AGL ENERGY LIMITED

of 2014

RE: PROPOSED ACQUISITION OF MACQUARIE GENERATION (A CORPORATION ESTABLISHED UNDER THE ENERGY SERVICES CORPORATIONS ACT 1995 (NSW))

ANNEXURE CERTIFICATE

This is the annexure marked "**BAR 34**" annexed to the statement of **BRETT ALAN REDMAN** dated 23 March 2014

Annexure BAR34

Filed on behalf of (name & role of party)	AGL Energy Limited
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ELECTRONIC LODGEMENT

26 February 2014

AGL Energy Limited Financial Results for the half-year ended 31 December 2013.

We attach the following documents relating to AGL Energy Limited's results for the half-year ended 31 December 2013:

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

Paul McWilliams

Company Secretary

About AGL
AGL Energy Limited (AGL) is one of Australia's leading integrated renewable energy companies and is taking action toward creating a sustainable energy future for our investors, communities and customers. Drawing on 175 years of experience, AGL operates retail and merchant energy businesses, power generation assets and an upstream gas portfolio. AGL has one of Australia's largest retail energy and dual fuel customer bases. AGL has a diverse power generation portfolio including base, peaking and intermediate generation plants, spread across traditional thermal generation as well as renewable sources including hydro, wind, landfill gas and biomass. AGL is Australia's largest private owner and operator of renewable energy assets and is looking to further expand this position by exploring a suite of low emission and renewable energy generation development opportunities.

Energy in action.

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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 2013

Extracts from this report for announcement to the market

				$A Million
Revenue	**down**	**2.6%**	To	**4,842**
Statutory Profit after tax attributable to shareholders	**down**	**27.1%**	To	**261**
Underlying Profit after tax attributable to shareholders	**down**	**11.4%**	To	**242**
				Cents per share
Statutory Earnings per share	**down**	**28.2%**	To	**46.9**
Underlying Earnings per share	**down**	**12.7%**	To	**43.5**

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

Record date for determining entitlements to the interim dividend:

7 March 2014 and payable on 4 April 2014.

Brief explanation of Underlying Profit and Underlying Earnings per share:

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

Statutory Profit after tax of $261 million included a loss of $17 million after tax in relation to significant items and a gain after tax of $36 million from the changes in the fair value of financial instruments. Excluding these items, the Underlying Profit was $242 million, down 11.4% on the prior corresponding period.

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

Discussion and analysis of the results for the half-year ended 31 December 2013

Analysis of these results is included in the Director's Report attached to this announcement.

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

AGL Energy Limited and controlled entities

Directors' Report

For the half-year ended 31 December 2013

(including the review of operations)

Directors' Report

In accordance with a resolution of the Board, the Directors present their report on the consolidated entity (AGL) consisting of AGL Energy Limited and its controlled entities, either during or at the end of the half-year ended 31 December 2013 (the period). Financial comparisons used in this report are of results for the half-year ended 31 December 2012 for statement of profit or loss analysis, and 30 June 2013 for statement of financial position analysis.

1. Principal Activities

AGL is one of Australia's leading integrated renewable energy companies. AGL operates retail and merchant energy businesses, power generation assets and an upstream gas portfolio. AGL has one of Australia's largest retail energy and dual fuel customer bases. AGL has a diverse power generation portfolio including base, peaking and intermediate generation plants, spread across traditional thermal generation as well as renewable sources including hydro and wind. AGL is Australia's largest private owner and operator of renewable energy assets.

Operating Segments

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

- **Retail Energy** sells natural gas, electricity and energy-related products and services to residential and small business customers.
- **Merchant Energy** develops, operates and maintains power generation assets and manages the risks associated with the procurement and delivery of natural gas and electricity for its wholesale portfolio and for the Retail Energy segment. Merchant Energy also sells natural gas and electricity to business customers and provides energy efficiency and carbon management services.
- **Upstream Gas** invests in, and operates gas exploration, development and production tenements and develops and operates gas storage facilities.
- **Energy Investments** includes equity accounted investments in the ActewAGL Retail Partnership and Diamantina Holding Company Pty Limited.

2. Review and results of operations

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

3. Business acquisitions and disposals

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

The acquisition of APG and its 354,000 customer base across Victoria, Queensland and New South Wales increases AGL's total customer numbers by approximately 10%. AGL will realise value from the acquisition by applying its lower cost of servicing to the APG customer base.

4. Events Subsequent to Balance Date

Proposed acquisition of Macquarie Generation

On 12 February 2014, AGL announced that it had entered into an agreement with the New South Wales (NSW) Government to acquire the Macquarie Generation (Macgen) assets for a consideration of $1,505 million including stamp duty but excluding transaction costs. The acquisition is conditional on approval by the Australian Competition & Consumer Commission (ACCC). The ACCC has previously indicated that it will make a final decision on the proposed acquisition by 4 March 2014.

Debt facility refinance

On 14 February 2014, AGL executed an amendment to its syndicated bank debt facility to add an additional $650 million term facility for a further four years. This facility will be utilised to repay the $600 million facility that is due to mature on 20 July 2014.

5. Dividends

The Directors have determined to pay an interim fully franked dividend of 30.0 cents per share which will be paid on 4 April 2014.

6. Directors in Office

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

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

7. Non-IFRS financial information

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

8. Rounding

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

9. Auditor's Independence Declaration

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

Jeremy Maycock
Chairman
Sydney, 26 February 2014

AGL Energy Limited
Review of Operations

For the half-year ended 31 December 2013

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

Contents

1. Results Overview

1.1 Reconciliation of Statutory Profit to Underlying Profit

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

	Half-year ended 31 December 2013 $m	Half-year ended 31 December 2012 $m (Restated)
Statutory Profit	**261**	358
Adjust for the following after tax items:		
Significant items(1)	**17**	-
Changes in fair value of financial instruments(2)	**(36)**	(85)
Underlying Profit	**242**	273

(1) Section 1.3
(2) Section 5

Statutory EBIT	**482**	625
Significant items	**22**	-
Changes in fair value of financial instruments	**(51)**	(122)
Finance income included in Operating EBIT	**2**	-
Operating EBIT	**455**	503
Net finance costs	**(113)**	(110)
Underlying Profit before tax	**342**	393
Income tax expense	**(100)**	(120)
Underlying Profit	**242**	273

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

AGL believes Underlying Profit and Operating EBIT are useful as they:

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

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

1.2 Underlying Profit summary

	Half-year ended 31 December 2013 $m	Half -Year ended 31 December 2012 $m (Restated)
Revenue	**4,842**	4,970
Operating EBITDA	**622**	641
Operating EBIT by segment:		
Retail	**136**	136
Merchant	**433**	460
Upstream Gas	**(13)**	(3)
Energy Investments	**14**	16
Centrally managed expenses	**(115)**	(106)
Total Operating EBIT	**455**	503
Less: Net finance costs	**(113)**	(110)
Underlying Profit before tax	**342**	393
Less: Income tax expense	**(100)**	(120)
Underlying Profit	**242**	273

The operating result for the period was affected by lower volumes across both the Retail and Business customers segments and the lagging effects of discounts entered into in prior periods. Retail volumes were particularly impacted by the record warm winter weather experienced in the southern states. Retail price increases and the acquisition of APG partially mitigated the impact of lower volumes.

1.3 Significant Items

	Half-year ended 31 December 2013		Half-year ended 31 December 2012	
	Pre-tax $m	**PAT $m**	Pre-tax $m	PAT $m
APG acquisition	**(22)**	**(17)**	-	-
Total significant items	**(22)**	**(17)**	-	-

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

AGL completed the acquisition of APG on October 25, 2013 as described in section 3 of the Directors' Report. The following items were recognised as significant items in the period:

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

1.4 Earnings per Share

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

	Half-year ended 31 December 2013 $m	Half-year ended 31 December 2012 $m (Restated)
Statutory Profit	**261**	358
Adjust for the following after tax items:		
Significant items	**17**	-
Changes in fair value of financial instruments	**(36)**	(85)
Underlying Profit	**242**	273
	cents	cents
Statutory EPS	**46.9**	65.3
Underlying EPS	**43.5**	49.8

1.5 Interim Dividend

The Directors have declared an interim dividend of 30.0 cents per share, in line with the prior corresponding period's interim dividend also of 30.0 cents per share. The interim dividend will be paid on 4 April 2014. The record date to determine shareholders' entitlements to the interim dividend is 7 March 2014 and shares will commence trading ex-dividend on 3 March 2014.

Before declaring the dividend the Directors satisfied themselves that:

- AGL's assets exceeded its liabilities immediately before declaring the dividend and the excess was sufficient for the payment of the dividend;
- the payment of the dividend was fair and reasonable to AGL's shareholders as a whole; and
- the payment of the dividend would not materially prejudice AGL's ability to pay its creditors.

The interim dividend will be fully franked.

The AGL Dividend Reinvestment Plan (DRP) will be in operation. No discount will apply to shares issued under the DRP. New shares will be issued to plan participants at the volume weighted average price at which AGL shares trade during each of the 10 trading days commencing on 11 March 2014.

2. Review of Segment Operations

The review of segment operations focuses on Operating EBIT defined as EBIT before changes in fair value of financial instruments and significant items. AGL believes that Operating EBIT provides a better understanding of its financial performance by removing significant items and volatile changes in fair value of financial instrument accounting adjustments thereby facilitating a more relevant comparison of financial performance between financial periods.
Each segment section commences with a table reconciling Statutory EBIT with the Operating EBIT.

Operating EBIT for the half-year ended 31 December 2013 was $455 million compared with $503 million for the prior corresponding period. The Statutory and Operating EBIT by segment is presented in the following table:

	EBIT (Statutory)		**EBIT (Operating)**	
	Half-year ended 31 December 2013 $m	Half-year ended 31 December 2012 $m (Restated)	**Half-year ended 31 December 2013 $m**	Half-year ended 31 December 2012 $m (Restated)
Retail Energy	**114**	136	**136**	136
Merchant Energy	**484**	582	**433**	460
Upstream Gas	**(13)**	(3)	**(13)**	(3)
Energy Investments	**14**	16	**14**	16
Centrally managed expenses	**(117)**	(106)	**(115)**	(106)
EBIT	**482**	625	**455**	503
Depreciation and amortisation	**167**	138	**167**	138
EBITDA	**649**	763	**622**	641

AGL has restated the result for the half-year ended 31 December 2012 to reflect the following changes:

i. Adoption of the revised accounting standard AASB 119 *Employee Benefits*
ii. A minor amendment to the basis of segment reporting which reclassified some administrative costs associated with AGL Loy Yang from Merchant Energy to Centrally managed expenses

The following table summarises the affects of these changes:

	Half-year ended 31 December 2012 As published $m	AASB 119 restatement $m	Segment reporting restatement $m	**Half-year ended 31 December 2012 Restated $m**
Operating EBIT				
Retail Energy	136	-	-	136
Merchant Energy	454	(8)	14	460
Upstream Gas	(3)	-	-	(3)
Energy Investments	16	-	-	16
Centrally managed expenses	(91)	(1)	(14)	(106)
EBIT	512	(9)	-	503
Depreciation and amortisation	138	-	-	138
EBITDA	650	(9)	-	641

2.1 Retail Energy

Operating EBIT in line with prior corresponding period at $136 million

	Half-year ended 31 December 2013 $m	Half-year ended 31 December 2012 $m
Statutory EBIT	**114**	136
Significant items	**22**	-
Operating EBIT	**136**	136
Depreciation and amortisation	**43**	34
Operating EBITDA	**179**	170

Retail Energy is responsible for growing and servicing AGL's consumer customers. Retail Energy sells natural gas, electricity and energy related products and services to residential and small business customers. Retail Energy currently services over 3.8 million customer accounts following the acquisition of APG.

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

2.1.1 Analysis of Operating EBIT

Retail Energy contributed $136 million to Operating EBIT for the half-year, in line with the prior corresponding period. The main changes in Operating EBIT are summarised in the table below.

	$m
Operating EBIT for the half-year ended 31 December 2012	**136**
Increase in gas and electricity gross margin	26
Increase in depreciation and amortisation	(9)
Increase in net operating costs	(17)
Operating EBIT for the half-year ended 31 December 2013	**136**

2.1.1.1 Gross Margin

Gross margin, excluding fees and charges, increased by $26 million or 8.2% compared with the prior corresponding period.

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

	Half-year ended 31 December 2013 $m	Half-year ended 31 December 2012 $m	Movement %
Electricity	**192**	199	(3.5)
Gas	**150**	117	28.2
Fees and charges	**37**	37	-
Total gross margin	**379**	353	7.4
Gross margin excluding fees and charges	**342**	316	8.2

The first quarter of FY14 was significantly impacted by record weather conditions with the warmest winter on record combined with an ongoing decline in average consumption resulting in lower gas and electricity volumes. Volume reductions have resulted in a decline of approximately $39 million predominantly in electricity gross margin compared with the prior corresponding period. Gross margin was also impacted by the lagging effect of discounts entered into in prior periods.

Incremental gross margin following regulatory and contract price increases in all states except South Australia (SA), the APG acquisition, and a decline in gas network distribution costs in Victoria were positive contributions to results.

As expected, electricity gross margin in SA has decreased compared with the prior corresponding period following the regulatory price decreases in January 2013 for residential and small business customers on standing contracts.

By comparison, the gross margin in the prior corresponding period was lowered by approximately $40 million ($30 million electricity and $10 million gas) due to timing differences associated with the introduction of carbon, which reversed in the second half.

In order to provide consistency with the AGL financial statements, bad debt recoveries have been netted against bad and doubtful debt expense, rather than shown in fees and charges as previously disclosed in the Review of Operations. The prior corresponding period has been restated accordingly, reducing fees and charges by $5 million and bad and doubtful debts expense by the same amount.

2.1.1.2 Depreciation and Amortisation

Depreciation and amortisation (D&A) increased by $9 million, or 26.5% compared with the prior corresponding period.

	Half-year ended 31 December 2013 $m	Half-year ended 31 December 2012 $m	Movement %
NSW direct customer acquisition cost amortisation	**(21)**	(16)	31.3
Other	**(22)**	(18)	22.2
Total D&A	**(43)**	(34)	26.5

The increase in D&A partly relates to AGL's project to substantially grow its customer base in NSW by 30 June 2014. For the life of the project (which commenced in January 2011) the direct cash costs incurred to acquire NSW customers will be capitalised. These costs will then be amortised over the expected benefit period, typically between two and three years.

Increases in other D&A relate mainly to customer contracts acquired as part of the APG acquisition.

The following table outlines expenditure which has been capitalised for direct NSW customer acquisition costs, other than the APG acquisition, and also the amortisation profile:

	Half-year ended 31 December 2013 $m	Half-year ended 31 December 2012 $m	**Total Project to date $m**
Direct cash outlay	**17**	19	**117**
Amortised to the income statement	**(21)**	(16)	**(77)**
Net capitalised costs	**(4)**	3	**40**
Number of lead sales	**76,009**	116,620	**583,683**
Cost per lead sale	**$217.37**	$162.62	**$200.36**

Cost per lead sale increased compared with the prior corresponding period due to lower lead sales reflecting a reduction in churn and a general slowing in retention and acquisition activity.

Amortisation for the year ending:	**$m**
30 June 2011	**2**
30 June 2012	**17**
30 June 2013	**37**
30 June 2014	**38**
30 June 2015	**21**
30 June 2016	**2**
Total amortisation	**117**

In addition to the above capitalised costs, AGL estimates that it spent a further $10 per new customer on sales fulfilment activities. These costs have been incurred to process new customers onto AGL's system and are consistent with prior period costs.

2.1.1.3 Net Operating Costs excluding Depreciation and Amortisation

Retail Energy's net operating costs excluding D&A increased by $17 million, or 11.6%, compared with the prior corresponding period. The following table provides the breakdown of the material increases in net operating costs:

	Half-year ended 31 December 2013 $m	Half-year ended 31 December 2012 $m	Movement %
Labour and contractor services	**(78)**	(69)	13.0
Bad and doubtful debts	**(42)**	(34)	23.5
Campaigns and advertising	**(34)**	(37)	(8.1)
Other expenditure	**(46)**	(43)	7.0
Fees and charges	**37**	37	-
Net operating costs excluding D&A	**(163)**	(146)	11.6
Depreciation and amortisation	**(43)**	(34)	26.5
Net operating costs	**(206)**	(180)	14.4

Labour and contractor services costs increased by $9 million, or 13.0%, largely due to the acquisition of APG, closure costs associated with the Canberra call centre, other restructuring and the inclusion of AGL Solar costs previously recorded in Merchant Energy. Labour rates increased in line with inflation.

The increase in bad and doubtful debts expense of $8 million, or 23.5% included $6.5 million in relation to APG. Excluding APG, bad and doubtful debts expense increased 4.4% largely in line with overall revenue growth.

Campaign and advertising expenditure decreased by $3 million, or 8.1%, due to scaled down activity post the acquisition of APG.

Other expenditure increased by $3 million, or 7.0%, largely due to Victorian ombudsman refunds recognised in the prior corresponding period.

2.1.2 NSW electricity acquisition strategy

In January 2011, Retail Energy commenced a strategy to substantially grow its customer base in NSW by 30 June 2014. The acquisition of APG in October 2013 contributed approximately 74,000 customers, taking the overall customer growth during the period from January 2011 to approximately 390,000 customers. As at 31 December 2013 AGL has 813,000 NSW electricity customers.

2.1.3 Customer Profitability

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

2.1.3.1 Gross Margin per Customer

	Half-year ended 31 December 2013	Half-year ended 31 December 2012	Movement %
Gross margin (excluding fees & charges)	**$342m**	$316m	8.2
Average customer numbers	**3,661,885**	3,494,550	4.8
Consumer gross margin per customer	**$93.41**	$90.54	3.2

2.1.3.2 EBIT / Sales Analysis

	Half-year ended 31 December 2013 $m	Half-year ended 31 December 2012 $m	Movement %
Electricity revenue	**1,823**	1,774	2.8
Gas revenue	**739**	698	5.9
Other fees and charges	**37**	37	-
Total revenue	**2,599**	2,509	3.6
Cost of sales – electricity	**(1,630)**	(1,575)	3.5
Cost of sales – gas	**(590)**	(581)	1.5
Gross margin	**379**	353	7.4
Operating costs (excl D&A)	**(200)**	(183)	9.3
Operating EBITDA	**179**	170	5.3
Depreciation and amortisation	**(43)**	(34)	26.5
Operating EBIT	**136**	136	-
Operating EBIT / Sales %	**5.2%**	5.4%	-0.2ppts

AGL Energy Limited Review of Operations
for the half-year ended 31 December 2013

2.1.4 Operating Efficiency

AGL focuses on net operating costs as a percentage of gross margin (excluding fees and charges) as the primary measure of operating efficiency. As a secondary measure, cost to serve is also analysed.

2.1.4.1 Net Operating Costs as a percentage of Gross Margin

	Half-year ended 31 December 2013 $m	Half-year ended 31 December 2012 $m	Movement %
Net operating costs	**(206)**	(180)	14.4
Gross margin	**379**	353	7.4
Fees and charges	**(37)**	(37)	-
Gross margin less fees and charges	**342**	316	8.2
Net operating costs as percentage of gross margin (less fees and charges)	**60.2%**	57.0%	3.2ppts

Net operating costs increased by 14.4% as detailed in section 2.1.1.3

Net operating costs as a percentage of gross margin increased by 3.2 percentage points (ppts). Excluding the effect of the APG acquisition, the closure of the Canberra call centre, the inclusion of AGL solar costs and other restructuring costs, net operating costs as a percentage of gross margin was 58.6%.

2.1.4.2 Cost to Serve Analysis

	Half-year ended 31 December 2013 $	Half-year ended 31 December 2012 $ (Restated)	Movement %
Net operating costs	**(206m)**	(180m)	14.4
Net operating cost per customer account	**(56.36)**	(51.43)	9.6
Cost to acquire/retain	**(72m)**	(64m)	12.5
Cost to acquire/retain per account acquired/retained	**(103.11)**	(67.84)	52.0
Cost to serve	**(134m)**	(116m)	15.5
Cost to serve per customer account	**(36.74)**	(33.12)	10.9

Net operating cost per customer account for the period was $56.36, a 9.6% increase on the prior corresponding period. The increase in net operating costs is discussed in detail in section 2.1.1.3.

Costs to acquire and retain customers in total increased by 12.5% driven by higher amortisation of NSW Storm costs and APG. The number of accounts acquired or retained dropped to 697,000 from 942,000 in the prior corresponding period, with the reduction heavily weighted towards very low cost retention activity, which increased the average cost to acquire / retain.

Overall cost to serve increased 15.5% driven by the acquisition of APG, closure of the Canberra call centre, other restructuring costs and the inclusion of AGL Solar as described in section 2.1.1.3. Excluding these costs, cost to serve per customer account would have been $33.81.

AGL Energy Limited Review of Operations
for the half-year ended 31 December 2013

2.1.5 Customer Numbers

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

	31 December 2013 ('000)	30 June 2013 ('000)	Movement ('000)	Movement %
Electricity				
Victoria	**706**	611	95	15.5
South Australia	**436**	444	(8)	(1.8)
New South Wales	**813**	717	96	13.4
Queensland	**390**	374	16	4.3
	2,345	2,146	199	9.3
Gas				
Victoria	**587**	482	105	21.8
South Australia	**129**	129	-	-
New South Wales	**712**	683	29	4.2
Queensland	**80**	77	3	3.9
	1,508	1,371	137	10.0
Total	**3,853**	3,517	336	9.6

1. The above table includes 20,073 C&I customers at 31 December 2013 (19,311 at 30 June 2013)

In the six months to 31 December 2013 AGL churn decreased 2.9 ppts to 15.5% with the rest of market (Qld, Vic, SA and NSW excluding AGL customers) decreasing 2.2 ppts to 21.8%, increasing the gap by a further 0.7 ppts to 5.6 ppts. AGL increased its favourable gap to the rest of market which can be attributed to strong product offers such as My AGL Monthly Bill, the flybuys reward scheme and interactive tools like AGL Energy Online and MY AGL IQ.

2.2 Merchant Energy

Operating EBIT decreased 5.9% to $433 million from $460 million

	Half-year ended 31 December 2013 $m	Half-year ended 31 December 2012 $m (Restated)
Statutory EBIT	**484**	582
Significant items	**-**	-
Finance income included in EBIT	**2**	-
Change in fair value of financial instruments	**(53)**	(122)
Operating EBIT	**433**	460
Depreciation and amortisation	**98**	82
Operating EBITDA	**531**	542

Merchant Energy is structured into four business units: Energy Portfolio Management, Merchant Operations, Business Customers and Power Development. It is responsible for developing, operating and maintaining AGL's power generation assets and managing the risks associated with the procurement and delivery of gas and electricity for AGL's Wholesale and Retail portfolios. It also manages the relationship with AGL's business customers. In addition to providing gas and electricity the business unit supplies beyond the meter services such as energy efficiency advice and broader carbon management services.

The business uses financial hedges, bilateral contracts and physical generation to ensure adequacy of competitively priced supply. Generation assets include both thermal and renewable assets including Australia's largest privately owned and operated renewable portfolio and a pipeline of development opportunities.

The contribution from each business unit to Merchant Energy's Operating EBIT and EBITDA is set out in the following table.

	Operating EBIT		**Operating EBITDA**	
	Half-year ended 31 December 2013 $m	Half-year ended 31 December 2012 $m (Restated)	**Half-year ended 31 December 2013 $m**	Half-year ended 31 December 2012 $m (Restated)
Energy Portfolio Management	**606**	608	**614**	613
Merchant Operations	**(213)**	(198)	**(131)**	(129)
Business Customers	**52**	60	**59**	67
Power Development	**(2)**	0	**(2)**	0
Sundry	**(10)**	(10)	**(9)**	(9)
Total Merchant Energy	**433**	460	**531**	542

2.2.1 Energy Portfolio Management Operating EBIT: Decreased 0.3% to $606 million from $608 million

	Half-year ended 31 December 2013 $m	Half-year ended 31 December 2012 $m	Movement %
Wholesale Electricity	**523**	519	0.8
Wholesale Gas	**81**	72	12.5
Eco-Markets	**16**	29	(44.8)
Gross margin	**620**	620	-
Operating costs	**(6)**	(6)	-
Operating EBITDA	**614**	614	-
Depreciation and amortisation	**(8)**	(6)	33.3
Operating EBIT	**606**	608	(0.3)

Energy Portfolio Management is responsible for managing the price risk associated with procuring electricity and gas and for managing AGL's green product obligations. It also controls the dispatch of owned and contracted generation assets which complement the portfolio of electricity hedges.

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

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

Commercial optimisation activities include:

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

2.2.1.1 Wholesale Electricity Gross Margin: Increased 0.8% to $523 million from $519 million

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

The increase in gross margin is mainly due to the addition of Macarthur wind farm into the generation fleet, higher transfer prices from Retail Energy and incremental gross margin following the acquisition of APG. This is largely offset by lower consumer and business customer electricity volumes, the one-off benefit of contract purchases at a carbon exclusive strike price prior to the enacting of the carbon legislation in the prior year and the Victorian and South Australian desalination plants operating at minimum load during the current period leading to a reduction in revenues.

2.2.1.2 Wholesale Gas Gross Margin: Increased 12.5% to $81 million from $72 million

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

Both consumer and business customer volumes declined compared with the prior corresponding period. This decline in volumes was more than offset by additional high volume wholesale gas customers and increased transfer prices to Retail Energy.

2.2.1.3 Eco-Markets Gross Margin: Decreased 44.8% to $16 million from $29 million

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

The 44.8% decrease in gross margin compared with the prior corresponding period was due to higher compliance costs following an increase in the market price for Small-scale Renewable Energy Certificates (SREC) and higher costs of Large-scale Renewable Energy certificate (LREC) production.

2.2.2 Merchant Operations Operating Expenses: Increased 7.6% to $213 million from $198 million

	Half-year ended 31 December 2013 $m	Half-year ended 31 December 2012 $m (Restated)	Movement %
Other revenue	**39**	38	2.6
Labour	**(85)**	(84)	1.2
Contractor services	**(61)**	(62)	(1.6)
Other operating costs	**(24)**	(21)	14.3
Operating EBITDA	**(131)**	(129)	1.6
Depreciation and amortisation	**(82)**	(69)	18.8
Operating EBIT	**(213)**	(198)	7.6

Merchant Operations is responsible for managing and maintaining both AGL's and third party generation assets. AGL's thermal and renewable generation portfolio includes the 2,210 MW Loy Yang A power station and adjacent brown coal mine, the 1,280 MW gas fired Torrens Island power station, the 150 MW gas fired Somerton power station and 795 MW of hydro generation. AGL also operates and receives the generation revenues from Wattle Point, Hallett 1, Hallett 2, Hallett 4, Hallett 5 and Oaklands Hill and Macarthur wind farms (combined 925 MW of capacity).

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

The increase in Merchant Operations operating expenses for the period is mainly due to depreciation and operational expenditure for the Macarthur wind farm which was not fully operational in the prior corresponding period.

2.2.3 Business Customers Operating EBIT: Decreased 13.3% to $52 million from $60 million

	Half-year ended 31 December 2013 $m	Half-year ended 31 December 2012 $m
Electricity gross margin	**19**	32
Gas gross margin	**32**	35
C&I Operations and Customer Services expenses	**(14)**	(15)
Energy Services	**22**	15
Operating EBITDA	**59**	67
Depreciation and amortisation	**(7)**	(7)
Operating EBIT	**52**	60

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

Electricity gross margin decreased due to lower customer numbers, contraction in the average large customer load and strong competition resulting in lower average margins as expiring customer contracts were renewed.

Gas gross margin was also lower driven by lower average customer usage due to a shift in customer mix. However, this was partially offset with increased customer numbers and margin per customer.

Energy Services earnings increased mainly due to favourable LPG prices and higher volumes at HC Extractions.

2.2.4 Power Development Operating EBIT: Decreased to ($2 million) from $0 million

Power Development Operating EBIT consists of profits from developing wind farms on a percentage of completion basis, less operating expenses associated with the business unit.

No development profits were recognised in the period nor in the prior corresponding period.

Operating expenses in the period represented the net costs of the business unit after capitalisation of some costs of development projects.

2.2.5 Sundry Operating Expenses Level at ($10 million) from ($10 million)

Sundry includes overhead expenses for the Merchant Energy business unit.

2.3 Upstream Gas

Operating EBIT decreased to ($13 million) from ($3 million)

	Half-year ended 31 December 2013 $m	Half-year ended 31 December 2012 $m
Statutory EBIT	**(13)**	(3)
Significant items	**-**	-
Operating EBIT	**(13)**	(3)
Depreciation and amortisation	**12**	12
Operating EBITDA	**(1)**	9

Upstream Gas is responsible for AGL's investments and operations in gas exploration, development and production tenements, and development and operation of gas storage facilities. The portfolio is divided into two broad regions: (i) Queensland; and (ii) New South Wales.

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

	Operating EBIT		**Operating EBITDA**	
	Half-year ended 31 December 2013 $m	Half-year ended 31 December 2012 $m	**Half-year ended 31 December 2013 $m**	Half-year ended 31 December 2012 $m
Queensland	**(7)**	1	**1**	8
New South Wales	**0**	1	**4**	6
Equity investments	**0**	0	**0**	0
Sundry	**(6)**	(5)	**(6)**	(5)
Total Upstream Gas	**(13)**	(3)	**(1)**	9

2.3.1 Queensland Operating EBIT: Decreased to ($7 million) from $1 million

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

Operating EBIT contribution from the combined MGP and NQE joint ventures was a loss of $6 million compared with a loss of $2 million in the prior corresponding period, due to increased labour and overheads at MGP, and reduced revenue at NQE, primarily driven by reduced gas availability from the MGP.

The prior corresponding period also included $3 million of Operating EBIT contribution from the amortisation of Silver Springs gas storage capacity fees, with the fee received fully amortised by 30 June 2013.

2.3.2 New South Wales Operating EBIT: Decreased to $0 million from $1 million

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

The reduced Operating EBIT was mainly due to reduced Camden gas sales volume.

2.3.3 Equity Investments

Equity investments include AGL's share of investments in CSM Energy Limited (CSME) and Torrens Energy Limited (TEY).

2.3.4 Sundry Operating EBIT: Decreased to ($6 million) from ($5 million)

The sundry category includes Upstream Gas overheads. The increase in costs was due to a ramping up of AGL's community relations activities including the launch of "AGL Side By Side", a project aimed at engaging with local communities on AGL's operations.

2.3.5 Gas Sales and Reserves Position

The following table summarises the gas sales volume and associated revenue from each operating region during the period:

AGL share of operations	**Half-year ended 31 December 2013**	Half-year ended 31 December 2012
Gas sales volume (PJ)		
Queensland	**3.6**	3.5
New South Wales	**2.4**	2.7
Total gas sales volume	**6.0**	6.2
Sales revenue ($m)		
Queensland	**11.6**	10.2
New South Wales	**9.4**	10.2
Total sales revenue	**21.0**	20.4
Average gas price ($/GJ)	**3.50**	3.29

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

AGL share of gas reserves (PJ)	**31 December 2013**		30 June 2013	
	2P	**3P**	2P	3P
Gloucester (100%)	**454**	**565**	454	565
Moranbah (50%)	**288**	**484**	291	487
Camden (100%)	**48**	**48**	50	50
Hunter (100%)	**0**	**0**	0	0
Silver Springs (various)	**58**	**150**	58	150
Spring Gully (various)	**8**	**9**	8	9
Sub-Total	**856**	**1,256**	861	1,261
ATP 1103 back-in rights (50%) [1]	**968**	**2,191**	868	2,065
Total	**1,824**	**3,447**	1,729	3,326

[1] Under a 50-year project agreement that commenced in 2000, AGL has no effective exploration rights (or ongoing cost obligations) within exploration tenement ATP 1103 as these were assigned to Arrow Energy Limited. However, AGL is entitled to participate up to a 50% interest in any commercial development by contributing its share of past costs.

AGL engages independent experts SRK Consulting Australia (SRK) to evaluate reserves and resources for its gas projects. Gas reserves and resources within the Gloucester, Camden and Hunter Gas Projects were last reassessed by SRK as at 30 June 2013. No more adjustments were made to NSW reserves as at 31 December 2013, other than to take into account reserves depletion due to sales.

Gas reserves within the MGP were last reassessed by independent reserves and resources evaluation company Netherland Sewell & Associates, Inc (NSAI) as at 31 December 2012; whereas gas reserves within ATP 1103 were reassessed by NSAI as at 31 August 2013. No more adjustments were made to Bowen Basin reserves as at 31 December 2013, other than to take into account reserves depletion due to sales. AGL's entitlement of 2P reserves within the combined MGP and ATP areas, net of gas sales over the half year, increased by 97 PJ (8.4%) to 1,256 PJ as a result of exploration and appraisal activities during the past 12 months.

Refer to AGL's Annual Reserves Assessment as at 30 June 2013 (released to the ASX on 28 August 2013), and the Bowen Basin reserves revision as at 31 August 2013 (released to the ASX on 3 October 2013) for more details relating to AGL's gas reserves and resources.

2.4 Energy Investments
Operating EBIT decreased 12.5% to $14 million from $16 million

	Half-year ended 31 December 2013 $m	Half-year ended 31 December 2012 $m
Statutory EBIT	**14**	16
Operating EBIT	**14**	16
Depreciation and amortisation	**-**	-
Operating EBITDA	**14**	16

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

	Half-year ended 31 December 2013 $m	Half-year ended 31 December 2012 $m
ActewAGL	**14**	16
Diamantina Power Station	**0**	-
Operating EBIT	**14**	**16**

2.4.1 ActewAGL (50% AGL Ownership) Operating EBIT: Decreased 12.5% to $14 million from $16 million

ActewAGL is a 50/50 partnership between AGL and Actew Corporation, an ACT Government owned enterprise. Established in 2000, it was the first utility joint venture in Australia between a private company and a publicly owned enterprise. AGL holds a 50% interest in ActewAGL's retail business.

ActewAGL Retail partnership contributed an equity share of profits of $14 million for the half-year compared with $16 million for the prior corresponding period. The decrease in Operating EBIT contribution was driven by lower gas and electricity consumption as a result of milder winter weather conditions.

2.4.2 Diamantina Power Station Joint Venture

On 6 October 2011, AGL entered into a 50:50 joint venture with the APA Group to construct the Diamantina Power Station in Mt Isa. The power station is due to become operational during 2014.

2.5 Centrally Managed Expenses
Increased 8.5% to $115 million from $106 million

	Half-year ended 31 December 2013 $m	Half-year ended 31 December 2012 $m (Restated)
Statutory EBIT	**(117)**	(106)
Change in fair value of financial assets	**2**	-
Operating EBIT	**(115)**	(106)
Depreciation and amortisation	**14**	10
Operating EBITDA	**(101)**	(96)

AGL centrally manages a number of expense items, including information technology and office leases, to maximise operational efficiencies, minimise costs and optimise service levels across business divisions. While these costs would not be incurred but for the existence of the business units, they have not been formally reallocated because the management of these costs is the responsibility of various corporate functions.

The following table provides a more detailed breakdown of centrally managed expenses.

	Half-year ended 31 December 2013 $m	Half-year ended 31 December 2012 $m (Restated)
Labour	**(35)**	(34)
Office leases	**(9)**	(9)
Hardware and software costs	**(34)**	(32)
Consultants and contractor fees	**(7)**	(6)
Insurance premiums	**(10)**	(11)
Depreciation and amortisation	**(14)**	(10)
Other	**(6)**	(4)
Total	**(115)**	(106)

As discussed in Section 2, the prior corresponding period has been restated to include $14 million of expenses previously reported under Merchant Energy in relation to Loy Yang corporate costs.

Labour costs increased 2.9%, largely in line with inflation.

Depreciation and amortisation expenses increased by $4 million due to the successful delivery of a number of IT related projects with the commencement of the associated depreciation.

2.6 Net Finance Costs
Increased 2.7% to $113 million from $110 million

	Half-year ended 31 December 2013 $m	Half-year ended 31 December 2012 $m
Statutory finance costs	**(122)**	(131)
Statutory finance income	**11**	21
Remove finance income included in EBITDA	**(2)**	-
Net financing costs	**(113)**	(110)

Net financing costs increased 2.7% reflective of an increase in average net debt to $2,739 million compared with $2,553 million for the prior corresponding period partly offset by the reduction in the cash deposit rate.

2.7 Income Tax Expense
Underlying tax expense decreased 16.7% to $100 million from $120 million

	Half-year ended 31 December 2013 $m	Half-year ended 31 December 2012 $m (Restated)
Statutory income tax expense	**(110)**	(157)
Adjusted for:		
Income tax benefit from significant items	**(5)**	-
Income tax expense from fair value movements	**15**	37
Underlying tax expense	**(100)**	(120)

The underlying effective tax rate was 29.2% compared with 30.5% for the prior corresponding period. The reduction was due to adjustments in relation to current tax of prior years.

AGL Energy Limited Review of Operations
for the half-year ended 31 December 2013

3. Cash Flow

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

	Half-year ended 31 December 2013 $m	Half-year ended 31 December 2012 $m
Opening cash & cash equivalents	**281**	1,813
Cash flows from:		
Operating activities	**748**	365
Investing activities	**(386)**	(204)
Financing activities	**(73)**	(1,319)
Net increase / (decrease) in cash & equivalents	**289**	(1,158)
Closing cash & cash equivalents	**570**	655

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

Cash flows from investing activities relate primarily to capital expenditure and the acquisition of APG. Capital expenditure is discussed in section 4. AGL completed the acquisition of APG on October 25, 2013 resulting in a net cash outflow of $78 million, comprised of consideration of $102 million less net cash and cash equivalents acquired of $24 million.

Cash flows from financing activities include net cash flows from funding activities including the borrowing activities and dividends paid. In the current year, AGL paid dividends of $120 million and had a net increase in borrowings of $53 million. Cash flows in the prior corresponding period relate mainly to the repayment of borrowings following the acquisition of Loy Yang A.

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

Underlying operating cash flow before interest and tax increased 49.3% or $318 million. The substantially higher underlying cash flow result was achieved due a continued focus on working capital management, carbon transition assistance received (refer to sections 3.2 below) and the impact of lower volumes.

The statutory net cash flow from operating activities does not take into account a number of material items that affect operating cash flow. AGL has made adjustments to take these items into consideration in calculating the underlying operating cash flow before tax.

	Half-year ended 31 December 2013 $m	Half-year ended 31 December 2012 $m
Statutory net cash provided by operating activities	**748**	365
Cash flow relating to significant items	**22**	-
Increase / (decrease) in futures margin calls	**(5)**	21
Increase / (decrease) in net green position	**(39)**	(54)
Unwind of carbon assistance received	**-**	120
Underlying Operating Cash Flow	**726**	452
Income tax paid	**138**	72
Net finance costs paid	**99**	121
Underlying Operating Cash Flow before interest and tax	**963**	645

AGL Energy Limited Review of Operations for the half-year ended 31 December 2013

3.1.1 Significant items

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

3.1.2 Futures Margin Calls

AGL posts deposits with the futures exchange at the inception of a futures contract in relation to electricity. Depending on market movements, AGL subsequently pays or receives cash. The net receipt for the half-year ended 31 December 2013 was $5 million compared with a net payment of $21 million for the prior corresponding period.

3.1.3 Net Green Position

AGL purchases various green products to satisfy its green compliance obligations. As at 31 December 2013, AGL had paid $133 million for certificates relating to future obligations compared with $172 million as at 30 June 2013, a net decrease of $39 million.

3.1.4 Carbon Transitional Assistance

Immediately prior to AGL's acquisition, GEAC received $240 million of carbon transitional assistance in June 2012. This receipt was not recognised in the underlying cash flow for the year ended 30 June 2012 as it was provided to partially offset the cost of carbon in the 2013 financial year. As at 31 December 2012, $120 million of this receipt had been recognised in underlying cash flow.

Refer also to section 3.2 for further explanation of the FY14 carbon transitional assistance.

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

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

		Half-year ended 31 December 2013 $m		Half-year ended 31 December 2012 $m (Restated)
Operating EBITDA		**622**		641
Equity accounted income (net of dividend received)		**(1)**		(3)
Accounting for onerous contracts		**(18)**		(26)
Working capital movements				
(Increase) / decrease in receivables	**137**		(194)	
(Increase) / decrease in inventories	**4**		9	
Carbon transitional assistance	**117**		-	
Increase / (decrease) in creditors	**(217)**		(77)	
Increase / (decrease) in carbon liability	**288**		296	
Net derivative premiums paid / roll-offs	**16**		(14)	
Net movement in GST recoverable / payable	**(11)**		17	
Other	**26**	**360**	(4)	33
Underlying Operating Cash Flow before interest and tax		**963**		645

The decrease in receivables was mainly due to the volume reductions referred to in Sections 2.1 and 2.2 and a continuing focus on receivables management. The decrease in creditors is also largely volume related.

In September 2013, AGL received carbon transitional assistance for the FY14 year in the form of government allocated carbon permits. These permits are recognised in profit proportionately over the year. During the period, AGL sold the carbon permits received, realising a favourable cash movement in the period.

4. Capital Expenditure

Total capital expenditure was $284 million for the period, down $20 million from the prior corresponding period. "Stay in business" capital expenditure was $139 million compared with $74 million for the prior corresponding period with the increase largely due to higher expenditure in relation to planned outages at AGL Loy Yang. Capital expenditure on growth initiatives was $145 million for the period compared with $230 million for the prior corresponding period. Capital expenditure on key growth projects in the period included $78 million on the Newcastle Gas storage project and $58 million on Upstream Gas projects. $77 million was spent on the Solar generation projects and AGL received $96 million of government grants related to these projects. Capitalised interest of $6 million in the period related to the Newcastle Gas storage facility.

5. Changes in fair value of derivative financial instruments

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

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

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

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

The change in fair value of derivatives reported in profit and loss for the half-year to 31 December 2013 was a gain of $51 million before tax and $36 million after tax. For the prior corresponding period the change in fair value of derivatives was a gain of $122 million before tax and $85 million after tax.

AGL Energy Limited Review of Operations
for the half-year ended 31 December 2013

During the period, AGL completed the acquisition of APG. As part of the provisional acquisition accounting, $20 million of energy derivative liabilities have been recognised.

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

	Net Assets (Liabilities)		
	31 December 2013	30 June 2013	Change
	$m	$m	$m
Energy derivative contracts	**94**	113	(19)
Cross currency and interest rate swaps and foreign currency derivative contracts	**(51)**	(56)	5
Total net assets for derivative contracts	**43**	57	(14)
Change in derivative net asset	**(14)**		
Premiums paid	**(41)**		
Premium roll off	**60**		
Fair value of derivatives acquired	**20**		
Total change in fair value	**25**		
Recognised in equity hedge reserve	**(31)**		
Recognised in borrowings	**(2)**		
Recognised in profit and loss (fair value – pre-tax)	**51**		
Recognised in profit and loss (interest – pre-tax)	**7**		
Total change in fair value	**25**		

AGL Energy Limited and controlled entities

Interim Financial Report

For the half-year ended 31 December 2013

Energy in action. Since 1837 AGL

AGL Energy Limited and controlled entities
Condensed consolidated Statement of Profit or Loss
For the half-year ended 31 December 2013

	Note	Half-year ended 31 Dec 2013 $m	31 Dec 2012 $m (Restated)
Continuing operations			
Revenue	3	**4,842**	4,970
Other income	4	**-**	1
Expenses	5	**(4,207)**	(4,224)
Share of profits of associates and joint ventures accounted for using the equity method	12	**14**	16
Profit before net financing costs, depreciation and amortisation		**649**	763
Depreciation and amortisation	6	**(167)**	(138)
Profit before net financing costs		**482**	625
Finance income		**11**	21
Finance costs		**(122)**	(131)
Net financing costs	7	**(111)**	(110)
Profit before tax		**371**	515
Income tax expense	9	**(110)**	(157)
Profit for the period		**261**	358
Profit attributable to:			
Owners of AGL Energy Limited		**261**	358
Non-controlling interests		**-**	-
		261	358
Statutory earnings per share			
Basic earnings per share	16	**46.9 cents**	65.3 cents
Diluted earnings per share	16	**46.9 cents**	65.3 cents

Notes to the condensed consolidated financial statements are included on pages 7 to 25.

AGL Energy Limited and controlled entities
Condensed consolidated Statement of Comprehensive Income
For the half-year ended 31 December 2013

	Half-year ended 31 Dec 2013 $m	31 Dec 2012 $m (Restated)
Profit for the period	**261**	358
Other comprehensive income		
Items that will not be reclassified subsequently to profit or loss		
Remeasurement gain on defined benefit plans	**79**	37
Income tax relating to items that will not be reclassified subsequently	**(24)**	(11)
	55	26
Items that may be reclassified subsequently to profit or loss		
Cash flow hedges		
Gain/(loss) in fair value of cash flow hedges	**20**	(28)
Reclassification adjustments transferred to profit or loss	**(51)**	(49)
Reclassification adjustments transferred to the initial carrying amounts of hedged items	**-**	7
Income tax relating to items that may be reclassified subsequently	**9**	21
	(22)	(49)
Other comprehensive income for the period, net of income tax	**33**	(23)
Total comprehensive income for the period	**294**	335
Total comprehensive income attributable to:		
Owners of AGL Energy Limited	**294**	335
Non-controlling interests	**-**	-
	294	335

Notes to the condensed consolidated financial statements are included on pages 7 to 25.

Energy in action.

Since 1837 AGL

AGL Energy Limited and controlled entities
Condensed consolidated Statement of Financial Position
As at 31 December 2013

	Note	31 Dec 2013 $m	30 June 2013 $m (Restated)
Current assets			
Cash and cash equivalents		**570**	281
Trade and other receivables		**1,776**	1,844
Inventories		**131**	133
Other financial assets		**166**	187
Other assets		**423**	391
Total current assets		**3,066**	2,836
Non-current assets			
Trade and other receivables		**47**	47
Inventories		**29**	29
Investments accounted for using the equity method		**34**	33
Exploration and evaluation assets		**362**	349
Oil and gas assets		**517**	495
Property, plant and equipment		**5,538**	5,332
Intangible assets		**3,291**	3,150
Deferred tax assets		**666**	729
Other financial assets		**361**	338
Other assets		**23**	28
Total non-current assets		**10,868**	10,530
Total assets		**13,934**	13,366
Current liabilities			
Trade and other payables		**1,651**	1,444
Borrowings	14	**645**	45
Provisions		**113**	115
Current tax liabilities		**79**	155
Other financial liabilities		**456**	432
Other liabilities		**117**	1
Total current liabilities		**3,061**	2,192
Non-current liabilities			
Borrowings	14	**2,594**	3,064
Provisions		**235**	250
Deferred tax liabilities		**83**	100
Other financial liabilities		**273**	264
Other liabilities		**176**	156
Total non-current liabilities		**3,361**	3,834
Total liabilities		**6,422**	6,026
Net assets		**7,512**	7,340
Equity			
Issued capital	15	**5,417**	5,354
Reserves		**(26)**	(2)
Retained earnings		**2,121**	1,988
Total equity attributable to owners of AGL Energy Limited		**7,512**	7,340
Non-controlling interests		**-**	-
Total equity		**7,512**	7,340

Notes to the condensed consolidated financial statements are included on pages 7 to 25.

Energy in action.

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AGL Energy Limited and controlled entities
Condensed consolidated Statement of Changes in Equity
For the half-year ended 31 December 2013

	Attributable to owners of AGL Energy Limited						
	Issued capital $m	Employee equity benefits reserve $m	Hedging reserve $m	Retained earnings $m	Total $m	Non-controlling interests $m	Total equity $m
Balance at 1 July 2013	**5,354**	**3**	**(5)**	**1,987**	**7,339**	**-**	**7,339**
Adoption of the revised AASB 119 *Employee Benefits*	**-**	**-**	**-**	**1**	**1**	**-**	**1**
Balance at 1 July 2013 (Restated)	**5,354**	**3**	**(5)**	**1,988**	**7,340**	**-**	**7,340**
Profit for the period	**-**	**-**	**-**	**261**	**261**	**-**	**261**
Other comprehensive income for the period, net of income tax	**-**	**-**	**(22)**	**55**	**33**	**-**	**33**
Total comprehensive income for the period	**-**	**-**	**(22)**	**316**	**294**	**-**	**294**
Transactions with owners in their capacity as owners:							
Issue of ordinary shares under AGL Dividend Reinvestment Plan	**63**	**-**	**-**	**-**	**63**	**-**	**63**
Payment of dividends	**-**	**-**	**-**	**(183)**	**(183)**	**-**	**(183)**
Share-based payments	**-**	**(2)**	**-**	**-**	**(2)**	**-**	**(2)**
Balance at 31 Dec 2013	**5,417**	**1**	**(27)**	**2,121**	**7,512**	**-**	**7,512**
Balance at 1 July 2012	5,228	2	20	1,883	7,133	-	7,133
Adoption of the revised AASB 119 *Employee Benefits*	-	-	-	1	1	-	1
Balance at 1 July 2012 (Restated)	5,228	2	20	1,884	7,134	-	7,134
Profit for the period	-	-	-	358	358	-	358
Other comprehensive income for the period, net of income tax	-	-	(49)	26	(23)	-	(23)
Total comprehensive income for the period	-	-	(49)	384	335	-	335
Transactions with owners in their capacity as owners:							
Issue of ordinary shares under AGL Dividend Reinvestment Plan	62	-	-	-	62	-	62
Payment of dividends	-	-	-	(175)	(175)	-	(175)
Share-based payments	-	(2)	-	-	(2)	-	(2)
Balance at 31 Dec 2012 (Restated)	5,290	-	(29)	2,093	7,354	-	7,354

Notes to the condensed consolidated financial statements are included on pages 7 to 25.

AGL Energy Limited and controlled entities
Condensed consolidated Statement of Cash Flows
For the half-year ended 31 December 2013

	Note	Half-year ended 31 Dec 2013 $m	31 Dec 2012 $m
Cash flows from operating activities			
Receipts from customers		**6,170**	5,612
Payments to suppliers and employees		**(5,198)**	(5,067)
Dividends received		**13**	13
Finance income received		**7**	27
Finance costs paid		**(106)**	(148)
Income taxes paid		**(138)**	(72)
Net cash provided by operating activities		**748**	365
Cash flows from investing activities			
Payments for property, plant and equipment		**(340)**	(242)
Payments for exploration and evaluation assets		**(13)**	(15)
Payments for oil and gas assets		**(33)**	(22)
Payments for intangible assets		**(17)**	(19)
Payments for businesses and subsidiaries, net of cash acquired			
acquisitions in current period	19	**(79)**	-
acquisitions in prior period		**(2)**	(3)
Government grants received		**96**	-
Proceeds from sale of property, plant and equipment		**2**	1
Proceeds from sale of exploration and evaluation assets		**-**	3
Loans advanced to related parties		**-**	(72)
Proceeds from repayment of related party loans		**-**	165
Net cash used in investing activities		**(386)**	(204)
Cash flows from financing activities			
Purchase of shares on-market for equity based remuneration		**(6)**	(6)
Proceeds from borrowings		**255**	235
Repayment of borrowings		**(202)**	(1,331)
Payments for settlement of derivative financial instruments		**-**	(105)
Dividends paid	10	**(120)**	(112)
Net cash used in financing activities		**(73)**	(1,319)
Net increase/(decrease) in cash and cash equivalents		**289**	(1,158)
Cash and cash equivalents at the beginning of the period		**281**	1,813
Cash and cash equivalents at the end of the period	17	**570**	655

Notes to the condensed consolidated financial statements are included on pages 7 to 25.

AGL Energy Limited and controlled entities
Notes to the condensed consolidated Financial Statements
For the half-year ended 31 December 2013

Note 1 - Summary of significant accounting policies

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

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

(a) Statement of compliance

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

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

(b) Basis of preparation

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

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

The accounting policies and methods of computation adopted in the preparation of the interim financial report are consistent with those adopted and disclosed in the consolidated entity's 2013 annual financial report for the year ended 30 June 2013, except for the impact of the Standards and Interpretations described below. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

(c) Adoption of new and revised Standards and Interpretations

The consolidated entity has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board that are relevant to its operations and effective for the current half-year.

New and revised Standards and amendments thereof and Interpretations effective for the current half-year that are relevant to the consolidated entity include:

- AASB 10 *Consolidated Financial Statements* ('AASB10')
- AASB 11 *Joint Arrangements* ('AASB 11')
- AASB 12 *Disclosure of Interests in Other Entities* ('AASB 12')
- AASB 127 *Separate Financial Statements (2011)* ('AASB 127')
- AASB 128 *Investments in Associates and Joint Ventures (2011)* ('AASB 128')
- AASB 2011-7 *Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards*
- AASB 13 *Fair Value Measurement* and AASB 2011-8 *Amendments to Australian Accounting Standards arising from AASB 13* ('AASB 13')
- AASB 119 *Employee Benefits (2011)* and AASB 2011-10 *Amendments to Australian Accounting Standards arising from AASB 119* ('AASB 119')
- AASB 2012-2 *Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities*
- AASB 2012-5 *Amendments to Australian Accounting Standards arising from Annual Improvements 2009–2011 Cycle*
- AASB 2012-10 *Amendments to Australian Accounting Standards – Transition Guidance and Other Amendments*
- Interpretation 20 *Stripping Costs in the Production Phase of a Surface Mine* and AASB 2011-12 *Amendments to Australian Accounting Standards arising from Interpretation 20*

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

(c) Adoption of new and revised Standards and Interpretations (cont'd)

Impact of the application of AASB 10

AASB 10 replaces the parts of AASB 127 *Consolidated and Separate Financial Statements* that deal with consolidated financial statements and Interpretation 112 *Consolidation – Special Purpose Entities.* AASB 10 changes the definition of control such that an investor controls an investee when a) it has power over an investee, b) it is exposed, or has rights, to variable returns from its involvement with the investee, and c) has the ability to use its power to affect its returns. All three of these criteria must be met for an investor to have control over an investee.

The consolidated entity reviewed and assessed the classification of its investments in controlled entities in accordance with the requirements of AASB 10. The consolidated entity concluded that the new requirements do not change any existing control assessments and no additional entities are required to be consolidated. As a result, the adoption of AASB 10 had no effect on the financial position or performance of the consolidated entity.

Impact of the application of AASB 11

AASB 11 replaces AASB 131 *Interests in Joint Ventures* and the guidance contained in a related interpretation, Interpretation 113 *Jointly Controlled Entities – Non-Monetary Contributions by Venturers,* has been incorporated in AASB 128 (2011). AASB 11 deals with how a joint arrangement of which two or more parties have joint control should be classified and accounted for.

Under AASB 11, there are only two types of joint arrangements – joint operations and joint ventures. The classification of joint arrangements under AASB 11 is determined based on the rights and obligations of parties to the joint arrangements by considering the structure, the legal form of the arrangements, the contractual terms agreed by the parties to the arrangement, and, when relevant, other facts and circumstances. Previously, the structure of the arrangement was the primary focus of classification.

The consolidated entity reviewed and assessed the classification of its investments in joint arrangements in accordance with the requirements of AASB 11 and determined it had both joint ventures and joint operations. The accounting for the consolidated entity's joint ventures and joint operations has not changed as a result of the adoption of AASB 11 and accordingly, AASB 11 had no effect on the financial position or performance of the consolidated entity.

Impact of the application of AASB 12

AASB 12 is a new disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the application of AASB 12 has resulted in more extensive disclosures in the consolidated financial statements. However this did not result in any changes to the interim financial report.

Impact of the application of AASB 13

The consolidated entity has applied AASB 13 for the first time in the current year. AASB 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements when such measurements are required or permitted by other Standards.

AASB 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value under AASB 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique.

In accordance with the transitional provisions of AASB 13, the consolidated entity has not made any new disclosures required by AASB 13 for the comparative period. The application of AASB 13 has not had any material impact on the amounts recognised in the consolidated financial statements.

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

(c) Adoption of new and revised Standards and Interpretations (cont'd)

Impact of the application of AASB 119

In the current year, the consolidated entity has applied AASB 119 (as revised in 2011) *Employee Benefits* and the related consequential amendments for the first time.

AASB 119 (as revised in 2011) changes the accounting for defined benefit plans and termination benefits. The most significant change relates to the accounting for changes in defined benefit obligations and plan assets. The amendments require the recognition of changes in defined benefit obligations and in the fair value of plan assets when they occur, and hence eliminate the 'corridor approach' permitted under the previous version of AASB 119 and accelerate the recognition of past service costs. All actuarial gains and losses are recognised immediately through other comprehensive income in order for the net pension asset or liability recognised in the consolidated statement of financial position to reflect the full value of the plan deficit or surplus. Furthermore, the interest cost and expected return on plan assets used in the previous version of AASB 119 are replaced with a 'net interest' amount under AASB 119 (as revised in 2011), which is calculated by applying the discount rate to the net defined benefit liability or asset.

These changes have had an impact on the amounts recognised in profit or loss and other comprehensive income in prior years (see the tables below for details). In addition, AASB 119 (as revised in 2011) introduces certain changes in the presentation of the defined benefit cost including more extensive disclosures.

Specific transitional provisions are applicable to first-time application of AASB 119 (as revised in 2011). The consolidated entity has applied the relevant transitional provisions and restated the comparative amounts on a retrospective basis (see the tables below for details).

Impact of the application of AASB 2012-2

The consolidated entity has applied AASB 2012-2 for the first time in the current year. AASB 2012-2 amends AASB 7 *Financial Instruments: Disclosures* to require entities to disclose information about rights of offset and related arrangements for financial instruments under an enforceable master netting agreement or similar arrangement. The application of the amendments has had no material impact on the disclosures or on the amounts recognised in the consolidated financial statements.

Impact of the application of Interpretation 20

The consolidated entity has applied Interpretation 20 for the first time in the current year. Interpretation 20 clarifies the requirements for accounting for stripping costs associated with waste removal in surface mining, including when production stripping costs should be recognised as an asset, how the asset is initially recognised, and subsequent measurement. The application of this interpretation has had no impact on the disclosures or on the amounts recognised in the consolidated financial statements.

AGL Energy Limited and controlled entities
Notes to the condensed consolidated Financial Statements
For the half-year ended 31 December 2013

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

Summary of impact of the application of AASB 119

The following tables summarise the impact of the application of AASB 119 on individual line items in the consolidated entity's financial statements.

Consolidated statement of profit or loss (extract)	As previously reported	AASB 119 adjustments	As restated
Half-year ended 31 December 2012	**$m**	**$m**	**$m**
Expenses	(4,215)	(9)	(4,224)
Profit before tax	524	(9)	515
Income tax expense	(160)	3	(157)
Profit for the period	364	(6)	358

Consolidated statement of comprehensive income (extract)			
Half-year ended 31 December 2012			
Profit for the period	364	(6)	358
Other comprehensive income			
Remeasurement gain on defined benefit plans	28	9	37
Income tax relating to items that will not be reclassified subsequently	(8)	(3)	(11)
Other comprehensive income for the period, net of income tax	(29)	6	(23)
Total comprehensive income for the period	335	-	335

Consolidated statement of financial position (extract)			
As at 1 July 2012			
Non-current liabilities			
Deferred tax liabilities	349	1	350
Other liabilities	249	(2)	247
Total non-current liabilities	4,996	(1)	4,995
Total liabilities	7,606	(1)	7,605
Net assets	7,133	1	7,134
Equity			
Retained earnings	1,883	1	1,884
Total equity	7,133	1	7,134

Consolidated statement of financial position (extract)			
As at 30 June 2013			
Non-current liabilities			
Deferred tax liabilities	99	1	100
Other liabilities	158	(2)	156
Total non-current liabilities	3,835	(1)	3,834
Total liabilities	6,027	(1)	6,026
Net assets	7,339	1	7,340
Equity			
Retained earnings	1,987	1	1,988
Total equity	7,339	1	7,340

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AGL Energy Limited and controlled entities
Notes to the condensed consolidated Financial Statements
For the half-year ended 31 December 2013

Note 2 - Segment information

Operating segments

The consolidated entity has four reportable operating segments as follows:

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

There has been no change to the way the consolidated entity determines operating segments or measures segment financial results from the methods used and disclosed in the consolidated entity's 2013 annual financial report.

Information regarding the consolidated entity's reportable segments is presented below.

	Retail Energy $m	Merchant Energy $m	Upstream Gas $m	Energy Investments $m	Other $m	Total $m
alf-year ended 31 December 2013						
Revenue						
Total segment revenue	2,599	3,354	35	-	-	5,988
Inter-segment revenue	(14)	(1,121)	(11)	-	-	(1,146)
External revenue	2,585	2,233	24	-	-	4,842
Earnings before interest, tax, depreciation and amortisation (EBITDA)	179	531	(1)	14	(101)	622
Depreciation and amortisation	(43)	(98)	(12)	-	(14)	(167)
Operating EBIT	136	433	(13)	14	(115)	455
Net financing costs						(113)
Underlying profit before income tax						342
Income tax expense						(100)
Underlying profit						242
Other segment information						
Share of profits of associates and joint ventures	-	-	-	14	-	14
dditions to non-current assets	189	210	137	-	18	554

AGL Energy Limited and controlled entities
Notes to the condensed consolidated Financial Statements
For the half-year ended 31 December 2013

Note 2 - Segment information (cont'd)

	Retail Energy $m	Merchant Energy $m	Upstream Gas $m	Energy Investments $m	Other $m	Total $m
Half-year ended 31 December 2012 (Restated)						
Revenue						
Total segment revenue	2,509	3,569	40	-	-	6,118
Inter-segment revenue	-	(1,133)	(15)	-	-	(1,148)
External revenue	2,509	2,436	25	-	-	4,970
Earnings before interest, tax, depreciation and amortisation (EBITDA)	170	542	9	16	(96)	641
Depreciation and amortisation	(34)	(82)	(12)	-	(10)	(138)
Operating EBIT	136	460	(3)	16	(106)	503
et financing costs						(110)
Underlying profit before income tax						393
Income tax expense						(120)
Underlying profit						273
Other segment information						
Share of profits of associates and joint ventures	-	-	-	16	-	16
Additions to non-current assets	42	18	88	-	11	159
Segment assets						
As at 31 December 2013	**3,774**	**6,977**	**1,282**	**30**	**122**	**12,185**
As at 30 June 2013	3,665	6,874	1,157	29	124	11,849
Segment liabilities						
As at 31 December 2013	**377**	**1,693**	**132**	**-**	**90**	**2,292**
As at 30 June 2013	419	1,321	119	-	107	1,966

AGL Energy Limited and controlled entities
Notes to the condensed consolidated Financial Statements
For the half-year ended 31 December 2013

Note 2 - Segment information (cont'd)

	Half-year ended 31 Dec 2013 $m	Half-year ended 31 Dec 2012 $m
Segment revenue reconciliation to the statement of profit or loss		
Reconciliation of segment revenue to total revenue is as follows:		
Total segment revenue for reportable segments	**5,988**	6,118
Elimination of inter-segment revenue	**(1,146)**	(1,148)
Total revenue for reportable segments	**4,842**	4,970
Other	**-**	-
Total revenue	**4,842**	4,970
Revenue from major products and services		
The following is an analysis of the consolidated entity's revenue from its major products and services.		
Electricity	**2,841**	2,959
Gas	**1,245**	1,158
Generation sales to pool	**599**	629
Coal	**35**	35
Oil	**3**	2
Green commodities scheme certificates	**42**	108
Management fees	**4**	5
Other goods and services revenue	**72**	74
Other revenue	**1**	-
Total revenue	**4,842**	4,970
Segment Operating EBIT reconciliation to the statement of profit or loss		
Reconciliation of segment Operating EBIT to Profit before tax is as follows:		
Operating EBIT for reportable segments	**570**	609
Other	**(115)**	(106)
	455	503
Amounts excluded from underlying results:		
- gain in fair value of financial instruments	**51**	122
- significant expense items	**(22)**	-
Finance income included in Operating EBIT	**(2)**	-
Finance income	**11**	21
Finance costs	**(122)**	(131)
Profit before tax	**371**	515

Note 2 - Segment information (cont'd)

	As at 31 Dec 2013 $m	As at 30 June 2013 $m
Segment assets reconciliation to the statement of financial position		
Reconciliation of segment assets to total assets is as follows:		
Segment assets for reportable segments	**12,063**	11,725
Other	**122**	124
	12,185	11,849
Cash and cash equivalents	**570**	281
Deferred tax assets	**666**	729
Derivative financial instruments	**513**	507
Total assets	**13,934**	13,366
Segment liabilities reconciliation to the statement of financial position		
Reconciliation of segment liabilities to total liabilities is as follows:		
Segment liabilities for reportable segments	**2,202**	1,859
Other	**90**	107
	2,292	1,966
Borrowings	**3,239**	3,109
Current tax liabilities	**79**	155
Deferred tax liabilities	**83**	100
Derivative financial instruments	**470**	450
Deferred and contingent consideration liabilities	**259**	246
Total liabilities	**6,422**	6,026

AGL Energy Limited and controlled entities
Notes to the condensed consolidated Financial Statements
For the half-year ended 31 December 2013

	Half-year ended 31 Dec 2013 $m	Half-year ended 31 Dec 2012 $m
Note 3 - Revenue		
Revenue from sale of goods	**4,778**	4,895
Revenue from rendering of services	**63**	75
Other revenue		
Royalties	**1**	-
	4,842	4,970
Note 4 - Other income		
Net gain on disposal of property, plant and equipment	-	1
	-	1
Note 5 - Expenses		
Cost of sales	**3,704**	3,837
Administration expenses	**103**	103
Employee benefits expense	**264**	267
Other expenses		
Gain in fair value of financial instruments	**(51)**	(122)
Impairment loss on trade receivables (net of bad debts recovered)	**44**	37
Acquisition related transaction costs	**4**	-
Redundancy, termination, integration and restructure costs	**18**	-
Net loss on disposal of property, plant and equipment	**5**	-
Operating lease rental expenses	**11**	11
Other	**105**	91
	4,207	4,224
Note 6 - Depreciation and amortisation		
Property, plant and equipment	**126**	104
Oil and gas assets	**10**	9
Intangible assets	**28**	22
Other	**3**	3
	167	138

	Half-year ended 31 Dec 2013 $m	31 Dec 2012 $m
Note 7 - Net financing costs		
Finance income		
Interest income		
Joint ventures	-	4
Other entities	**11**	17
	11	21
Finance costs		
Interest expense		
Other entities	**102**	124
Less finance costs capitalised	**(6)**	(20)
Unwinding of discounts on provisions	**8**	9
Unwinding of discount on deferred and contingent consideration	**13**	14
Other finance costs	**5**	4
	122	131
Net financing costs	**111**	110

Note 8 - Significant expense items

	Half-year ended 31 Dec 2013 $m	31 Dec 2012 $m
Significant expense items before income tax		
Acquisition related transaction costs	**4**	-
Redundancy, termination, integration and restructure costs	**18**	-
	22	-
Income tax income applicable		
Acquisition related transaction costs	-	-
Redundancy, termination, integration and restructure costs	**(5)**	-
	(5)	-
Significant expense items after income tax	**17**	-

Note 9 - Income tax expense

Numerical reconciliation between tax expense and pre-tax accounting profit

The prima facie income tax expense on pre-tax accounting profit reconciles to the income tax expense in the financial statements as follows:

	Half-year ended 31 Dec 2013 $m	31 Dec 2012 $m
Profit before tax	**371**	515
Income tax expense calculated at the Australian tax rate of 30% (Dec 2012: 30%)	**111**	155
Non-deductible expenses	**4**	2
Share of profits of associates and joint ventures	**1**	-
Adjustments in relation to current tax of prior years	**(6)**	-
Income tax recognised in the statement of profit or loss	**110**	157

AGL Energy Limited and controlled entities
Notes to the condensed consolidated Financial Statements
For the half-year ended 31 December 2013

	Half-year ended	
	31 Dec 2013 $m	**31 Dec 2012 $m**
Note 10 - Dividends		
Recognised amounts		
Final dividend		
Final dividend for 2013 of 33.0 cents per share, fully franked at 30%, paid 27 September 2013 (Dec 2012: Final dividend for 2012 of 32.0 cents per share, fully franked at 30%, paid 27 September 2012)	**183**	175
Total dividends	**183**	175
Dividends satisfied by the issue of shares under the AGL Dividend Reinvestment Plan (Note 15)	**(63)**	(63)
Dividends paid as per the statement of cash flows	**120**	112
Unrecognised amounts		
Since the end of the financial period, the Directors have declared an interim dividend for 2014 of 30.0 cents per share, fully franked at 30%, (Dec 2012: 30.0 cents fully franked), payable 4 April 2014.	**168**	165

The financial effect of this dividend has not been recognised as a liability in this financial report but will be brought to account in subsequent financial reports.

Dividend reinvestment plan

The AGL Dividend Reinvestment Plan (DRP) will be in operation. No discount will apply to shares issued under the DRP. New shares will be issued to plan participants at the volume weighted average price at which AGL shares trade during each of the 10 trading days commencing on 11 March 2014.

	As at	
	31 Dec 2013 $	**30 June 2013 $**
Note 11 - Net tangible asset backing		
Net tangible asset backing per ordinary share	**7.56**	7.56

Net tangible assets are defined as net assets of the consolidated entity less intangible assets. The number of AGL shares on issue at the end of the reporting period was 558 million (June 2013: 554 million).

Note 12 - Interests in associates, joint ventures and joint operations

	Ownership interest		Contribution to net profit	
	As at		Half-year ended	
Name of entity	**31 Dec 2013 %**	**31 Dec 2012 %**	**31 Dec 2013 $m**	**31 Dec 2012 $m**
Associates				
CSM Energy Limited	**35**	35	**-**	-
Joint ventures				
ActewAGL Retail Partnership	**50**	50	**14**	16
Energy Infrastructure Management Pty Ltd	**50**	50	**-**	-
Central Queensland Pipeline Pty Ltd	**50**	50	**-**	-
Diamantina Holding Company Pty Limited	**50**	50	**-**	-
			14	16

	Interest	
Joint operations	**31 Dec 2013 %**	**31 Dec 2012 %**
Bowen Basin - Queensland		
Moranbah Gas Project - PL 191, PL 196, PLA 222, PL 223, PL 224 & ATP 1103	**50**	50
Spring Gully Project - ATP 592P, PL 195 & PL 203	**0.75**	0.75
Spring Gully Project - PL 204	**0.04**	0.04
Galilee Basin - Queensland		
Galilee Gas Project - ATP 529P	**50**	50
Surat Basin - Queensland		
ATP 471P (Bainbilla Block)	**75.25**	75.25
ATP 471P (Spring Grove #2 sole risk)	**52.75**	52.75
ATP 471P (Weribone)	**28.71**	28.71
PL 1 (Cabawin)	**15**	15
PL 30 (Riverslea)	**10**	10
PL 56	**16**	16
PL 74 (Major)	**16**	16
Cooper / Eromanga Basin - Queensland		
ATP 934P (under application)	**20**	20
ATP 1056P	**40**	40
Taranaki Basin - New Zealand		
PEP 53247	**-**	75
Others		
North Queensland Energy Joint Venture	**50**	50
Macarthur Wind Farm Joint Venture	**50**	50
Lytton Joint Venture - Crude oil terminal	**33.33**	33.33

	As at 31 Dec 2013 $m	As at 30 June 2013 $m
Note 13 - Intangible assets - Goodwill		
Balance at beginning of financial year	**2,640**	2,640
Acquisitions through business combinations (Note 19)	**104**	-
Balance at end of financial period	**2,744**	2,640
Cost (gross carrying amount)	**2,744**	2,640
Accumulated impairment losses	**-**	-
Net carrying amount	**2,744**	2,640

Note 14 - Borrowings

	31 Dec 2013 $m	30 June 2013 $m
Current		
Bank loans - secured	**34**	33
Bank loans - unsecured	**600**	-
Finance lease liabilities - secured	**-**	1
Other loans - unsecured	**11**	11
	645	45
Non-current		
USD senior notes - unsecured	**345**	348
Subordinated notes - unsecured	**650**	650
Bank loans - secured	**1,268**	1,281
Bank loans - unsecured	**150**	600
Other loans - unsecured	**183**	189
Finance lease liabilities - secured	**16**	15
Deferred borrowing costs	**(18)**	(19)
	2,594	3,064
Total borrowings	**3,239**	3,109

Bank loans - unsecured

On 14 February 2014, AGL executed an amendment to its syndicated bank debt facility to add an additional $650 million term facility for a further four years. This facility will be utilised to repay the $600 million facility that is due to mature on 20 July 2014.

Note 15 - Issued capital

	As at 31 Dec 2013 Number of shares	31 Dec 2013 $m	30 June 2013 Number of shares	30 June 2013 $m
Movement in fully paid ordinary shares				
Balance at beginning of financial year	**554,210,005**	**5,354**	545,861,083	5,228
Shares issued under AGL Dividend Reinvestment Plan (a)	**4,175,148**	**63**	8,348,922	126
Balance at end of financial period	**558,385,153**	**5,417**	554,210,005	5,354

(a) On 27 September 2013, 4,175,148 ordinary shares were issued at $15.12 per share to participating shareholders under the AGL Dividend Reinvestment Plan.

	Half-year ended 31 Dec 2013	Half-year ended 31 Dec 2012 (Restated)
Note 16 - Earnings per share (EPS)		
Statutory earnings per share		
Basic earnings per share	**46.9 cents**	65.3 cents
Diluted earnings per share	**46.9 cents**	65.3 cents
Underlying earnings per share		
Basic earnings per share	**43.5 cents**	49.8 cents
Diluted earnings per share	**43.5 cents**	49.8 cents

	Half-year ended 31 Dec 2013 $m	Half-year ended 31 Dec 2012 $m (Restated)
Earnings used in calculating basic and diluted earnings per share		
Profit for the period attributable to owners of AGL Energy Limited	**261**	358
Statutory earnings used to calculate basic and diluted EPS	**261**	358
Significant expense items after income tax	**17**	-
Gain in fair value of financial instruments after income tax	**(36)**	(85)
Underlying earnings used to calculate basic and diluted EPS	**242**	273

	Half-year ended 31 Dec 2013 Number	Half-year ended 31 Dec 2012 Number
Weighted average number of ordinary shares		
Number of ordinary shares used in the calculation of basic EPS	**556,388,343**	548,108,656
Effect of dilution - LTIP share performance rights	**490,512**	498,865
Number of ordinary shares used in the calculation of diluted EPS	**556,878,855**	548,607,521

	As at 31 Dec 2013 $m	As at 31 Dec 2012 $m

Note 17 - Cash flow information

Reconciliation of cash and cash equivalents

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

	31 Dec 2013 $m	31 Dec 2012 $m
Cash at bank and on hand	**129**	383
Short-term deposits	**441**	272
	570	655

Non-cash financing and investing activities

	31 Dec 2013 $m	31 Dec 2012 $m
Dividends satisfied by the issue of shares under the AGL Dividend Reinvestment Plan (Note 15)	**63**	63

Note 18 - Contingent liabilities

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

(a) Certain entities in the consolidated entity 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 the consolidated entity.

(b) Pursuant to ASIC Class Order 98/1418 (as amended), the Parent Entity and certain wholly-owned Australian subsidiaries have entered in to a Deed of Cross Guarantee. The effect of the Deed is that the Parent Entity guarantees to each creditor, payment in full of any debt in the event of winding up of any of the subsidiaries under certain provisions of the Corporations Act 2001. The subsidiaries have also given a similar guarantee in the event that the Parent Entity is wound up. No liabilities subject to the Deed of Cross Guarantee at 31 December 2013 are expected to arise.

Note 19 - Acquisition of subsidiaries and businesses

Half-year ended 31 December 2013

Acquisition of Australian Power and Gas Company Limited

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

APG is an energy retailer, with its principal activity being the sale of electricity and gas to residential customers in Victoria, New South Wales and Queensland. The acquisition of APG increases the consolidated entity's total customers by approximately 350,000 and is expected to create value by leveraging the consolidated entity's lower cost-to-serve across the APG customer base.

Acquisition-related costs amounting to $4 million have been excluded from the consideration paid and have been recognised as an expense in profit or loss in the half-year, within the 'other expenses' line item.

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

Assets acquired and liabilities assumed	Australian Power and Gas $m	Other acquisition $m	Total $m
Current assets			
Cash and cash equivalents	24	-	**24**
Trade and other receivables (a)	93	-	**93**
Inventories	2	-	**2**
Other assets	7	-	**7**
Total current assets	126	-	**126**
Non-current assets			
Intangible assets - customer contracts	49	-	**49**
Deferred tax assets	17	-	**17**
Total non-current assets	66	-	**66**
Total assets	192	-	**192**
Current liabilities			
Trade and other payables	99	-	**99**
Borrowings	72	-	**72**
Provisions	1	-	**1**
Other financial liabilities	20	-	**20**
Total current liabilities	192	-	**192**
Total liabilities	192	-	**192**
Fair value of identifiable net assets acquired	-	-	**-**
Goodwill arising on acquisition	102	2	**104**
Purchase consideration	102	2	**104**
Purchase consideration			
Cash paid	102	1	**103**
Deferred consideration	-	1	**1**
Total consideration	102	2	**104**

(a) Trade and other receivables acquired with a fair value of $93 million had gross contractual amounts of $142 million. The best estimate at acquisition date of the contractual cash flows not expected to be collected is $49 million.

Note 19 - Acquisition of subsidiaries and businesses (cont'd)

The goodwill arising on the acquisition of APG is attributable to the synergies and cost savings expected to be achieved from integrating the company into the consolidated entity's Retail Energy business.

None of the goodwill arising on these acquisitions is expected to be deductible for tax purposes.

The initial accounting for the above acquisitions has only been provisionally determined at the end of the half-year. Subject to the finalisation of the provisional acquisition accounting, all identifiable intangible assets have been recognised separately from goodwill. In accordance with the requirements of AASB 3 *Business Combinations,* the consolidated entity has 12 months from the date of acquisition to finalise its acquisition accounting, and therefore the information presented should be considered provisional.

Half-year ended 31 December 2012

There were no acquisitions made during the half-year ended 31 December 2012.

	Half-year ended	
	31 Dec 2013 $m	31 Dec 2012 $m
Net cash outflow on acquisitions		
Cash paid	103	-
Less: cash and cash equivalent balances acquired	(24)	-
	79	-

Note 20 - Disposal of subsidiaries

Half-year ended 31 December 2013

There were no disposals of subsidiaries made during the half-year ended 31 December 2013.

Half-year ended 31 December 2012

There were no disposals of subsidiaries made during the half-year ended 31 December 2012.

AGL Energy Limited and controlled entities
Notes to the condensed consolidated Financial Statements
For the half-year ended 31 December 2013

Note 21 - Financial instruments

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

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

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

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

31 December 2013	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Financial assets				
Derivative financial instruments				
- Interest rate swap contracts - cash flow hedges	-	12	-	12
- Energy derivatives - cash flow hedges	-	33	-	33
- Energy derivatives - economic hedges	6	110	352	468
	6	155	352	513
Financial liabilities				
Derivative financial instruments				
- Cross currency swap contracts - cash flow and fair value hedges	-	4	-	4
- Interest rate swap contracts - cash flow hedges	-	59	-	59
- Energy derivatives - cash flow hedges	-	39	-	39
- Energy derivatives - economic hedges	5	243	120	368
	5	345	120	470

Methods and valuation techniques

The methods and valuation techniques used for the purpose of measuring fair value are unchanged compared to the previous reporting period.

Cash flow hedges

Future cash flows are estimated based on forward interest rates (from observable yield curves at the end of the reporting period) and/or contract interest rates, discounted at a rate that reflects the credit risk of various counterparties.

Economic Hedges

The fair values of economic hedges are determined by either quoted market prices or the use of internal valuation techniques using discounted cash flows. Where practical the valuations incorporate observable market data. Assumptions are generally required with regard to future expected revenues and discount rates.

Level 3 fair value measurements

During the period there were no transfers between Level 1, Level 2 and Level 3 fair value hierarchies. The table below analyses the changes in Level 3 instruments as follows:

	Energy derivatives 31 Dec 2013 $m
Opening balance	224
Total gains and losses recognised in profit or loss	11
Purchases	(3)
Closing balance	232

The carrying amounts of financial assets and financial liabilities recognised in the consolidated financial statements approximate their fair values except for cross currency swap contracts. The contract amount of the swap is $338 million with the swap fair valued at a liability of $4 million.

AGL Energy Limited and controlled entities
Notes to the condensed consolidated Financial Statements
For the half-year ended 31 December 2013

Note 22 - Subsequent events

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

Proposed acquisition of Macquarie Generation

On 12 February 2014, AGL announced that it had entered into an agreement with the New South Wales Government to acquire the Macquarie Generation (Macgen) assets for a consideration of $1,505 million including stamp duty but excluding transaction costs. The acquisition is conditional on approval by the Australian Competition & Consumer Commission (ACCC). The ACCC has previously indicated that it will make a final decision on the proposed acquisition by 4 March 2014.

Debt facility refinance

On 14 February 2014, AGL executed an amendment to its syndicated bank debt facility to add an additional $650 million term facility for a further four years. This facility will be utilised to repay the $600 million facility that is due to mature on 20 July 2014.

Interim dividend

On 26 February 2014, the Directors of AGL resolved to pay a fully franked interim dividend of 30.0 cents per share, amounting to $168 million. The record date for the interim dividend is 7 March 2014 with payment to be made on 4 April 2014. Shares will commence trading ex-dividend on 3 March 2014.

The AGL Dividend Reinvestment Plan (DRP) will be in operation. No discount will apply to shares issued under the DRP. New shares will be issued to plan participants at the volume weighted average price at which AGL shares trade during each of the 10 trading days commencing on 11 March 2014.

Note 23 - Information on audits or review

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

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

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

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Directors' Declaration
For the half-year ended 31 December 2013

The Directors of AGL Energy Limited declare that, in their opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including:

(a) giving a true and fair view of the financial position as at 31 December 2013 and of the performance for the half-year ended on that date of the consolidated entity; and

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

The Directors also declare that, in their opinion:

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

Signed in accordance with a resolution of the Directors

Jeremy Maycock
Chairman
Sydney, 26 February 2014

Deloitte.

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

26 February 2014

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 2013, 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

G Couttas

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Partner
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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 2013 and the condensed Consolidated Statement of Profit or Loss, the condensed Consolidated Statement of Comprehensive Income, the condensed Consolidated Statement of Cash Flows and the condensed Consolidated Statement of Changes in Equity for the half-year ended on that date, selected explanatory notes and, the Directors' Declaration of the consolidated entity comprising the company and the entities it controlled at the end of the half-year or from time to time during the half-year as set out on pages 2 to 26.

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 the AGL Energy Limited's financial position as at 31 December 2013 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of AGL Energy Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance

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that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Auditor's Independence Declaration

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of AGL Energy Limited, would be in the same terms if given to the directors as at the time of this auditor's review report.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of AGL Energy Limited is not in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2013 and of its performance for the half-year ended on that date; and

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

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

G. Couttas

G Couttas
Partner
Chartered Accountants
Sydney, 26 February 2014