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ASX Release

AGL Energy Limited Financial Results – Half Year Ended 31 December 2016

9 February 2017

Attached are the following documents relating to AGL Energy Limited's results for the half year ended 31 December 2016:

- ASX Appendix 4D
- Directors' Report
- Interim Financial Report

John Fitzgerald
Company Secretary

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About AGL

AGL is one of Australia's leading integrated energy companies. It is taking action to responsibly reduce its greenhouse gas emissions while providing secure and affordable energy to its customers. Drawing on over 175 years of experience, AGL serves its customers throughout eastern Australia with meeting their energy requirements, including gas, electricity, solar PV and related products and services. 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, solar, landfill gas and biomass.

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 2016

				2016 $A million	2015 $A million
Revenue	**Up**	**7.7%**	to	**6,030**	5,601
Statutory Profit/(Loss) after tax attributable to shareholders	**Up**	**172.4%**	to	**325**	(449)
Underlying Profit after tax attributable to shareholders	**Up**	**3.7%**	to	**389**	375
				cents	cents
Statutory Earnings per share	**Up**	**172.5%**	to	**48.2**	(66.5)
Underlying Earnings per share	**Up**	**3.8%**	to	**57.7**	55.6
				$	$
Net tangible asset backing per share	**Down**	**0.1%**	to	**7.23**	7.24

Dividends	Amount cents	Franked amount cents
Interim dividend per ordinary share	41.0	32.8
Prior interim dividend per ordinary share	32.0	32.0

Record date for determining entitlements to the interim dividend:
24 February 2017 and payable 27 March 2017

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

Statutory Profit after tax of $325 million included a loss of $64 million after tax from the changes in the fair value of financial instruments. Excluding these items, the Underlying Profit after tax was $389 million, 3.7% up on the prior corresponding period.

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

This report should be read in conjunction with the AGL Directors' Report incorporating the Operating & Financial Review and the Interim Financial Report for the half-year ended 31 December 2016 released to the market on 9 February 2017.

AGL Energy Limited and controlled entities

DIRECTORS' REPORT

For the half-year ended 31 December 2016

(Including the Operating & Financial Review)

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 2016 (the period). Financial comparisons used in this report are of results for the half-year ended 31 December 2015 (the prior corresponding period) for statement of profit or loss and cash flow analysis, and 30 June 2016 for statement of financial position analysis.

1. About AGL

AGL is one of Australia's leading integrated energy companies. It is taking action to responsibly reduce its greenhouse gas emissions, while providing secure and affordable energy to its customers. Drawing on over 175 years of experience, AGL serves its customers throughout eastern Australia by meeting their energy requirements, including gas, electricity, solar PV and related products and services. 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, solar, landfill gas and biomass.

Principal Activities

- Buying and selling of gas and electricity and related products and services;
- Construction and/or operation of power generation and energy processing infrastructure;
- Operation of natural gas storage facilities; and
- Sale of distributed generation technologies including solar, digital meters, storage and other business and residential energy services.

2. Operating Segments

AGL views the business as three integrated segments collectively servicing customers' needs. AGL's reportable segments are:

- **Energy Markets** sells electricity, natural gas, and energy related products and services to consumer, business and wholesale customers, currently servicing approximately 3.7 million customer accounts. Energy Markets is also responsible for managing the wholesale risks associated with satisfying the customer requirements across the portfolios.
- **Group Operations** is a diverse power generation portfolio, spread across traditional thermal generation, natural gas, gas storage, and renewable sources including hydro, wind and solar.
- **Investments** includes equity-accounted investments in various energy related businesses, including the ActewAGL Retail Partnership, the Powering Australian Renewables Fund (PARF) and Sunverge Energy Inc.

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

On 21 December 2016, AGL announced changes to its segment reporting. The previous New Energy business was separated and allocated into other AGL business units. New Energy Services was reallocated to Energy Markets and Distributed Energy Services was allocated to Group Operations. The remainder of the New Energy business will become an "innovation accelerator" reported under Centrally Managed Expenses.

Business Units

AGL's segments include the following business units.

Energy Markets

Energy Markets comprises three business units: Customer (formerly Consumer Market and Business Customers); Wholesale Markets and New Energy Services (NES).

The Customer business unit sells electricity, natural gas, and energy related products and services to household and business customers. It sources its energy from Wholesale Markets. The transfer price for energy is calculated based on methodologies that reflect the prevailing wholesale market conditions and other energy costs in each state.

Wholesale Markets, which includes Wholesale Electricity, Wholesale Gas and Eco-markets is responsible for managing the price risk associated with procuring electricity and gas and for managing AGL's green product obligations. It also controls the dispatch of owned and contracted generation assets, which are complemented by a portfolio of energy hedge products.

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

The risk policy mandates that the principal purpose of energy trading is to hedge AGL's market price exposure resulting from operating an integrated energy business. The policy allows for commercial optimisation of the portfolio provided that overall Earnings at Risk limits are adhered to and AGL's risk appetite objectives are not endangered.

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

Wholesale Gas is responsible for sourcing and managing AGL's gas supply and transportation portfolio to maximise wholesale price effectiveness for the Customer businesses. Wholesale Gas supplies other retailers, internal, third-party gas-fired generators and other gas customers. Wholesale Gas is also responsible for the management of the price exposures related to AGL's oil linked wholesale gas contracts.

Eco Markets is responsible for managing AGL's liabilities relating to both voluntary and mandatory green schemes.

The largest schemes in which Eco Markets participates are the Small-scale Renewable Energy Scheme (SRES) and the Large-scale Renewable Energy Target (LRET).

New Energy Services (NES) includes residential and commercial solar and business energy-efficiency solutions.

Group Operations

Group Operations' portfolio is spread across the following:

Thermal	Renewables	Natural Gas	Other Operations
AGL Macquarie	Wind farms	Camden	Distributed Energy Services
AGL Loy Yang	Hydro	Moranbah	Technical functions
AGL Torrens	Solar plants	Silver Springs	Safety & environment
		Newcastle Gas Storage Facility	

The above list includes only major elements, hence is not all inclusive.

AGL's thermal energy assets include:

- AGL Macquarie, which produces approximately 13% of the electricity required by consumers in eastern Australia. AGL Macquarie's assets include the 2,640 MW Bayswater power station, the 2,000 MW Liddell power station (both of which are black coal plants), the 50 MW Hunter Valley gas turbines and the Liddell solar thermal project.
- AGL Loy Yang, which supplies approximately 30% of Victoria's power requirements. It comprises the 2,210 MW Loy Yang A power station and adjacent Loy Yang coal mine. AGL Loy Yang uses brown coal, supplied exclusively by the open cut mine, as the fuel source to generate electricity. The mine has an annual output of approximately 30 million tonnes of coal.
- AGL Torrens is the largest power station in South Australia and the largest natural gas-fired power station in Australia, with name plate capacity of 1,280 MW.

AGL is the largest ASX listed operator and developer of renewable energy generation in Australia.

AGL operates hydroelectric power stations in Victoria and NSW, with the three primary schemes located in the Kiewa, Dartmouth and Eildon catchments with total installed capacity of 788 MW.

AGL operates seven wind farms spread across South Australia and Victoria with installed capacity of 925 MW of wind generation.

In November 2016, AGL divested the solar plant assets at Broken Hill (53 MW) and Nyngan (102 MW) in NSW into the PARF. AGL continues to operate the solar plant assets, refer to section 1.6 of the Operating & Financial Review for further details.

AGL operates and maintains natural gas assets and investments including Camden, the Silver Springs underground storage facility, Moranbah, the Wallumbilla LPG plant and the Newcastle Gas Storage Facility. Following a strategic review announced in February 2016, natural gas exploration and production is no longer a core business of AGL. As such, a number of these assets are to be divested or have been slated for closure.

In December 2016, AGL announced that the Distributed Energy Services (DES) business previously managed through the New Energy segment would be incorporated into Group Operations. DES comprises Active Stream (Digital Metering), National Assets (co-generation and renewable generation, compressed natural gas refuelling and Electroserv factory assets), and Solar & Storage Operations (solar and storage installation, operational support for early New Energy product testing and delivery of scale).

Investments

AGL has investments in various energy related businesses.

ActewAGL is a 50/50 partnership between AGL and Icon Water Limited (formerly 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 acquired a 22% interest in Sunverge Energy Inc (Sunverge) in February 2016. The investment provides AGL with exclusive access in Australia to Sunverge's proprietary technology and products.

In November 2016, AGL acquired a 20% equity share in the PARF and committed to a US$50 million investment in the Energy Impact Fund.

Centrally Managed Expenses (CME)

AGL centrally manages a number of expense items, including information technology, 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 New Energy "innovation accelerator" business (formerly of the New Energy segment) is now reported under CME. This includes Strategic Partnerships & Investments, Commercial Development and Technology Innovation & Development.

3. Review of Operations and Results

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

4. Acquisitions and Disposals

On 14 November 2016, AGL contributed 20% equity funding into the PARF. The value of AGL's investment at 31 December 2016 is $13 million. Further, on 14 November 2016, AGL completed the divestment of the 102 MW Nyngan and 53 MW Broken Hill solar plants into the PARF, for a consideration of $257 million.

Refer to section 1.6 of the Operating & Financial Review for further details relating to the PARF.

On 10 November 2016, AGL entered into a US$50 million commitment to the US-based Energy Impact Fund (EIF) global coalition. EIF is a private equity fund that invests in emerging technologies, products, services and business models throughout the electricity supply chain, from generation to consumption. The value of AGL's investment in EIF at 31 December 2016 is $5 million.

5. Subsequent Events

Apart from the matters identified below and elsewhere in this Directors' Report and the interim Financial Report, the Directors are not aware of any other matter or circumstance that has arisen since 31 December 2016 that has significantly affected or may significantly affect the operations of AGL, the results of those operations, or the state of affairs of AGL in the future.

On 20 January 2017, AGL announced a new four year agreement to supply electricity to the Portland Smelter Joint Venture Participants' (Alcoa) aluminium smelter in Portland, Victoria. The agreement takes effect from August 2017 when the existing supply contract ends. The agreement is for 510 MW and on commercial terms.

6. Dividends

The Directors have declared an interim dividend of 41.0 cents per share, compared with 32.0 cents per share for the prior interim dividend. The dividend will be 80% franked and will be paid on 27 March 2017. The record date to determine shareholders' entitlements to the interim dividend is 24 February 2017. Shares will commence trading ex-dividend on 23 February 2017.

On 28 September 2016, AGL announced a change to its dividend policy. AGL will target a payout ratio of approximately 75 percent of Underlying Profit after tax and a minimum franking level of 80 percent. Before declaring the dividend the Directors satisfied themselves that: AGL's assets exceeded its liabilities immediately before declaring the dividend and the excess was sufficient for the payment of the dividend; the payment of the dividend was fair and reasonable to AGL's shareholders as a whole; and the payment of the dividend would not materially prejudice AGL's ability to pay its creditors.

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

Under the current level of franking and dividend payout ratio, unfranked dividends could be paid from CFI for approximately 3 years (as from the 2017 interim dividend).

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

The AGL Dividend Reinvestment Plan (DRP) will operate in respect of the 2017 interim dividend. AGL will acquire shares on market and allot them to DRP participants at no discount to the simple average of the daily weighted-average price at which AGL's ordinary shares trade during each of the 10 trading days commencing 28 February 2017. The last date for shareholders to elect to participate in the DRP for the 2017 interim dividend is 27 February 2017.

7. 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	09 October 2006 (Chairman since 21 October 2010)
Andrew Vesey – Managing Director	12 February 2015
Leslie Victor Hosking	01 November 2008
John Victor Stanhope	09 March 2009
Belinda Jane Hutchinson	22 December 2010
Graeme Peter Hunt	01 September 2012
Jacqueline Hey	21 March 2016
Diane Smith-Gander	28 September 2016
Peter Botten	21 October 2016
Bruce John Phillips	23 August 2007 (retired 28 September 2016)

8. Non-IFRS Financial Information

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

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

- significant items (which are material items of revenue or expense that are unrelated to the underlying performance of the business); and
- changes in the fair value of financial instruments recognised in the statement of profit or loss (to remove the volatility caused by mismatches in valuing financial instruments and the underlying asset differently).

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

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

9. Rounding

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

10. Auditor's Independence Declaration

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

Jeremy Maycock
Chairman

Sydney, 9 February 2017

AGL ENERGY LIMITED

OPERATING & FINANCIAL REVIEW

For the half-year ended 31 December 2016

Contents

OPERATING & FINANCIAL REVIEW

1. Group Results

1.1 Reconciliation of Statutory Profit/(Loss) to Underlying Profit

1.1.1 Profit/(Loss) after Tax

	Half-year ended 31 December 2016 $m	Half-year ended 31 December 2015 $m
Statutory Profit/(Loss) after tax	**325**	(449)
Adjust for:		
Significant items after tax		
Impairment loss on exploration and evaluation assets	**–**	125
Impairment loss on oil and gas assets	**–**	432
Impairment loss on property, plant and equipment	**–**	83
Restructuring costs	**–**	16
Changes in fair value of financial instruments after tax	**64**	168
Underlying Profit after tax	**389**	375

Statutory Profit/(Loss) after tax attributable to shareholders was $325 million, compared with ($449 million) in the prior corresponding period, reflecting the non-recurrence of $656 million of significant items from impairments and restructuring costs and a decrease in the change in fair value of financial instruments to $64 million from $168 million.

Underlying Profit after tax was $389 million, up 3.7% from $375 million in the prior corresponding period. A description of the factors driving Underlying Profit is included in Section 1.2.

	Half-year ended 31 December 2016	Half-year ended 31 December 2015
Earnings per share on Statutory Profit/(Loss)[1]	**48.2 cents**	(66.5) cents
Earnings per share on Underlying Profit[1]	**57.7 cents**	55.6 cents

1. EPS calculations have been based upon a weighted average number of ordinary shares of 673,809,793 (31 December 2015: 674,712,378)

1.1.2 Earnings before Interest and Tax (EBIT)

	Half-year ended 31 December 2016 $m	Half-year ended 31 December 2015 $m
Statutory EBIT	**592**	(410)
Significant items	**–**	818
Change in fair value of financial instruments	**91**	240
Finance income included in Underlying EBIT	**2**	2
Underlying EBIT	**685**	650

1.2 Underlying Profit Summary

	Half-year ended 31 December 2016 $m		Half-year ended 31 December 2015 $m	
Revenue	**6,030**		5,601	
Underlying EBITDA	**924**		885	
Depreciation and amortisation	**(239)**		(235)	
Underlying EBIT	**685**		650	
Energy Markets		**1,214**		1,191
Group Operations		**(416)**		(429)
Investments		**11**		17
Centrally Managed Expenses		**(124)**		(129)
Net finance costs	**(116)**		(114)	
Underlying Profit before tax	**569**		536	
Income tax expense	**(180)**		(161)	
Underlying Profit after tax	**389**		375	

Underlying Profit after tax for the half-year ended 31 December 2016 was $389 million, up 3.7% compared with $375 million in the prior corresponding period. The principal drivers of the increase were: higher wholesale electricity and green certificate prices, disciplined customer price management and cost reduction initiatives. Offsetting this increase was a decline in consumer electricity and gas volumes reflecting unfavourable weather in high consumption months, higher gas supply costs, and lower electricity generation volumes due to planned outages.

A detailed overview of results is provided in Section 2.

1.3 Net Finance Costs

	Half-year ended 31 December 2016 $m	Half-year ended 31 December 2015 $m
Finance costs	**(116)**	(122)
Other financing costs (refer to section 1.6)	**(4)**	-
Finance income	**6**	10
Less: finance income included in EBIT	**(2)**	(2)
Net finance costs	**(116)**	(114)

Finance costs were $116 million, down 4.9% from $122 million in the prior corresponding period. The decrease was a result of a reduction in average net debt to $2,760 million compared with $3,023 million in the prior corresponding period. Finance income reduced by $4 million as a prior year loan to the Diamantina Power Station joint venture ceased during FY16. Capitalised interest for the half-year ended 31 December 2016 was $2 million.

1.4 Income Tax (Expense)/Benefit

	Half-year ended 31 December 2016 $m	Half-year ended 31 December 2015 $m
Statutory income tax (expense)/benefit	**(153)**	73
Income tax benefit from significant items	**–**	(162)
Income tax benefit from changes in fair value of financial instruments	**(27)**	(72)
Underlying tax expense	**(180)**	(161)

Underlying tax expense was $180 million, an increase of 11.8% from $161 million expense in the prior corresponding period. The underlying effective tax rate was 31.6%, compared with 30.0% for the prior corresponding period. The increase in the effective tax rate results from an adjustment in relation to tax for prior years arising on the divestment of the solar plant assets to the PARF. See section 1.6 for further details relating to the divestment of the solar plant assets.

1.5 Significant Items

1.5.1 Impairment Charges

Current Period

Nil.

Prior Corresponding Period

In December 2015, AGL announced that following a review of its natural gas assets, exploration and production of natural gas assets will no longer be a core business for AGL due to the volatility of commodity prices and long development lead times. As a result, AGL recognised an impairment charge of $640 million after tax in relation to those natural gas assets.

1.5.2 Restructuring Costs

Current Period

Nil.

Prior Corresponding Period

Restructuring costs of $16 million after tax were recognised mainly in relation to labour costs associated with organisational reviews conducted during the period.

1.6 Powering Australian Renewables Fund (PARF)

On 14 November 2016, AGL contributed equity funding into the PARF. The PARF has been created to develop, own and manage approximately 1,000 MW of large-scale renewable energy infrastructure assets and projects. These projects will help meet Federal Government targets and spur investment and development in support of Australia's transition to a low-carbon economy.

AGL will provide $200 million in equity funding to the PARF, and QIC, on behalf of its clients the Future Fund and the QIC Global Infrastructure Fund, will provide $800 million over the life of the fund.

AGL's 102 MW Nyngan and 53 MW Broken Hill solar plant assets were acquired by the PARF as seed assets with AGL completing the divestment to the PARF on 14 November 2016. The financial impact of the divestment is as follows:

	Half-year ended 31 December 2016 $m
Sale proceeds	**257**
Government grant revenue	**223**
Carrying value of solar plant assets	**(447)**
Transaction costs	**(12)**
Gain on divestment (included in Group Operations – Renewables results)	**21**
Other financing costs	**(4)**
Underlying profit before tax impact	**17**
Income tax expense	**(17)**
Underlying Profit after tax impact	**–**

On 19 January 2017, AGL reached financial close on the divestment of the 200 MW Silverton Wind Farm project in western New South Wales, into the PARF. The $36 million sale includes AGL writing an offtake agreement with the Silverton Wind Farm. AGL expects to recognise approximately nil profit after tax on divestment.

1.7 Changes in Fair Value of Financial Instruments

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

Australian Accounting Standard AASB 139 *Financial Instruments: Recognition and Measurement* requires derivatives and assets and liabilities carried at fair value, to be reported at their fair value in the financial statements. Changes in the fair value of derivatives between reporting periods for "effective hedges" are recognised in equity as an adjustment to the hedge reserve. AASB 139 considers derivatives to be effective hedges where the change in the fair value of the item being hedged and the change in the fair value of the derivative substantially offset each other. All other hedges are deemed to be ineffective hedges.

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

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

The change in fair value of financial instruments reported in profit and loss for the half-year ended 31 December 2016 was a loss of $64 million after tax. For the half-year ended 31 December 2015, the change in fair value of derivatives was a loss of $168 million after tax.

A reconciliation of the statement of financial position movement in financial instruments carried at fair value, which balances to the amount included in the statement of profit or loss for the half-year ended 31 December 2016 is presented in the following table:

Net Assets (Liabilities)	31 December 2016 $m	30 June 2016 $m	Change $m
Energy derivative contracts	**(184)**	(115)	(69)
Cross currency and interest rate swap derivative contracts	**25**	19	6
Other financial assets	**5**	–	5
Total net liabilities for financial instruments	**(154)**	(96)	(58)
Change in net liability	**(58)**		
Premiums paid	**(39)**		
Premium roll off	**49**		
Other financial asset acquired	**(5)**		
Total change in fair value	**(53)**		
Recognised in equity hedge reserve	**90**		
Recognised in borrowings	**(52)**		
Recognised in profit and loss – pre tax			
› Changes in fair value of financial instruments	**(91)**		
Total change in fair value	**(53)**		

2. Review of Operations

Summary of Underlying EBIT and EBITDA:

	Half-year ended 31 December 2016 $m	Half-year ended 31 December 2015 $m
Underlying EBITDA	**924**	885
Less: depreciation and amortisation (D&A)	**(239)**	(235)
Energy Markets	**1,214**	1,191
Group Operations	**(416)**	(429)
Investments	**11**	17
Centrally Managed Expenses	**(124)**	(129)
Underlying EBIT	**685**	650

2.1 Energy Markets Underlying EBIT

Increased 1.9% to $1,214 million from $1,191 million

	Half-year ended 31 December 2016 $m	Half-year ended 31 December 2015 $m
Wholesale Markets	**999**	980
Customer	**450**	463
New Energy Services	**5**	6
Gross margin	**1,454**	1,449
Less: net operating costs excluding D&A	**(193)**	(209)
Wholesale Markets	**989**	969
Customer	**272**	275
New Energy Services	**–**	(4)
Underlying EBITDA	**1,261**	1,240
Less: depreciation and amortisation	**(47)**	(49)
Wholesale Markets	**985**	966
Customer	**230**	230
New Energy Services	**(1)**	(5)
Underlying EBIT	**1,214**	1,191

Energy Markets Underlying EBIT of $1,214 million was $23 million or 1.9% higher than the prior corresponding period due to higher Wholesale Markets gross margin and ongoing discipline around management of customer pricing and net operating costs. Gross margin performance was driven by growth within Wholesale Electricity where AGL's generation assets were effectively leveraged to take advantage of higher wholesale market prices. Eco Markets benefitted from a combination of higher market prices for Large-scale Generation Certificates (LGC) and lower compliance costs. This was partly offset by a decrease in Wholesale Gas where some high margin customer contracts had previously rolled off and additional gas supply purchases were made at prevailing spot prices.

Within Customer, margin grew across Business Electricity and Gas portfolios benefitting from a mix of strategic customer retention activities within Electricity and increased customer volumes and positive rate movements within Gas. As expected, Consumer Gas margin decreased due to higher gas commodity costs, mild winter weather reducing demand for heating and the impact of customer discounting, which partially offset favourable price changes.

The strategic restructuring of parts of the Energy Markets business, combined with ongoing cost management resulted in decreases in labour and contractor services, bad and doubtful debts and other expenditure. This was also reflected in favourable decreases across Cost to Serve and Cost to Grow. Further analysis and commentary can be found in sections 2.1.1 to 2.1.7.

2.1.1 Wholesale Markets Underlying EBIT

Increased 2.0% to $985 million from $966 million

	Half-year ended 31 December 2016 $m	Half-year ended 31 December 2015 $m
Wholesale Electricity	**772**	714
Wholesale Gas	**164**	236
Eco Markets	**63**	30
Gross margin	**999**	980
Less: net operating costs excluding D&A	**(10)**	(11)
Underlying EBITDA	**989**	969
Less: depreciation and amortisation	**(4)**	(3)
Underlying EBIT	**985**	966

Wholesale Markets Underlying EBIT of $985 million was $19 million or 2.0% higher as stronger Wholesale Electricity and Eco Markets gross margin more than offset lower Wholesale Gas margin.

Wholesale Electricity gross margin was $772 million, up $58 million or 8.1%. The increase was driven by leveraging AGL's generation assets to maximise the opportunities from higher wholesale market prices, partly offset by lower generation volumes as a result of an increase in planned outages.

Consumer customer sales volumes decreased 597 GWh or 7.8% due to a decline in average customer numbers, unfavourable customer mix changes across the residential and small business portfolios and unfavourable weather impacts with a mild winter partially offset by a cooler than average spring, predominantly in Victoria and South Australia.

Wholesale Gas gross margin was $164 million, down $72 million or 30.5%. The decrease was driven by higher margin wholesale customer contracts rolling off at the end of December 2015, as well as the unfavourable impact of acquiring gas from the spot market and other short-term sources during the 2016 winter as a result of the curtailment of gas supply and increased demand at AGL Torrens. These key margin drivers are consistent with previous guidance.

Eco Markets gross margin was $63 million, an increase of $33 million or 110.0% as sales revenue increased due to higher market prices for Large-scale Generation Certificates (LGC) whilst compliance costs reduced driven by lower market prices for Victorian Energy Efficient Certificates (VEECs).

2.1.2 Customer Underlying EBIT

Unchanged at $230 million

	Half-year ended 31 December 2016 $m	Half-year ended 31 December 2015 $m
Consumer Electricity gross margin	**244**	244
Consumer Gas gross margin	**150**	171
Business Electricity gross margin	**18**	17
Business Gas gross margin	**38**	31
Gross margin	**450**	463
Less: net operating costs excluding D&A	**(178)**	(188)
Underlying EBITDA	**272**	275
Less: depreciation and amortisation	**(42)**	(45)
Underlying EBIT	**230**	230

Consumer Electricity gross margin of $244 million was flat compared to the prior corresponding period. Disciplined and effective price management across the Consumer Electricity portfolio was reflected in consumer price increases as a result of higher wholesale market prices. However, this was offset by a 7.8% decrease in customer sales volumes, higher wholesale electricity and LGC prices (as discussed in 2.1.1) combined with greater discounting within a highly competitive market.

Total consumer average consumption per customer decreased by 7.4%, with average residential consumption declining by 5.3% per customer and small business average consumption declining 11.5%.

Consumer Gas gross margin was $150 million, down 12.3% from $171 million as a result of increased gas commodity costs, lower gas volumes with a mild winter predominately impacting New South Wales customers and increased discounting within a highly competitive market. Average consumption per customer increased by 1% driven by favourable customer mix across the portfolio.

Business Electricity gross margin was $18 million, up 5.9% from $17 million as customer mix was favourable as a result of strategic customer acquisition and retention activities within a price sensitive market, partly offset by lower customer sales volumes.

Business Gas gross margin was $38 million, up 22.6% from $31 million primarily due to higher customer sales volumes, while rates benefitted from a supply constrained market.

The consolidation of the Consumer and Business Markets business units into Customer and the integration of operational and managerial activities within both units has resulted in the reporting of net operating costs excluding D&A at a consolidated level in the table above. Customer net operating costs, excluding D&A, improved by $10 million from the prior corresponding period driven by a combination of favourable movements in labour and contractor costs as well as bad and doubtful debts expense.

2.1.3 Energy Markets Net Operating Costs

Decreased 7.0% to $240 million from $258 million

	Half-year ended 31 December 2016 $m	Half-year ended 31 December 2015 $m
Labour and contractor services	**(83)**	(89)
Bad and doubtful debts	**(39)**	(47)
Campaigns and advertising	**(48)**	(52)
Other expenditure	**(36)**	(43)
Fees, charges and other margin	**13**	22
Net operating costs excluding D&A	**(193)**	(209)
Less: depreciation and amortisation	**(47)**	(49)
Net operating costs	**(240)**	(258)

Labour and contractor services costs decreased by $6 million, or 6.7%, due to targeted operating cost saving initiatives and restructuring to leverage synergies across the Energy Markets business, which have more than offset inflationary increases.

Bad and doubtful debts decreased $8 million, or 17.0%, driven by reduced consumer customer sales volumes and revenues in the first half and higher bad debt recoveries from the sale of debt. Net bad debts expense to revenue was favourable at 0.9% compared to 1.0% for the prior corresponding period.

Other expenditure decreased $7 million, or 16.3%, due to the introduction of a customer paper bill and over the counter payment charges, continued growth in digital billing customers and lower collection agency spend.

Fees, charges and other margin decreased $9 million, or 40.9%, mainly as a result of the cessation of a non-core business with the consolidation of the Consumer and Business Markets business units into Customer, increased costs of generating non-energy revenue and lower ConnectNow commission revenue with a larger proportion of ConnectNow customers choosing AGL as their energy provider.

2.1.4 Consumer Customer Profitability

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

	Half-year ended 31 December 2016	Half-year ended 31 December 2015	Movement %
Consumer gross margin	**$394m**	$415m	(5.1)
Consumer EBIT	**$190m**	$200m	(5.0)
Average customer accounts	**3,668,295**	3,707,559	(1.1)
Consumer gross margin per customer account	**$107**	$112	(4.5)
Consumer EBIT per customer account	**$52**	$54	(3.7)

Consumer EBIT per customer account decreased $2 per account or 3.7% as consumer gross margin was down $21 million or 5.1% largely driven by lower volumes in both electricity and gas, higher wholesale costs and higher discounting due to increased market activity, offset by customer price increases.

2.1.5 Consumer Operating Efficiency

AGL focuses on Consumer net operating costs as a percentage of gross margin along with net operating costs per customer as the primary measures of operating efficiency. As a secondary measure, cost to serve is also analysed.

2.1.5.1 Net Operating Costs as a Percentage of Gross Margin and per Customer Account

	Half-year ended 31 December 2016	Half-year ended 31 December 2015	Movement %
Consumer net operating costs	**($204m)**	($215m)	(5.1)
Consumer gross margin	**$394m**	$415m	(5.1)
Average customer accounts	**3,668,295**	3,707,559	(1.1)
Consumer net operating costs as percentage of gross margin	**51.8%**	51.8%	-
Consumer net operating costs per customer account	**$56**	$58	(3.4)

Consumer net operating costs as a percentage of gross margin was flat year on year, while Consumer net operating costs per customer account improved $2 per account or 3.4%. Consumer net operating costs decreased $11 million or 5.1%, while consumer gross margin also decreased, as discussed in section 2.1.4. Average customer accounts decreased by 39,264 or 1.1%. This was largely as a result of ongoing disconnections of vacant premises through the Credit Improvement Program and the increasingly competitive market environment, where customer repricing was broadly undertaken across the industry to reflect higher wholesale prices. However, as can be seen below, customer acquisition and retention costs were favourable, with growth in acquisitions and retentions delivered through a focused strategy on lower cost internal channels and retention of existing high value customers. While customer churn was slightly higher compared to the prior corresponding period, the favourable gap between AGL and the rest of the market increased.

2.1.5.2 Cost to Serve Analysis

	Operating Costs Half-year ended 31 December			Cost per Account Half-year ended 31 December		
	2016 $m	2015 $m	Movement %	2016 $	2015 $	Movement %
Cost to Serve	**(133)**	(137)	(2.9)	**(36)**	(37)	(2.7)
Cost to Grow	**(71)**	(78)	(9.0)	**(82)**	(95)	(13.7)

Cost to Serve per account includes the costs related to serving customers within consumer operating costs divided by the average number of customers for the period. Cost to Serve per account has decreased by $1, or 2.7%, due to favourable year on year net bad debt expense outcomes, reduced spending on collections agencies, and the introduction of new customer fees in October 2016 around Over the Counter (OTC) payments and paper billing. This is offset by increased depreciation costs to invest in growth and better serve our customers.

Cost to Grow per account includes the costs related to acquiring and retaining customers within consumer operating costs divided by the number of customers acquired and retained. Cost to Grow per account has decreased $13 or 13.7% due to the cessation of amortisation associated with the acquisition costs incurred in accelerating the build of our New South Wales Consumer customer accounts, lower external sales channel costs and advertising as a result of a strong focus on improving both the acquisition/retention mix and the internal/external channel mix. Internal acquisitions and retentions have increased to 81% versus 79% in the prior corresponding period.

2.1.6 Customer Numbers and Churn

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

	31 December 2016 ('000)	30 June 2016 ('000)	Movement ('000)	Movement %
Consumer Electricity	**2,247**	2,247	–	0.0
New South Wales	**811**	808	3	0.4
Victoria	**637**	636	1	0.2
South Australia	**398**	408	(10)	(2.5)
Queensland	**401**	395	6	1.5
Consumer Gas	**1,414**	1,418	(4)	(0.3)
New South Wales	**666**	674	(8)	(1.2)
Victoria	**536**	533	3	0.6
South Australia	**132**	132	–	0.0
Queensland	**80**	79	1	1.3
Total Consumer accounts	**3,661**	3,665	(4)	(0.1)
Total Business Customer accounts	**16**	16	–	0.0
Total Customer accounts	**3,677**	3,681	(4)	(0.1)

AGL churn increased by 0.2 ppts to 15.9% from 15.7% reported at 30 June 2016 due to continued strong competition in the market. The Rest of Market churn increased 0.4 ppts to 20.1% from 19.7% reported at 30 June 2016, increasing the favourable gap between AGL and the rest of the market by 0.2 ppts to 4.2%.

2.1.7 New Energy Services Underlying EBIT

Increased 80% to ($1 million) from ($5 million)

	Half-year ended 31 December 2016 $m	Half-year ended 31 December 2015 $m
Gross margin	**5**	6
Less: net operating costs excluding D&A	**(5)**	(10)
Underlying EBITDA	**–**	(4)
Less: depreciation and amortisation	**(1)**	(1)
Underlying EBIT	**(1)**	(5)

New Energy Services gross margin declined $1 million or 16.7% due to strategic decisions to exit several businesses, including Boilers, Technical Services and Franchisees, partially offset by growth in solar and market solutions. These drivers lead to lower operating costs, resulting in an Underlying EBIT improvement of $4 million.

2.2 Group Operations Underlying EBIT

Increased 3.0% to ($416 million) from ($429 million)

	Half-year ended 31 December 2016 $m	Half-year ended 31 December 2015 $m
Thermal	**(204)**	(215)
Renewables	**(4)**	(24)
Natural Gas	**(14)**	(4)
Other Operations	**(14)**	(16)
Underlying EBITDA	**(236)**	(259)
Less: Depreciation and amortisation	**(180)**	(170)
Thermal	**(346)**	(338)
Renewables	**(18)**	(37)
Natural Gas	**(26)**	(27)
Other Operations	**(26)**	(27)
Underlying EBIT	**(416)**	(429)

2.2.1 Thermal Underlying EBIT

Decreased 2.4% to ($346 million) from ($338 million)

The decrease in Thermal Underlying EBIT is largely attributed to higher depreciation of $19 million driven by a higher asset base, higher cyclical maintenance of $6 million and CPI and wage escalation. This is partly offset by the realignment of net coal royalties to cost of sales within Energy Markets of $6 million, labour optimisation activities and maintenance efficiencies.

A new enterprise bargaining agreement at AGL Macquarie was registered with the Fair Work Commission in September 2016. Negotiations for a new enterprise bargaining agreement at AGL Loy Yang are ongoing.

2.2.2 Renewables Underlying EBIT

Increased 51.4% to ($18 million) from ($37 million)

The increase in Renewables Underlying EBIT is largely attributed to the divestment of Nyngan and Broken Hill solar plant assets to the PARF, with a pre-tax and interest impact of $21 million, partly offset by higher depreciation. Refer to section 1.6 for details on the divestment to the PARF.

2.2.3 Natural Gas Underlying EBIT

Increased 3.7% to ($26 million) from ($27 million)

The increase in Natural Gas Underlying EBIT is primarily a result of increased gas sales revenue in Camden, Moranbah and the North Queensland Energy (NQE) joint venture, sale of Hunter assets and lower Moranbah depreciation following the impairment recognised in the prior corresponding period. This is partly offset by increased operating costs from Moranbah with capital expenditure recognised as operating expense following the impairment.

The following table summarises the natural gas sales volume and associated revenue during the period:

AGL share of operations	Half-year ended 31 December 2016	Half-year ended 31 December 2015	Movement %
Gas sales volume (PJ)	**5.5**	5.3	3.8
Sales revenue ($m)	**24.5**	20.2	21.3
Average gas price ($/PJ)	**4.45**	3.81	16.8

2.2.4 Other Operations

Increased 3.7% to ($26 million) from ($27 million)

The increase in Other Operations Underlying EBIT is primarily attributed to the growth in ActiveStream digital metering, business development activities and lower property costs, partly offset by higher DES labour costs to build operational capability.

2.3 Investments Underlying EBIT

Decreased 35.3% to $11 million from $17 million

	Half-year ended 31 December 2016 $m	Half-year ended 31 December 2015 $m
Underlying EBITDA	**11**	17
Less: depreciation and amortisation	**–**	–
Underlying EBIT	**11**	17

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

	Half-year ended 31 December 2016 $m	Half-year ended 31 December 2015 $m
ActewAGL	**15**	19
Diamantina Power Station	**–**	(2)
Sunverge Energy Inc	**(2)**	–
Other	**(2)**	–
Underlying EBIT	**11**	17

2.3.1 ActewAGL Underlying EBIT

Decreased 21.1% to $15 million from $19 million

ActewAGL Retail partnership contributed an equity share of profits of $15 million for the period compared with $19 million in the prior corresponding period. The decrease is due to lower consumption experienced specifically across the electricity market segment.

2.3.2 Diamantina Power Station Joint Venture Underlying EBIT

Increased 100% to nil from ($2 million)

On 31 March 2016, AGL completed the disposal of its 50% equity interests in Diamantina Power Station joint venture to APA Group for a consideration of $151 million.

2.3.3 Sunverge Energy Inc Underlying EBIT

Decreased 100% to ($2 million) from nil

AGL recognised its share of losses in the associate of $2 million for the period ended 31 December 2016.

2.4 Centrally Managed Expenses Underlying EBIT

Increased 3.9% to ($124 million) from ($129 million)

	Half-year ended 31 December 2016 $m	Half-year ended 31 December 2015 $m
Underlying EBITDA	**(112)**	(113)
Less: depreciation and amortisation	**(12)**	(16)
Underlying EBIT	**(124)**	(129)

The following table provides a more detailed breakdown of Centrally Managed Expenses.

	Half-year ended 31 December 2016 $m	Half-year ended 31 December 2015 $m
Labour	**(50)**	(50)
Hardware and software costs	**(32)**	(31)
Consultants and contractor fees	**(6)**	(5)
Insurance premiums	**(10)**	(13)
Depreciation and amortisation	**(12)**	(16)
Other	**(14)**	(14)
Total	**(124)**	(129)

CME Underlying EBIT increased by $5 million or 3.9%, largely due to a reduction in renegotiated insurance premiums and a reduction in depreciation and amortisation with lower capital expenditure relating to technology projects. Labour costs remained flat due to cost reduction initiatives offsetting inflationary cost increases across CME.

Of the amounts reported as CME, $66 million has been incurred on behalf of business units including $34 million for Energy Markets and $32 million for Group Operations.

2.5 Segment Restatement

On 21 December 2016, AGL announced changes to its segment reporting. The previous New Energy business was separated and allocated into other AGL business units. New Energy Services was reallocated to Energy Markets and Distributed Energy Services was allocated to Group Operations. The remainder of the New Energy business will become an "innovation accelerator" reported under CME.

Prior Corresponding Period

Revised Structure	Half-year ended 31 December 2015 $m
Energy Markets	1,191
Group Operations	(429)
Investments	17
Centrally Managed Expenses	(129)
Underlying EBIT	650

Previous Structure	Half-year ended 31 December 2015 $m
Energy Markets	1,196
Group Operations	(437)
New Energy	(8)
Investments	17
Centrally Managed Expenses	(118)
Underlying EBIT	650

3. Portfolio Review

3.1 Electricity portfolio

Electricity portfolio review reporting combines the Wholesale Markets, Customer (Consumer and Business) and generation businesses (as described in section 2.1 and 2.2) to reflect the procurement and hedging of AGL's electricity requirements, the costs of managing and maintaining AGL's owned and contracted generation assets and the margin from external customers.

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

	Half-year ended 31 December 2016 GWh	Half-year ended 31 December 2015 GWh	Movement %
Pool generation volume	**22,205**	22,620	(1.8)
Less: Pool purchase volume	**19,626**	20,205	(2.9)
Consumer customers	**7,552**	8,162	(7.5)
Business customers & Wholesale Markets	**12,074**	12,043	0.3
Net generation volume surplus	**2,579**	2,415	6.8
Consumer customer sales	**7,023**	7,620	(7.8)
Business customer sales	**5,805**	6,439	(9.8)
Wholesale customer sales	**5,880**	4,999	17.6
Total customer sales volume	**18,708**	19,058	(1.8)
Energy losses	**918**	1,147	(20.0)
Pool purchase volume	**19,626**	20,205	(2.9)

Note: Prior period restated to reflect recognition of volumes associated with feed in tariffs from solar customers.

Overall pool generation volumes declined 415 GWh or 1.8% to 22,205 GWh. Generation volumes at Bayswater decreased as a result of greater planned outage days. Generation volumes at Liddell increased largely due to a reduction in forced outages as plant efficiency benefitted from a revised running profile adopted this financial year. Pool purchase volumes decreased as a result of lower customer sales volumes.

Total customer sales volumes decreased 350 GWh or 1.8% to 18,708 GWh. Consumer customer sales volumes decreased 597 GWh or 7.8% driven by lower average customer numbers, unfavourable customer mix changes across the residential and small business portfolios and unfavourable weather impacts with a mild Winter only being partially offset by a cooler than average Spring, predominately in Victoria and South Australia. Business customer volumes were unfavourable as a result of strategic customer acquisition and retention activities within a competitive price-driven market. Wholesale customer sales volumes were up 881 GWh, or 17.6%, driven by higher commercial load.

	Portfolio Margin		Volume Denominator		Per Unit	
	Half-year ended 31 December 2016 $m	Half-year ended 31 December 2015 $m	Half-year ended 31 December 2016 GWh	Half-year ended 31 December 2015 GWh	Half-year ended 31 December 2016 $/MWh	Half-year ended 31 December 2015 $/MWh
Revenue						
Consumer customers[1]	**1,897**	1,980	**7,023**	7,620	**270.1**	259.8
Business customers, Wholesale Electricity & Eco Markets[1]	**1,040**	1,063	**11,685**	11,438	**89.0**	92.9
Group Operations (Thermal & Renewables)	**68**	46				
Total revenue[1]	**3,005**	3,089	**18,708**	19,058	**160.6**	162.1
Consumer network costs[1]	**(889)**	(980)	**7,023**	7,620	**(126.6)**	(128.6)
Consumer other cost of sales[1]	**(222)**	(228)	**7,023**	7,620	**(31.6)**	(29.9)
Business customers network costs[1]	**(321)**	(403)	**5,805**	6,439	**(55.3)**	(62.6)
Business customers other cost of sales[1]	**(93)**	(104)	**5,805**	6,439	**(16.0)**	(16.2)
Wholesale cost of sales[2]	**(750)**	(744)	**19,626**	20,205	**(38.2)**	(36.8)
Costs of generation[3]	**(781)**	(780)	**22,205**	22,620	**(35.2)**	(34.5)
Fuel[3]	**(361)**	(379)	**22,205**	22,620	**(16.3)**	(16.8)
Generation running costs[3]	**(263)**	(266)	**22,205**	22,620	**(11.8)**	(11.8)
Depreciation & amortisation (Group Operations)[3]	**(157)**	(135)	**22,205**	22,620	**(7.1)**	(6.0)
Net Portfolio Management[4]	**31**	36	**18,708**	19,058	**1.7**	1.9
Pool generation revenue[5]	**1,311**	1,009	**22,205**	22,620	**59.0**	44.6
Pool purchase costs[2]	**(1,240)**	(965)	**19,626**	20,205	**(63.2)**	(47.7)
Net derivative (cost)/revenue[5]	**(40)**	(8)	**22,205**	22,620	**(1.8)**	(0.4)
Total cost of sales[6]	**(2,275)**	(2,459)	**18,708**	19,058	**(121.6)**	(129.0)
Portfolio margin[6]	**730**	630	**18,708**	19,058	**39.0**	33.1
Consumer customers	**244**	244				
Business customers	**18**	17				
Wholesale Electricity	**772**	714				
Eco Markets	**60**	29				
Group Operations (Thermal & Renewables)	**(364)**	(374)				

[1] Customer sales volume – revenue and cost is driven by customer sales volume, which is utilised to calculate $/MWh for key Consumer and Business Customer metrics.

[2] Pool purchase volume – as Wholesale Markets manage the purchase of pool volume to meet customer demand, pool purchase volume is utilised to calculate the $/MWh cost.

[3] Pool generation volume – this is the direct driver of all costs of generation and is used to calculate the $/MWh cost.

[4] Customer sales volume – excluding generation volumes, which drive generation running costs, the portfolio comprises volumes sold to customers. Sold volumes is utilised to calculate the net portfolio management $MWh.

[5] Pool generation volume – pool generation revenue is directly earned on pool generation volume, which is utilised calculate a $/MWh value. Additionally, derivative instruments are used to manage hedging requirements of the consumer and business customer loads, as well as the long energy position where generation volume is more than the internal AGL portfolio (the net generation volume surplus).

[6] Customer sales volume – whilst various drivers exist within total cost of sales metrics and overall portfolio margin, ultimately the volume sold to customers is the key driver of calculating margin and is used to calculate the $/MWh value.

Electricity portfolio margin increased by $5.9 per MWh to $39.0 per MWh as a result of rising wholesale electricity prices which were passed on to Consumer and Business customers through disciplined price management, while wholesale cost of sales increased only marginally during the period. Higher wholesale electricity prices generated favourable wholesale revenue on surplus generation volumes, which were up 6.8%, while network costs were also favourable. Eco markets margin benefitted from high market prices and lower purchase costs. Revenue decreased $84 million or 2.7% mainly due to Consumer customers, down $83 million reflecting lower customer sales volumes, unfavourable customer mix movements across the residential and small business portfolios, and continued customer discounting which partially offset favourable price changes.

Network costs were down $173 million as lower customer sales volumes and favourable network rates drove savings across Consumer customers ($91 million) and Business customers ($82 million). Cost of generation was flat as lower generation volumes were offset by higher depreciation expenses. Pool generation revenues were $302 million higher despite the lower generation volumes reflecting favourable wholesale electricity rates and generation optimisation during higher price periods. This was offset by higher pool purchase costs, of $275 million, reflecting the higher wholesale rates.

In addition to the commentary above, Electricity portfolio margin is discussed in sections 2.1.1 Wholesale Markets and 2.1.2 Customer.

3.2 Gas Portfolio

The gas portfolio review reporting combines the Wholesale Markets and Customer (Consumer and Business), as described in section 2.1, to reflect the procurement and hedging of AGL's gas requirements and the margin from external customers.

	Half-year ended 31 December 2016 PJ	Half-year ended 31 December 2015 PJ	Movement %
Consumer customers	**33.4**	33.8	(1.2)
Business customers	**39.1**	36.8	6.3
Wholesale Markets & generation	**58.2**	51.6	12.8
Total customer sales volume	**130.7**	122.2	7.0
Energy losses	**2.5**	0.3	733.3
Gas purchase volume	**133.2**	122.5	8.7

Total customer sales volume increased 8.5 PJ or 7.0% to 130.7 PJ as new customer volumes and increased generation from AGL Torrens drove a 6.6 PJ increase in Wholesale Markets & Generation whilst new customer volumes also drove a 2.3 PJ increase in Business customer sales volume.

	Portfolio Margin		Volume Denominator		Per Unit	
	Half-year ended 31 December 2016 $m	Half-year ended 31 December 2015 $m	Half-year ended 31 December 2016 PJ	Half-year ended 31 December 2015 PJ	Half-year ended 31 December 2016 $/GJ	Half-year ended 31 December 2015 $/GJ
Revenue						
Consumer customers	**755**	756	**33.4**	33.8	**22.6**	22.4
Business customers, Wholesale Gas & Eco Markets	**744**	725	**97.3**	88.4	**7.6**	8.2
Total revenue	**1,499**	1,481	**130.7**	122.2	**11.5**	12.1
Consumer network costs	**(280)**	(274)	**33.4**	33.8	**(8.4)**	(8.1)
Consumer other cost of sales	**(23)**	(19)	**33.4**	33.8	**(0.7)**	(0.6)
Business customers network costs	**(30)**	(35)	**39.1**	36.8	**(0.8)**	(1.0)
Business customers other cost of sales	**(8)**	(7)	**39.1**	36.8	**(0.2)**	(0.2)
Wholesale cost of sales	**(803)**	(707)	**130.7**	122.2	**(6.1)**	(5.8)
Gas purchases	**(607)**	(554)	**130.7**	122.2	**(4.6)**	(4.5)
Haulage, storage & other	**(196)**	(153)	**130.7**	122.2	**(1.5)**	(1.3)
Total cost of sales	**(1,144)**	(1,042)	**130.7**	122.2	**(8.8)**	(8.5)
Portfolio margin	**355**	439	**130.7**	122.2	**2.7**	3.6
Consumer customers	**150**	171				
Business customers	**38**	31				
Wholesale Markets	**164**	236				
Eco Markets	**3**	1				

Gas portfolio margin decreased by $0.9 per GJ to $2.7 per GJ. Consumer revenue remained flat benefitting from disciplined customer pricing, partly offset by discounting and lower customer sales volumes. Customer acquisitions within Business customers and Wholesale Gas drove an 8.5 PJ increase in total customer sales volume. Wholesale Markets margin decreased by $72 million as a result of some high margin wholesale gas customer contracts rolling off at the end of December 2015, as well as the unfavourable impact of acquiring gas from the spot market and other short-term sources during the 2016 winter as a result of the curtailment of gas supply and increased demand at AGL Torrens. Total cost of sales increased $102 million due to higher gas purchase costs and haulage, storage & other costs. Network costs were broadly flat year on year.

In addition to the commentary above, Gas portfolio margin is discussed in sections 2.1.1 Wholesale Markets and 2.1.2 Customer.

4. Cash Flow

4.1 Reconciliation of Underlying EBITDA to Cash Flow

	Half-year ended 31 December 2016 $m		Half-year ended 31 December 2015 $m	
Underlying EBITDA		**924**		885
Equity accounted income (net of dividend received)		**(12)**		(15)
Accounting for onerous contracts		**(20)**		(22)
Gain on divestment		**(21)**		-
Working capital movements				
(Increase) / decrease in receivables	**105**		226	
Increase / (decrease) in creditors	**(205)**		(196)	
(Increase) / decrease in inventories	**87**		31	
Net derivative premiums paid / roll-offs	**(25)**		(35)	
(Increase) / decrease in futures margin calls	**(112)**		(24)	
Net movement in green assets/liabilities	**9**		8	
Other	**(31)**		8	
Total working capital movements		**(172)**		18
Underlying operating cash flow before interest, tax & significant items		**699**		866
Net finance costs paid		**(84)**		(91)
Income tax paid		**(144)**		(96)
Underlying operating cash flow		**471**		679
Cash flow relating to significant items		**–**		(21)
Statutory net cash provided by operating activities		**471**		658
Investing cash flow		**-**		212
Financing cash flow		**246**		(1,023)
Movement in cash and cash equivalents		**717**		(153)

Underlying operating cash flow before interest, tax & significant items of $699 million was down $167 million compared with the prior corresponding period.

Total working capital movements for the half-year ended 31 December 2016 was ($172 million), driven by receivables and margin calls.

Lower cash flow from receivables was driven by higher collections at the end of the last financial year reducing collections in the first half of this financial year; higher electricity pool prices impacting Wholesale Markets and a small increase in customer Days Sales Outstanding (DSO). This was partially offset by lower unbilled debtors due to lower consumer energy volumes.

Creditor movements were broadly in line with the prior corresponding period, with the benefit from lower consumer energy volumes being broadly offset by reductions in gas inventories.

Higher future margin calls were driven by rises in wholesale electricity prices. The benefit of the higher prices is reflected through current and future earnings.

Other movements in working capital predominantly relate to a reduction in employee provisions.

Investing cash flow was nil in the current period as capital expenditure was offset by asset divestment proceeds.

Financing cash flow was $246 million reflecting the issue of unsecured senior notes.

4.2 Underlying Operating Cash Flow before Interest, Tax & Significant Items

Decreased 19.3% to $699 million from $866 million

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

	Half-year ended 31 December 2016 $m	Half-year ended 31 December 2015 $m
Statutory net cash provided by operating activities	**471**	658
Cash flow relating to significant items	**–**	21
Underlying operating cash flow	**471**	679
Net finance costs paid	**84**	91
Income tax paid	**144**	96
Underlying operating cash flow before interest, tax & significant items	**699**	866

In the prior corresponding period, AGL incurred cash expenses relating to redundancy costs. These payments are discussed further in Section 1.5.

5. Funding and Capital Expenditure

Total borrowings increased from $3.1 billion to $3.6 billion, an increase of 16.1%. On 8 December 2016, AGL issued US$395 million of fixed rate unsecured senior notes in the US private placement market, comprising three tranches of 12 year, 13 year and 15 year maturities for US$150 million, US$70 million and US$175 million respectively. On 8 December 2016, AGL issued AUD$50 million of fixed rate unsecured senior notes in the US private placement market with a 10 year maturity.

AGL's gearing (the ratio of net debt to (net debt plus equity) as at 31 December 2016 is 24.4% (30 June 2016: 25.7%), which is consistent with the Baa2 Moody's credit rating.

Total capital expenditure was $228 million, $65 million lower than the prior corresponding period. Sustaining capital expenditure was $135 million, $69 million lower than the prior corresponding period, and related primarily to AGL Loy Yang and AGL Macquarie. Capital expenditure on growth initiatives was $93 million for the half-year ended 31 December 2016. The majority of growth expenditure related to metering and digital transformation. Expenditure on growth projects was $4 million higher than the prior corresponding period.

AGL Energy Limited and controlled entities

INTERIM FINANCIAL REPORT

For the half-year ended 31 December 2016

AGL ENERGY LIMITED AND CONTROLLED ENTITIES
CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the half-year ended 31 December 2016

	Note	Half-year ended 31 Dec 2016 $m	31 Dec 2015 $m
Continuing operations			
Revenue	3	**6,030**	5,601
Expenses	4	**(5,211)**	(5,793)
Share of profits of associates and joint ventures	9	**12**	17
Profit/(loss) before net financing costs, depreciation and amortisation		**831**	(175)
Depreciation and amortisation	5	**(239)**	(235)
Profit/(loss) before net financing costs		**592**	(410)
Finance income		**6**	10
Finance costs		**(120)**	(122)
Net financing costs	6	**(114)**	(112)
Profit/(loss) before tax		**478**	(522)
Income tax (expense)/benefit	7	**(153)**	73
Profit/(loss) for the period		**325**	(449)
Profit/(loss) attributable to:			
Owners of AGL Energy Limited		**325**	(449)
Non-controlling interests		**-**	-
		325	(449)
Earnings per share		cents	cents
Basic earnings per share	13	**48.2**	(66.5)
Diluted earnings per share	13	**48.2**	(66.5)

The condensed consolidated statement of profit or loss should be read in conjunction with the notes to the financial statements.

AGL ENERGY LIMITED AND CONTROLLED ENTITIES
CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the half-year ended 31 December 2016

	Half-year ended	
	31 Dec 2016	31 Dec 2015
	$m	$m
Profit/(loss) for the period	**325**	(449)
Other comprehensive income		
Items that will not be reclassified subsequently to profit or loss		
Remeasurement gain/(loss) on defined benefit plans	**115**	(36)
Income tax relating to items that will not be reclassified subsequently	**(34)**	11
	81	(25)
Items that may be reclassified subsequently to profit or loss		
Cash flow hedges		
Gain in fair value of cash flow hedges	**95**	14
Reclassification adjustments transferred to profit or loss	**(5)**	24
Share of other comprehensive income of a joint venture	**-**	1
Income tax relating to items that may be reclassified subsequently	**(27)**	(11)
	63	28
Other comprehensive income for the period, net of income tax	**144**	3
Total comprehensive income for the period	**469**	(446)
Total comprehensive income attributable to:		
Owners of AGL Energy Limited	**469**	(446)
Non-controlling interests	**-**	-
	469	(446)

The condensed consolidated statement of comprehensive income should be read in conjunction with the notes to the financial statements.

AGL ENERGY LIMITED AND CONTROLLED ENTITIES

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

	Note	31 Dec 2016 $m	30 June 2016 $m
Current assets			
Cash and cash equivalents		**969**	252
Trade and other receivables		**1,721**	1,975
Inventories		**327**	414
Other financial assets		**469**	267
Other assets		**342**	232
		3,828	3,140
Assets classified as held for sale	10	**-**	447
Total current assets		**3,828**	3,587
Non-current assets			
Trade and other receivables		**42**	44
Inventories		**30**	30
Other financial assets		**114**	147
Investments in associates and joint ventures		**95**	70
Oil and gas assets		**46**	47
Property, plant and equipment		**6,488**	6,482
Intangible assets		**3,224**	3,232
Deferred tax assets		**892**	953
Other assets		**23**	12
Total non-current assets		**10,954**	11,017
Total assets		**14,782**	14,604
Current liabilities			
Trade and other payables		**1,279**	1,519
Borrowings	11	**23**	22
Provisions		**193**	226
Current tax liabilities		**111**	102
Other financial liabilities		**523**	460
Other liabilities		**27**	-
		2,156	2,329
Liabilities directly associated with assets classified as held for sale	10	**-**	224
Total current liabilities		**2,156**	2,553
Non-current liabilities			
Borrowings	11	**3,610**	3,086
Provisions		**462**	487
Other financial liabilities		**330**	301
Other liabilities		**141**	251
Total non-current liabilities		**4,543**	4,125
Total liabilities		**6,699**	6,678
Net assets		**8,083**	7,926
Equity			
Issued capital	12	**6,645**	6,696
Reserves		**37**	(24)
Retained earnings		**1,401**	1,243
Total equity attributable to owners of AGL Energy Limited		**8,083**	7,915
Non-controlling interests		**-**	11
Total equity		**8,083**	7,926

The condensed consolidated statement of financial position should be read in conjunction with the notes to the financial statements.

AGL ENERGY LIMITED AND CONTROLLED ENTITIES
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the half-year ended 31 December 2016

	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 2016	**6,696**	**1**	**(25)**	**1,243**	**7,915**	**11**	**7,926**
Profit for the period	**-**	**-**	**-**	**325**	**325**	**-**	**325**
Other comprehensive income for the year, net of income tax	**-**	**-**	**63**	**81**	**144**	**-**	**144**
Total comprehensive income for the period	**-**	**-**	**63**	**406**	**469**	**-**	**469**
Transactions with owners in their capacity as owners:							
On-market share buy-back	**(51)**	**-**	**-**	**-**	**(51)**	**-**	**(51)**
Payment of dividends	**-**	**-**	**-**	**(243)**	**(243)**	**-**	**(243)**
Share-based payments	**-**	**(2)**	**-**	**-**	**(2)**	**-**	**(2)**
Acquisition of non-controlling interests	**-**	**-**	**-**	**(5)**	**(5)**	**(11)**	**(16)**
Balance at 31 December 2016	**6,645**	**(1)**	**38**	**1,401**	**8,083**	**-**	**8,083**
Balance at 1 July 2015	6,696	3	(68)	2,175	8,806	9	8,815
Loss for the period	-	-	-	(449)	(449)	-	(449)
Other comprehensive income for the year, net of income tax	-	-	28	(25)	3	-	3
Total comprehensive income for the period	-	-	28	(474)	(446)	-	(446)
Transactions with owners in their capacity as owners:							
Issue of ordinary shares	-	-	-	-	-	1	1
Payment of dividends	-	-	-	(230)	(230)	-	(230)
Share-based payments	-	(4)	-	-	(4)	-	(4)
Balance at 31 December 2015	6,696	(1)	(40)	1,471	8,126	10	8,136

The condensed consolidated statement of changes in equity should be read in conjunction with the notes to the financial statements.

AGL ENERGY LIMITED AND CONTROLLED ENTITIES
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the half-year ended 31 December 2016

	Note	Half-year ended 31 Dec 2016 $m	31 Dec 2015 $m
Cash flows from operating activities			
Receipts from customers		**6,504**	6,133
Payments to suppliers and employees		**(5,807)**	(5,290)
Dividends received		**-**	2
Finance income received		**5**	8
Finance costs paid		**(87)**	(99)
Income taxes paid		**(144)**	(96)
Net cash provided by operating activities		**471**	658
Cash flows from investing activities			
Payments for property, plant and equipment		**(230)**	(301)
Payments for exploration and evaluation assets		**-**	(7)
Payments for oil and gas assets		**(1)**	(5)
Payments for investments in associates and joint ventures		**(13)**	(1)
Payments for financial assets		**(5)**	-
Government grants received		**1**	2
Proceeds from sale of property, plant and equipment		**248**	2
Proceeds from sale of subsidiary, net of cash disposed	17	**-**	522
Net cash provided by investing activities		**-**	212
Cash flows from financing activities			
Proceeds from issue of shares to non-controlling interests		**-**	1
Payments for buy-back of shares		**(51)**	-
Purchase of shares on-market for equity based remuneration		**(7)**	(7)
Proceeds from borrowings		**731**	550
Repayment of borrowings		**(168)**	(1,337)
Payments to acquire non-controlling interests		**(16)**	-
Dividends paid	8	**(243)**	(230)
Net cash provided by/(used in) financing activities		**246**	(1,023)
Net increase/(decrease) in cash and cash equivalents		**717**	(153)
Cash and cash equivalents at the beginning of the financial period		**252**	259
Cash and cash equivalents at the end of the financial period	14	**969**	106

The condensed consolidated statement of cash flows should be read in conjunction with the notes to the financial statements.

Note 1 - Summary of significant accounting policies

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

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

(a) Statement of compliance

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

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

(b) Basis of preparation

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

The Parent Entity is a company of the kind referred to in *ASIC Corporations Instrument 2016/191*, dated 24 March 2016, and in accordance with that Instrument, amounts in the interim financial report are rounded off to the nearest million dollars, unless otherwise indicated.

The accounting policies and methods of computation adopted in the preparation of the interim financial report are consistent with those adopted and disclosed in AGL's 2016 annual financial report for the year ended 30 June 2016, except for the impact of the Standards and Interpretations described below. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

(c) Adoption of new and revised Standards and Interpretations

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

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

Note 2 - Segment information

Operating segments

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

On 21 December 2016, AGL announced changes to its segment reporting. The previous New Energy business was separated and allocated into other AGL business units. New Energy Services was reallocated to Energy Markets and Distributed Energy Services was allocated to Group Operations. The remainder of the New Energy business will become an “innovation accelerator” reported under Other.

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

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

• **Energy Markets** sells electricity, natural gas, and energy related products and services to consumer, business and wholesale customers, currently servicing approximately 3.7 million customer accounts. Energy Markets is also responsible for managing the wholesale risks associated with satisfying the customer requirements across the portfolios.

• **Group Operations** is a diverse power generation portfolio, spread across traditional thermal generation, natural gas, gas storage, and renewable sources including hydro, wind and solar.

• **Investments** includes equity accounted investments in various energy related businesses, including the ActewAGL Retail Partnership, the Powering Australian Renewables Fund (PARF) and Sunverge Energy Inc.

In the segment financial results, the 'Other' category consists of the various Corporate activities which includes the head office and central support functions. Corporate is not considered a reportable segment.

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

Segment financial results

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

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

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

AGL ENERGY LIMITED AND CONTROLLED ENTITIES
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the half-year ended 31 December 2016

Note 2 - Segment information (cont'd)

	Energy Markets $m	Group Operations $m	Investments $m	Other $m	Total $m
Half-year ended 31 December 2016					
Revenue					
Total segment revenue	**5,725**	**346**	**-**	**-**	**6,071**
Inter-segment revenue	**(7)**	**(34)**	**-**	**-**	**(41)**
External revenue	**5,718**	**312**	**-**	**-**	**6,030**
Underlying earnings before interest, tax, depreciation and amortisation (Underlying EBITDA)	**1,261**	**(236)**	**11**	**(112)**	**924**
Depreciation and amortisation	**(47)**	**(180)**	**-**	**(12)**	**(239)**
Underlying EBIT	**1,214**	**(416)**	**11**	**(124)**	**685**
Net financing costs					**(116)**
Underlying profit before tax					**569**
Income tax expense					**(180)**
Underlying profit after tax					**389**
Other segment information					
Share of profits of associates and joint ventures	**-**	**-**	**12**	**-**	**12**
Investments in associates and joint ventures	**-**	**2**	**93**	**-**	**95**
Additions to non-current assets	**47**	**187**	**17**	**5**	**256**
Segment assets					
As at 31 December 2016	**5,061**	**7,289**	**97**	**83**	**12,530**
As at 30 June 2016	5,196	7,695	68	101	13,060
Segment liabilities					
As at 31 December 2016	**1,313**	**640**	**-**	**149**	**2,102**
As at 30 June 2016	1,555	984	-	168	2,707

Note 2 - Segment information (cont'd)

	Energy Markets $m	Group Operations $m	Investments $m	Other $m	Total $m
Half-year ended 31 December 2015					
Revenue					
Total segment revenue	5,511	116	-	-	5,627
Inter-segment revenue	(6)	(20)	-	-	(26)
External revenue	5,505	96	-	-	5,601
Underlying earnings before interest, tax, depreciation and amortisation (Underlying EBITDA)	1,240	(259)	17	(113)	885
Depreciation and amortisation	(49)	(170)	-	(16)	(235)
Underlying EBIT	1,191	(429)	17	(129)	650
Net financing costs					(114)
Underlying profit before tax					536
Income tax expense					(161)
Underlying profit after tax					375
Other segment information					
Share of profits of associates and joint ventures	-	-	17	-	17
Investments in associates and joint ventures	-	2	99	6	107
Additions to non-current assets	25	259	-	11	295

	Half-year ended 31 Dec 2016 $m	31 Dec 2015 $m
Segment Underlying EBIT reconciliation to the statement of profit or loss		
Reconciliation of segment Underlying EBIT to profit/(loss) before tax is as follows:		
Underlying EBIT for reportable segments	**809**	779
Other	**(124)**	(129)
	685	650
Amounts excluded from underlying results:		
- loss in fair value of financial instruments	**(91)**	(240)
- significant expense items	**-**	(818)
Finance income included in Underlying EBIT	**(2)**	(2)
Finance income	**6**	10
Finance costs	**(120)**	(122)
Profit/(loss) before tax	**478**	(522)

	Half-year ended 31 Dec 2016 $m	31 Dec 2015 $m
Note 3 - Revenue		
Revenue from sale of goods	**5,729**	5,516
Revenue from rendering of services	**76**	83
Other revenue – government grants	**225**	2
	6,030	5,601

	Half-year ended 31 Dec 2016 $m	31 Dec 2015 $m
Note 4 - Expenses		
Cost of sales	**4,211**	4,014
Administration expenses	**113**	119
Employee benefits expense	**292**	295
Other expenses		
Loss in fair value of financial instruments	**91**	240
Impairment loss on trade receivables (net of bad debts recovered)	**43**	47
Impairment loss on exploration and evaluation assets	**-**	171
Impairment loss on oil and gas assets	**-**	505
Impairment loss property, plant and equipment	**-**	119
Restructuring and other costs	**-**	23
Net loss on disposal of property, plant and equipment	**201**	-
Operating lease rental expenses	**12**	14
Other	**248**	246
	5,211	5,793

	Half-year ended 31 Dec 2016 $m	31 Dec 2015 $m
Note 5 - Depreciation and amortisation		
Property, plant and equipment	**229**	203
Oil and gas assets	**2**	11
Intangible assets	**8**	17
Other	**-**	4
	239	235

	Half-year ended 31 Dec 2016 $m	Half-year ended 31 Dec 2015 $m
Note 6 - Net financing costs		
Finance income		
Interest income		
Joint ventures	**-**	4
Other entities	**6**	6
	6	10
Finance costs		
Interest expense		
Other entities	**89**	96
Finance costs capitalised	**(2)**	(4)
Unwinding of discounts on provisions, other liabilities and deferred consideration	**28**	26
Other finance costs	**5**	4
	120	122
Net financing costs	**114**	112

Note 7 - Income tax

Numerical reconciliation between tax expense/(benefit) and pre-tax accounting profit/(loss)

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

	31 Dec 2016 $m	31 Dec 2015 $m
Profit/(loss) before tax	**478**	(522)
Income tax expense/(benefit) calculated at the Australian tax rate of 30% (Dec 2015: 30%)	**143**	(157)
(Amortisation)/impairment of non-current assets	**(3)**	84
Non-deductible expenses	**5**	1
Share of profits of associates and joint ventures	**1**	1
Adjustments in relation to current tax of prior years	**7**	(2)
Income tax recognised in the statement of profit or loss	**153**	(73)

	Half-year ended	
	31 Dec 2016	31 Dec 2015
	$m	$m
Note 8 - Dividends		
Recognised amounts		
Final dividend		
Final dividend for 2016 of 36.0 cents per share, fully franked, paid 22 September 2016 (Dec 2015: Final dividend for 2015 of 34.0 cents per share, fully franked, paid 24 September 2015)	**243**	230
Unrecognised amounts		
Since the end of the financial period, the Directors have declared an interim dividend for 2017 of 41.0 cents per share, franked to 80%, (Dec 2015: 32.0 cents per share, fully franked), payable 27 March 2017.	**276**	216

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

Dividend reinvestment plan

The AGL Dividend Reinvestment Plan (DRP) will operate in respect of the dividend. Shares will be bought on-market and allotted at no discount to the simple average of the daily weighted average market price at which AGL's ordinary shares are traded on the ASX during each of the 10 trading days commencing on 28 February 2017. The last date for shareholders to elect to participate in the DRP for the FY17 interim dividend is 27 February 2017.

Note 9 - Investments in associates and joint ventures

	Ownership interest		Contribution to net profit	
	As at		Half-year ended	
	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015
Name of entity	%	%	$m	$m
Associates				
CSM Energy Limited	**35**	35	**-**	-
Matter Technology Ltd (formerly Greenbox Group Ltd)	**19.9**	19.9	**-**	-
Solar Analytics Pty Limited	**37.2**	40	**(1)**	-
Sunverge Energy Inc. (a)	**22**	-	**(2)**	-
Joint ventures				
ActewAGL Retail Partnership	**50**	50	**15**	19
Diamantina Holding Company Pty Limited (b)	**-**	50	**-**	(2)
Energy Infrastructure Management Pty Ltd	**50**	50	**-**	-
Central Queensland Pipeline Pty Ltd	**50**	50	**-**	-
Powering Australian Renewables Fund (c)	**20**	-	**-**	-
			12	17

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

(a) On 4 February 2016, AGL acquired a 22% interest in Sunverge Energy Inc.

(b) On 31 March 2016, AGL completed the disposal of its 50% interest in Diamantina Holding Company Pty Limited to APA Group.

(c) On 14 November 2016, AGL acquired a 20% interest in the Powering Australian Renewables Fund (PARF).

	As at 31 Dec 2016 $m	As at 30 June 2016 $m
Note 10 - Assets and liabilities classified as held for sale		
Assets of disposal groups held for sale	-	447
Liabilities directly associated with assets classified as held for sale	-	224

Disposal groups held for sale

Solar plants

On 14 November 2016, AGL reached financial close on selling its 102 MW Nyngan and 53 MW Broken Hill solar plants into the PARF for a consideration of $257 million, excluding transaction costs. AGL owns 20% of the PARF.

As part of the divestment of the solar plants, AGL acquired the 5% non-controlling interests in AGL PV Solar Holdings Pty Limited for a consideration of $16 million.

The major classes of assets and liabilities of the disposal groups held for sale at the end of the reporting period are as follows:

	As at 31 Dec 2016 $m	As at 30 June 2016 $m
Assets of disposal groups held for sale		
Property, plant and equipment	-	447
Liabilities directly associated with assets classified as held for sale		
Deferred revenue – governments grants	-	224
Net assets classified as held for sale	-	223

	As at 31 Dec 2016 $m	As at 30 June 2016 $m
Note 11 - Borrowings		
Current		
Bank loans – unsecured	**12**	11
Other loans – unsecured	**11**	11
	23	22
Non-current		
USD senior notes – unsecured	**984**	463
Subordinated notes - unsecured	**650**	650
Medium term notes – unsecured	**598**	597
Bank loans – unsecured	**1,212**	1,217
Other loans – unsecured	**150**	156
Finance lease liabilities – secured	**29**	19
Deferred borrowing costs	**(13)**	(16)
	3,610	3,086
Total borrowings	**3,633**	3,108

USD senior notes

On 8 December 2016, AGL issued US$395 million of fixed rate unsecured senior notes in the US private placement market, comprising three tranches of 12 year, 13 year and 15 year maturities for US$150 million, US$70 million and US$175 million, respectively. To manage the foreign exchange risk arising from the future principal and interest payments required on the US$395 million, the notes were converted back to approximately A$522 million through cross currency interest rate swaps. On 8 December 2016, AGL further issued A$50 million of fixed rate unsecured senior notes in the US private placement market with a 10 year maturity.

Note 12 - Issued capital

	As at 31 Dec 2016 Number of shares	31 Dec 2016 $m	30 June 2016 Number of shares	30 June 2016 $m
Movement in fully paid ordinary shares				
Balance at beginning of financial year	**674,712,378**	**6,696**	674,712,378	6,696
On-market share buy-back	**(2,666,480)**	**(51)**	-	-
Balance at end of financial period	**672,045,898**	**6,645**	674,712,378	6,696

On-market share buy-back

During the period, AGL completed the buy-back of 2,666,480 shares. This is part of AGL's on-market share buy-back program for up to five per cent of its issued share capital, or 33,735,619 shares from 13 October 2016 to 12 October 2017. As at 31 December 2016, the total consideration paid for shares bought back on market was $51 million and at an average price of $19.31.

AGL ENERGY LIMITED AND CONTROLLED ENTITIES
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the half-year ended 31 December 2016

Note 13 - Earnings per share (EPS)

	Half-year ended 31 Dec 2016 cents	31 Dec 2015 cents
Statutory earnings per share		
Basic earnings per share	**48.2**	(66.5)
Diluted earnings per share	**48.2**	(66.5)
Underlying earnings per share		
Basic earnings per share	**57.7**	55.6
Diluted earnings per share	**57.7**	55.6

	31 Dec 2016 $m	31 Dec 2015 $m
Earnings used in calculating basic and diluted earnings per share		
Profit/(loss) for the period attributable to owners of AGL Energy Limited	**325**	(449)
Statutory earnings used to calculate basic and diluted EPS	**325**	(449)
Significant expense items after income tax	**-**	656
Loss in fair value of financial instruments after income tax	**64**	168
Underlying earnings used to calculate basic and diluted EPS	**389**	375

	31 Dec 2016 Number	31 Dec 2015 Number
Weighted average number of ordinary shares		
Number of ordinary shares used in the calculation of basic EPS	**673,809,793**	674,712,378
Effect of dilution - LTIP share performance rights	**789,744**	373,531
Number of ordinary shares used in the calculation of diluted EPS	**674,599,537**	675,085,909

	Half-year ended	
	31 Dec 2016	31 Dec 2015
	$m	$m

Note 14 - Cash flow information

Reconciliation of cash and cash equivalents

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

	31 Dec 2016 $m	31 Dec 2015 $m
Cash at bank and on hand	**379**	72
Short-term deposits	**590**	34
	969	106

Note 15 - Contingent liabilities

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

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

(b) Pursuant to ASIC Class Order 98/1418 (as amended), the Parent Entity and certain wholly-owned Australian subsidiaries have entered in to a Deed of Cross Guarantee. The effect of the Deed is that the Parent Entity guarantees to each creditor, payment in full of any debt in the event of winding up of any of the subsidiaries under certain provisions of the Corporations Act 2001. The subsidiaries have also given a similar guarantee in the event that the Parent Entity is wound up. No liabilities subject to the Deed of Cross Guarantee at 31 December 2016 are expected to arise.

Note 16 - Acquisition of subsidiaries and businesses

Half-year ended 31 December 2016

There were no acquisitions of subsidiaries and businesses made during the half-year ended 31 December 2016 and 31 December 2015.

Note 17 - Disposal of subsidiaries and businesses

Half-year ended 31 December 2016

There were no disposals of subsidiaries and businesses made during the half-year ended 31 December 2016.

Half-year ended 31 December 2015

Disposal of Macarthur Wind Farm Pty Ltd

On 7 September 2015, AGL completed the disposal of its 50% participating interest in the Macarthur Wind Farm joint venture to H.R.L Morrison & Co managed funds for a consideration of $532 million. The divestment included the disposal of 100% of the shares in Macarthur Wind Farm Pty Ltd and MWF Finance Pty Ltd.

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

	Half-year ended	
	31 Dec 2016	31 Dec 2015
Assets		
Property, plant and equipment	-	491
Liabilities		
Deferred tax liabilities	-	(1)
Net assets disposed	-	490
Consideration		
Consideration received in cash	-	532
Consideration receivable	-	2
Costs directly attributable to the disposal	-	(10)
Liability assumed	-	(27)
	-	497
Gain on disposal of subsidiaries and businesses		
Consideration	-	497
Net assets disposed	-	(490)
	-	7
Net cash inflow on disposal of subsidiaries and businesses		
Consideration received in cash	-	532
Costs directly attributable to the disposal paid	-	(10)
	-	522

Note 18 - Financial instruments

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

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

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

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

There were no material transfers between Level 1 and Level 2 during the period.

31 December 2016	Carrying amount $m	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Financial assets					
Derivative financial instruments					
-Cross currency swap contracts – cash flow and fair value hedges	**85**	**-**	**85**	**-**	**85**
-Interest rate swap contracts – cash flow hedges	**5**	**-**	**5**	**-**	**5**
-Energy derivatives – cash flow hedges	**93**	**-**	**93**	**-**	**93**
-Energy derivatives – economic hedges	**208**	**62**	**95**	**51**	**208**
Other financial assets	**5**	**-**	**-**	**5**	**5**
	396	**62**	**278**	**56**	**396**
Financial liabilities					
Derivative financial instruments					
-Interest rate swap contracts – cash flow hedges	**(65)**	**-**	**(65)**	**-**	**(65)**
-Energy derivatives – economic hedges	**(485)**	**(156)**	**(204)**	**(125)**	**(485)**
	(550)	**(156)**	**(269)**	**(125)**	**(550)**
30 June 2016					
Financial assets					
Derivative financial instruments					
-Cross currency swap contracts – cash flow and fair value hedges	117	-	117	-	117
-Interest rate swap contracts – cash flow hedges	4	-	4	-	4
-Energy derivatives – cash flow hedges	66	-	66	-	66
-Energy derivatives – economic hedges	152	32	72	48	152
	339	32	259	48	339
Financial liabilities					
Derivative financial instruments					
-Interest rate swap contracts – cash flow hedges	(102)	-	(102)	-	(102)
-Energy derivatives – cash flow hedges	(1)	-	(1)	-	(1)
-Energy derivatives – economic hedges	(332)	(80)	(192)	(60)	(332)
	(435)	(80)	(295)	(60)	(435)

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

Note 18 - Financial instruments (cont'd)

Estimation of fair values

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

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

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

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

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

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

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

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

	As at	
Energy derivatives	31 Dec 2016 $m	30 June 2016 $m
Opening balance	**(12)**	357
Total gains and losses recognised in profit or loss		
-Settlements during the year	**10**	32
-Changes in fair value	**(78)**	(407)
Premiums	**6**	6
Closing balance	**(74)**	(12)

The sensitivity of level 3 contracts with significant unobservable inputs, where the inputs are higher by 10 percent is ($41 million) and lower by 10 percent is $41 million (profit after tax (decrease)/increase). Input changes were applied to forward prices, cost-based indexes, contract volumes and management assumption of long-term curve used.

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

Note 19 - Subsequent events

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

Portland smelter contract

On 20 January 2017, AGL announced a new four year agreement to supply electricity to the Portland Smelter Joint Venture Participants' (Alcoa) aluminium smelter in Portland, Victoria. The agreement takes effect from August 2017 when the existing supply contract ends. The agreement is for 510 MW and on commercial terms.

Interim dividend

On 9 February 2017, the Directors of AGL resolved to pay an interim dividend of 41.0 cents per share, franked to 80% (the unfranked portion will be paid from conduit foreign income), amounting to $276 million. The record date for the interim dividend is 24 February 2017 with payment to be made on 27 March 2017. Shares will commence trading ex-dividend on 23 February 2017.

The AGL Dividend Reinvestment Plan (DRP) will operate in respect of the dividend. Shares will be bought on-market and allotted at no discount to the simple average of the daily weighted average market price at which AGL's ordinary shares are traded on the ASX during each of the 10 trading days commencing on 28 February 2017. The last date for shareholders to elect to participate in the DRP for the FY17 interim dividend is 27 February 2017.

Note 20 - Information on audits or review

This report has been prepared in accordance with AASB Standards, other AASB authoritative pronouncements and Interpretations or other standards acceptable to ASX.

This report, and the accounts upon which the report is based (if separate),use the same accounting policies.

This report does give a true and fair view of the matters disclosed.

This report is based on accounts to which one of the following applies.

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

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

DIRECTORS' DECLARATION

For the half-year ended 31 December 2016

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 2016 and of the performance for the half-year ended on that date of AGL; and

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

The Directors also declare that, in their opinion:

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

Signed in accordance with a resolution of the Directors

Jeremy Maycock
Chairman
Sydney, 9 February 2017

Deloitte.

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

9 February 2017

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 2016, I declare that to the best of my knowledge and belief, there have been no contraventions of:

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

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

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Jason Thorne
Partner
Chartered Accountants

Deloitte Touche Tohmatsu
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Independent Auditor's Review Report to the Members of AGL Energy Limited

We have reviewed the accompanying half-year financial report of AGL Energy Limited, which comprises the condensed Consolidated Statement of Financial Position as at 31 December 2016 and the condensed Consolidated Statement of Profit or Loss, the condensed Consolidated Statement of Comprehensive Income, the condensed Consolidated Statement of Cash Flows and the condensed Consolidated Statement of Changes in Equity for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the Directors' Declaration of the consolidated entity comprising the company and the entities it controlled at the end of the half-year or from time to time during the half-year as set out on pages 2 to 23.

Directors' Responsibility for the Half-Year Financial Report

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

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of AGL Energy Limited's financial position as at 31 December 2016 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of AGL Energy Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Deloitte.

Auditor's Independence Declaration

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

Conclusion

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

(a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and of its performance for the half-year ended on that date; and

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

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Jason Thorne
Partner
Chartered Accountants
Sydney, 9 February 2017