,174**	2,248
Total equity attributable to owners of AGL Energy Limited		**8,025**	8,438

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

Condensed Consolidated Statement of Changes in Equity

for the half-year ended 31 December 2019

	Attributable to owners of AGL Energy Limited						
	Issued capital $m	Investment revaluation reserve $m	Employee equity benefits reserve $m	Hedge reserve $m	Other reserve $m	Retained earnings $m	Total equity $m
Balance at 1 July 2019	**6,223**	**(5)**	**(2)**	**(29)**	**3**	**2,248**	**8,438**
Profit for the period	**-**	**-**	**-**	**-**	**-**	**323**	**323**
Other comprehensive income/(loss) for the period, net of income tax	**-**	**3**	**-**	**(17)**	**-**	**23**	**9**
Total comprehensive income/(loss) for the period	**-**	**3**	**-**	**(17)**	**-**	**346**	**332**
Transactions with owners in their capacity as owners:							
On-market share buy-back	**(323)**	**-**	**-**	**-**	**-**	**-**	**(323)**
Payment of dividends	**-**	**-**	**-**	**-**	**-**	**(420)**	**(420)**
Share-based payments	**-**	**-**	**(2)**	**-**	**-**	**-**	**(2)**
Balance at 31 December 2019	**5,900**	**(2)**	**(4)**	**(46)**	**3**	**2,174**	**8,025**
Balance at 1 July 2018	6,223	(3)	(3)	(96)	-	2,180	8,301
Profit for the period	-	-	-	-	-	290	290
Other comprehensive income/(loss) for the period, net of income tax	-	11	-	61	6	(16)	62
Total comprehensive income for the period	-	11	-	61	6	274	352
Transactions with owners in their capacity as owners:							
Payment of dividends	-	-	-	-	-	(413)	(413)
Share-based payments	-	-	(2)	-	-	-	(2)
Balance at 31 December 2018	6,223	8	(5)	(35)	6	2,041	8,238

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 2019

	Note	31 Dec 2019 $m	31 Dec 2018 $m
Cash flows from operating activities			
Receipts from customers		**7,003**	7,033
Payments to suppliers and employees		**(5,815)**	(6,162)
Dividends received		**4**	8
Finance income received		**2**	6
Finance costs paid		**(64)**	(82)
Income taxes received/(paid)		**5**	(125)
Net cash provided by operating activities		**1,135**	678
Cash flows from investing activities			
Payments for property, plant and equipment and other assets		**(395)**	(378)
Payments for investments in associates and joint ventures		**-**	(29)
Payments for equity instrument financial assets		**(20)**	(6)
Payments for subsidiaries and businesses, net of cash acquired		**(47)**	-
Proceeds from the sale of property, plant and equipment		**-**	5
Proceeds from the sale of subsidiaries and businesses, net of transaction costs	13	**-**	129
Net cash used in investing activities		**(462)**	(279)
Cash flows from financing activities			
Purchase of shares on-market for equity based remuneration		**(7)**	(5)
Payments for shares bought back		**(323)**	-
Proceeds from borrowings		**1,005**	39
Repayment of borrowings		**(750)**	(55)
Dividends paid	7	**(420)**	(413)
Net cash used in financing activities		**(495)**	(434)
Net increase/(decrease) in cash and cash equivalents		**178**	(35)
Cash and cash equivalents at the beginning of the financial period		**115**	463
Cash and cash equivalents at the end of the financial period		**293**	428

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

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

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

(b) Basis of preparation

The condensed consolidated financial statements have been prepared on the basis of historical cost, except for derivative financial instruments and equity instrument 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 half-year 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 half-year financial report are consistent with those adopted and disclosed in AGL's 2019 annual financial report for the year ended 30 June 2019. 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 applied the required amendments to Standards and Interpretations that are relevant to its operations and effective for the current reporting period for the first time for the financial year commencing 1 July 2019. These did not have any material impact on the disclosures or on the amounts recognised in AGL's consolidated financial statements.

(d) Standards and Interpretations in issue not yet adopted

The following accounting standards, accounting standard amendments and interpretations are due for adoption for the year ending 30 June 2021:

- AASB 2018-7 *Amendments to Australian Accounting Standards - Definition of Material (AASB 101 and AASB 108)*
- AASB 2018-6 *Amendments to Australian Accounting Standards – Definition of a Business (AASB 3)*
- AASB 2019-5 *Amendments to Australian Accounting Standards – Disclosure of the Effect of New IFRS Standards Not Yet Issued in Australia.*

The following accounting standards, accounting standard amendments and interpretations are due for adoption for the year ending 30 June 2023:

- AASB 2014-10 *Amendments to Australian Accounting Standards: Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture (AASB 10 and AASB 128)*

The standards and interpretations listed above will not have a material impact on AGL's financial results or financial position on adoption.

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.

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

- **Customer Markets** comprises the Consumer and Large Business customer portfolios and is responsible for the retailing of electricity, gas, solar and energy efficiency products and services to residential, small and large 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.
- **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 associated portfolio of energy hedging products.
- **Group Operations** comprises AGL's power generation portfolio and other key sites and operating facilities.
- **Investments** comprises AGL's interests in the ActewAGL Retail Partnership, Powering Australian Renewables Fund, Advanced Microgrid Solutions Inc, Energy Impact Partners' Fund, Activate Capital Partners, Solar Analytics Pty Limited, Sunverge Energy Inc, and Ecobee Inc. Perth Energy Holdings Pty Ltd and Southern Phone Company Limited are also included until the final acquisition accounting is completed.

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

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 earnings before interest and tax (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, Wholesale Markets and Group Operations. Revenues are derived to approximate prices similar to transactions with third parties.

2. Segment information (cont.)

Period ended 31 December 2019	Customer Markets $m	Wholesale Markets $m	Group Operations $m	Investments $m	Other $m	Total $m
Revenue						
Total segment revenue	**3,842**	**4,287**	**85**	**45**	**-**	**8,259**
Inter-segment revenue	**(4)**	**(1,919)**	**(23)**	**(1)**	**-**	**(1,947)**
External revenue	**3,838**	**2,368**	**62**	**44**	**-**	**6,312**
Underlying earnings before interest, tax, depreciation and amortisation (Underlying EBITDA)	**201**	**1,302**	**(275)**	**12**	**(172)**	**1,068**
Depreciation and amortisation	**(63)**	**(7)**	**(267)**	**(2)**	**(36)**	**(375)**
Underlying EBIT	**138**	**1,295**	**(542)**	**10**	**(208)**	**693**
Net financing costs						**(87)**
Underlying profit before tax						**606**
Underlying income tax expense						**(174)**
Underlying profit after tax						**432**
Segment assets	**2,479**	**2,740**	**7,509**	**397**	**397**	**13,522**
Segment liabilities	**497**	**821**	**851**	**51**	**181**	**2,401**
Other segment information						
Share of profits of associates and joint ventures	**-**	**-**	**1**	**6**	**-**	**7**
Investments in associates and joint ventures	**-**	**-**	**4**	**97**	**-**	**101**
Additions to non-current assets	**48**	**18**	**353**	**5**	**36**	**460**
Other non-cash expenses	**(36)**	**-**	**-**	**-**	**(3)**	**(39)**

Period ended 31 December 2018	Customer Markets $m	Wholesale Markets $m	Group Operations $m	Investments $m	Other $m	Total $m
Revenue						
Total segment revenue	3,860	4,293	89	-	1	8,243
Inter-segment revenue	(8)	(1,876)	(22)	-	-	(1,906)
External revenue	3,852	2,417	67	-	1	6,337
Underlying earnings before interest, tax, depreciation and amortisation (Underlying EBITDA)	141	1,403	(274)	18	(131)	1,157
Depreciation and amortisation	(48)	(5)	(231)	-	(11)	(295)
Underlying EBIT	93	1,398	(505)	18	(142)	862
Net financing costs						(100)
Underlying profit before tax						762
Underlying income tax expense						(225)
Underlying profit after tax						537
At 30 June 2019						
Segment assets	2,576	2,951	7,560	239	266	13,592
Segment liabilities	543	884	887	-	181	2,495
Period ended 31 December 2018						
Other segment information						
Share of profits of associates and joint ventures	-	-	1	18	-	19
Investments in associates and joint ventures	-	-	3	136	-	139
Additions to non-current assets	69	21	299	34	40	463
Other non-cash expenses	(66)	-	-	-	(3)	(69)

2. Segment information (cont.)

Segment Underlying EBIT reconciliation to the Condensed Consolidated Statement of Profit or Loss

Reconciliation of segment Underlying EBIT to profit before tax is as follows:

	31 Dec 2019 $m	31 Dec 2018 $m
Underlying EBIT for reportable segments	**901**	1,004
Other	**(208)**	(142)
	693	862
Amounts excluded from underlying results:		
- Loss in fair value of financial instruments	**(132)**	(358)
- Significant items[1]	**(21)**	10
Finance income	**2**	5
Finance costs	**(89)**	(105)
Profit before tax	**453**	414

1. Further details are contained in the Operating & Financial Review attached to and forming part of the Directors' Report.

3. Revenue

Revenue by product and customer type is disaggregated below:

Period ended 31 December 2019	Consumer $m	Business $m	Wholesale $m	Other $m	Total $m
Electricity	**2,056**	**845**	**153**	**36**	**3,090**
Generation sales to pool	**-**	**-**	**1,800**	**1**	**1,801**
Gas	**816**	**61**	**313**	**15**	**1,205**
Rendering of services	**16**	**21**	**27**	**32**	**96**
Other revenue	**-**	**-**	**77**	**43**	**120**
Total revenue	**2,888**	**927**	**2,370**	**127**	**6,312**

Period ended 31 December 2018	Consumer $m	Business $m	Wholesale $m	Other $m	Total $m
Electricity	2,015	840	132	2	2,989
Generation sales to pool	-	-	1,864	-	1,864
Gas	846	104	337	16	1,303
Rendering of services	19	3	23	26	71
Other revenue	-	-	61	49	110
Total revenue	2,880	947	2,417	93	6,337

4. Expenses

	31 Dec 2019 $m	31 Dec 2018 $m
Cost of sales	**4,481**	4,435
Administrative expenses	**121**	134
Employee benefits expenses	**325**	288
Other expenses		
Loss on fair value of financial instruments	**132**	358
Impairment loss on trade receivables (net of bad debts recovered)	**36**	66
Derecognition of assets and costs associated with exit of business	**-**	47
Impairment loss on investment in a joint venture	**14**	-
Short term lease and outgoings expenses[1]	**11**	10
Acquisition costs	**7**	-
Net loss on disposal of property, plant and equipment	**2**	-
Other	**275**	265
Total expenses	**5,404**	5,603

1. Includes short term and low value lease expenses, utilities and other outgoings.

5. Net financing costs

	31 Dec 2019 $m	31 Dec 2018 $m
Finance income		
Interest income	**2**	5
	2	5
Finance costs		
Interest expense[1]	**52**	68
Lease interest expense	**5**	5
Unwinding of discounts on provisions and other liabilities	**18**	17
Unwinding of discount on deferred consideration	**11**	11
Other finance costs	**3**	4
	89	105
Net financing costs	**87**	100

1. Interest expense for the half-year ended 31 December 2019 is presented net of capitalised interest of $8 million (31 December 2018: $9 million).

6. 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 2019 $m	31 Dec 2018 $m
Profit before tax	**453**	414
Income tax expense calculated at the Australian tax rate of 30% (31 December 2018: 30%)	**136**	124
Capital loss on disposal of business	**-**	1
Non-deductible expenses	**2**	3
Recognition of previously derecognised capital losses	**(2)**	(2)
Adjustments in relation to current tax of prior years	**(6)**	(2)
Total income tax expense	**130**	124

Income tax recognised in other comprehensive income

Deferred tax	31 Dec 2019 $m	31 Dec 2018 $m
Cash flow hedges	**(8)**	26
Equity instruments measured at fair value	**3**	2
Cost of hedging subject to basis adjustment	**-**	2
Remeasurement gain/(loss) on defined benefit plans	**10**	(7)
Total income tax recognised in other comprehensive income	**5**	23

7. Dividends

Recognised amounts

	31 Dec 2019 $m	31 Dec 2018 $m
Final dividend		
Final dividend for 2019 of 64.0 cents per share, franked to 80%, paid 20 September 2019 (2019: Final dividend for 2018 of 63.0 cents per share, franked to 80%, paid 21 September 2018)	**420**	413
Dividends paid as per the Consolidated Statement of Cash Flows	**420**	413

Unrecognised amounts

Since the end of the financial year, the Directors have declared a interim dividend for 2020 of 47.0 cents per share, franked to 80% (2019: 55.0 cents per share, franked to 80%), payable 27 March 2020.	**300**	361

The financial effect of this dividend has not been recognised as a liability in these financial statements 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 2020 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 2 March 2020. The last date for shareholders to elect to participate in the DRP for the 2020 interim dividend is 28 February 2020.

8. Trade and other receivables

	31 Dec 2019 $m	30 Jun 2019 $m
Trade receivables	**893**	946
Unbilled revenue	**760**	898
Allowance for expected credit loss	**(165)**	(175)
	1,488	1,669
Other receivables	**40**	34
Total trade and other receivables	**1,528**	1,703

Expected credit loss assessment

The following table provides information about the exposure to credit risk and expected credit losses for trade receivables and unbilled revenue:

	31 Dec 2019		30 Jun 2019	
	Total $m	Allowance $m	Total $m	Allowance $m
Unbilled revenue	**760**	**(36)**	898	(55)
Not past due	**519**	**(12)**	628	(10)
Past due 0 – 30 days	**92**	**(13)**	71	(9)
Past due 31 – 60 days	**46**	**(11)**	45	(9)
Past due 61 – 90 days	**42**	**(12)**	30	(8)
Past 90 days	**194**	**(81)**	172	(84)
Total	**1,653**	**(165)**	1,844	(175)

9. Investments in associates and joint ventures

	31 Dec 2019 $m	30 Jun 2019 $m
Investments in joint ventures - unlisted	**101**	150
Total investments in associates and joint ventures	**101**	150

		Ownership interest		Contribution to profit	
	Principal activities	31 Dec 2019 %	30 Jun 2019 %	31 Dec 2019 $m	31 Dec 2018 $m
Associates					
Solar Analytics Pty Ltd	Solar PV monitoring	**31.2**	31.2	**-**	-
Joint ventures					
ActewAGL Retail Partnership	Gas and electricity retailer	**50**	50	**6**	16
Energy Infrastructure Management Pty Ltd	Pipeline management services	**50**	50	**-**	1
Central Queensland Pipeline Pty Ltd	Gas pipeline development	**50**	50	**-**	-
Powering Australian Renewables Fund	Development and owner of renewable energy generation projects	**20**	20	**1**	2
				7	19

10. Borrowings

	31 Dec 2019 $m	30 Jun 2019 $m
Current		
Bank loans - unsecured	**290**	60
CPI bonds - unsecured	**8**	8
Other loans - unsecured	**11**	11
Lease liabilities	**24**	23
Total current borrowings	**333**	102

	31 Dec 2019 $m	30 Jun 2019 $m
Non-current		
USD senior notes - unsecured	**1,058**	1,054
Medium term notes - unsecured	**599**	599
Bank loans - unsecured	**860**	760
CPI bonds - unsecured	**70**	73
Other loans - unsecured	**117**	122
Lease liabilities	**146**	149
Deferred transaction costs	**(12)**	(9)
Total non-current borrowings	**2,838**	2,748

Notes to the Financial Statements

for the half-year ended 31 December 2019

11. Issued capital

	31 Dec 2019 Total $m	31 Dec 2019 Shares Number	30 Jun 2019 Total $m	30 Jun 2019 Shares Number
Balance at beginning of reporting period	**6,223**	**655,825,043**	6,223	655,825,043
On-market share buy-back[1]	**(323)**	**(16,408,411)**	-	-
Balance at reporting date	**5,900**	**639,416,632**	6,223	655,825,043

1. During the period, AGL completed the buy-back of 16,408,411 shares. This is part of AGL's on-market share buy-back program for up to 5% of its issued share capital, or 32,791,252 shares from 23 August 2019 to 22 August 2020. As at 31 December 2019, the total consideration paid for shares bought back on market was $323 million at an average price of $19.69 per share.

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.

12. Earnings per share

	31 Dec 2019	31 Dec 2018
Statutory earnings per share		
Basic earnings per share	**49.7 cents**	44.2 cents
Diluted earnings per share	**49.6 cents**	44.2 cents
Underlying earnings per share		
Basic earnings per share	**66.4 cents**	81.9 cents
Diluted earnings per share	**66.3 cents**	81.8 cents

Earnings used in calculating basic and diluted earnings per share

	31 Dec 2019	31 Dec 2018
Statutory earnings used to calculate basic and diluted earnings per share	**323**	290
Significant items after income tax	**17**	(4)
Loss in fair value of financial instruments after income tax	**92**	251
Underlying earnings used to calculate basic and diluted earnings per share	**432**	537

Weighted average number of ordinary shares

	31 Dec 2019 Number	31 Dec 2018 Number
Number of ordinary shares used in the calculation of basic earnings per share	**650,471,038**	655,825,043
Effect of dilution - LTIP share performance rights	**966,134**	897,051
Number of ordinary shares used in the calculation of diluted earnings per share	**651,437,172**	656,722,094

13. Acquisition, incorporation and disposal of subsidiaries and businesses

31 December 2019

Acquisition of Perth Energy Holdings Pty Ltd

On 2 September 2019, AGL completed the purchase of 100% of the outstanding share capital of Perth Energy Holdings Pty Ltd based on an enterprise value of $93 million. Perth Energy was Western Australia's leading independent energy retailer, marketing electricity and gas to small and medium size enterprises and commercial and industrial users. The business also owns and operates the 120 MW Kwinana Swift dual fuel peaking power station.

Acquisition of Southern Phone Company Limited

On 18 December 2019, AGL completed the purchase of 100% of the outstanding share capital of Southern Phone Company Limited for consideration of $28 million. Southern Phone Company is a provider of fixed line, mobile and internet communications services in regional Australia with 160,000 broadband and mobile accounts nationwide.

Incorporation and disposal of subsidiaries and businesses

There were no incorporations or disposals of subsidiaries and businesses made during the half-year ended 31 December 2019. Control was not lost over any entities during the half-year ended 31 December 2019.

13. Acquisition, incorporation and disposal of subsidiaries and businesses (cont.)

31 December 2018

Acquisition and incorporation of entities

During this period, the following entities were incorporated: AGL Shipping Pty Limited (17 August 2018), AGL LNG Pty Limited (17 August 2018) and GRCI Australia Pte Limited (5 October 2018). Each of these entities is 100% owned by the AGL Group and with the exception of the Singaporean incorporated GRCI Australia Pte Limited, incorporated in Australia.

Disposal of National Assets

On 11 September 2018, AGL completed the divestment of its portfolio of small generation and compressed natural gas refuelling assets, National Assets, for consideration of $136 million.

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

	$m
Assets	
Trade and other receivables	41
Prepayments	1
Inventories	-
Property, plant and equipment	33
Other assets	2
Liabilities	
Trade and other payables	-
Net assets disposed	77
Consideration	
Consideration received in cash	136
Costs directly attributable to the disposal	(7)
Liability assumed	-
	129
Gain on disposal of subsidiaries and businesses	
Consideration	129
Net assets disposed	(77)
	52
Net cash inflow on disposal of subsidiaries and businesses	
Consideration received in cash	136
Costs directly attributable to the disposal paid	(7)
	129

Control was not lost over any entities during the half-year ended 31 December 2018.

14. Contingent liabilities

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.

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.

15. 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).

31 December 2019	Carrying amount $m	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Financial assets					
Equity instrument financial assets					
Unlisted equity securities	-	-	-	-	-
Unlisted investment funds	120	-	-	120	120
Derivative financial instruments					
Cross currency swap contracts - cash flow and fair value hedges	139	-	139	-	139
Interest rate swap contracts - cash flow hedges	4	-	4	-	4
Forward foreign exchange contracts - cash flow hedges	-	-	-	-	-
Energy derivatives - cash flow hedges	3	-	3	-	3
Energy derivatives - economic hedges	359	135	94	130	359
Total financial assets	625	135	240	250	625
Financial liabilities					
Derivative financial instruments					
Cross currency swap contracts - cash flow and fair value hedges	-	-	-	-	-
Interest rate swap contracts - cash flow hedges	(50)	-	(50)	-	(50)
Forward foreign exchange contracts - cash flow hedges	(1)	-	(1)	-	(1)
Energy derivatives - cash flow hedges	(11)	-	(11)	-	(11)
Energy derivatives - economic hedges	(516)	(146)	(118)	(252)	(516)
Total financial liabilities	(578)	(146)	(180)	(252)	(578)

15. Financial instruments (cont.)

30 June 2019	Carrying amount $m	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Financial assets					
Equity instrument financial assets					
Unlisted equity securities	-	-	-	-	-
Unlisted investment funds	93	-	-	93	93
Derivative financial instruments					
Cross currency swap contracts - cash flow and fair value hedges	136	-	136	-	136
Interest rate swap contracts - cash flow hedges	-	-	-	-	-
Forward foreign exchange contracts - cash flow hedges	1	-	1	-	1
Energy derivatives - cash flow hedges	33	-	33	-	33
Energy derivatives - economic hedges	594	145	78	371	594
Total financial assets	857	145	248	464	857
Financial liabilities					
Derivative financial instruments					
Cross currency swap contracts - cash flow and fair value hedges	-	-	-	-	-
Interest rate swap contracts - cash flow hedges	(57)	-	(57)	-	(57)
Energy derivatives - cash flow hedges	(5)	-	(5)	-	(5)
Energy derivatives - economic hedges	(653)	(293)	(151)	(209)	(653)
Total financial liabilities	(715)	(293)	(213)	(209)	(715)

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:

- Receivables/payables with a remaining life of less than six 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.
- The fair value of forward foreign exchange contracts and energy derivatives is calculated as the present value of expected 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. 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.
- 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.
- 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.
- The fair value of lease liabilities is estimated as the present value of future cash flows discounted where the effect of discounting is material.
- 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.

15. Financial instruments (cont.)

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

	31 Dec 2019 $m	30 Jun 2019 $m
Opening balance	**255**	215
Total gains or losses recognised in profit or loss		
Settlements during the year	**(140)**	(413)
Changes in fair value	**(129)**	457
Premiums	**(8)**	(32)
Purchases	**20**	28
Disposals	**-**	-
Closing balance	**(2)**	255

Fair value gains or losses on energy derivatives are included in other expenses in the line item "Loss on fair value of financial instruments" in Note 4.

The sensitivity of Level 3 contracts with significant unobservable inputs, where the inputs are higher by 10% is ($191) million and lower by 10% is $191 million (profit after tax (decrease)/increase). Input changes were applied to forward prices, cost-based indexes, contract volumes and management assumption of long-term curve used.

16. Subsequent events

Apart from the matters identified in the financial statements or notes thereto, there has not been any matter or circumstance that has arisen since 31 December 2019 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.

Directors' Declaration

for the half-year ended 31 December 2019

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 2019 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 2019; 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, 13 February 2020

Auditor's Independence Declaration

Deloitte.

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

13 February 2020

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 2019, 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

Deloitte Touche Tohmatsu
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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 2019 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 28 to 45.

Directors' Responsibility for the Half-Year Financial Report

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

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of AGL Energy Limited's financial position as at 31 December 2019 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 2019 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, 13 February 2020

Corporate Directory and Financial Calendar

Directory

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Financial Calendar

13 February 2020
Half-year result and interim dividend announced

27 February 2020
Record date of interim dividend

28 February 2020
Record date of interim DRP

27 March 2020
Payment date of interim dividend

13 August 2020
Full year result and final dividend announcement

27 August 2020
Record date of final dividend

28 August 2020
Record date of final DRP

25 September 2020
Payment date of final dividend

7 October 2020
Annual General Meeting (Melbourne)

Please note – The above dates are indicative only and may be subject to change.

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