

ASX and Media release

AGL reports strong growth in 2010 interim profit

26 February 2010

AGL Energy Limited (AGL) today reported an underlying net profit after tax (NPAT) for the half-year ended 31 December 2009 of \$234.8 million, up 22.0% on the prior corresponding period.

The interim dividend has been increased by 11.5% to 29.0 cents per share on the back of the strong first half performance.

AGL has reaffirmed full-year earnings guidance for underlying NPAT of between \$390 million to \$420 million.

RESULT OVERVIEW:

- Revenue \$3,200.8 million, up 6.9%
- Statutory NPAT \$183.7 million, down 88.9%¹
- Underlying NPAT \$234.8 million, up 22.0%
- Underlying Earnings 52.4 cents per share, up 21.0%
- Interim dividend of 29.0 cents per share (fully franked), up 11.5%

1. 2009 interim result included a profit after tax on the sale of assets of \$1,457.3 million

Commenting on the half-year results, AGL Managing Director, Michael Fraser, said: "All our businesses performed well during the half but it was the strength of our Retail business that underpinned the 22 percent improvement in profitability with continued growth in customer numbers and customer profitability. It's pleasing that we have been able to deliver such a strong set of results for the half-year against a backdrop of a mild winter and overall lower volatility in energy prices.

"In addition, we have been able to reward shareholders by raising our interim dividend to 29 cents per share."

"Importantly, we are on track to meet our full-year guidance of \$390 million to \$420 million and are well placed to continue to grow through a combination of organic growth and acquisitions."





Operational Highlights

Retail Energy: Operating EBIT for Retail Energy was \$183.5 million, up 25.9% on the prior corresponding period. More appropriate tariff structures that reflected fixed and market based costs, together with targeting higher value customers, led to an improvement in gross margins which more than offset an increase in operating expenditure.

Operating expenses to gross margin improved to 46.4% compared with 47.8% for the prior corresponding period. This improvement is consistent with a full year ratio below 50%.

Customer accounts increased by 23,800 to 3.22 million (+0.7%). Importantly, the number of dual fuel customer accounts grew by 76,500 (+6.2%) to 1.32 million. Now 40.9% of AGL's customer accounts source both electricity and gas from AGL.

Unbilled accounts are at historically low levels following consolidation of customer billing platforms. As foreshadowed at the June 2009 results, operating costs were higher due mainly to increased labour costs, with additional resources required to achieve the increases in sales and new customer connections and the improvements in billing.

Merchant Energy: AGL's Merchant Energy business delivered an Operating EBIT of \$195.1 million, down 9.5% on the prior corresponding period. Wholesale Electricity gross margin decreased 3.1% to \$179.7 million. Wholesale Gas gross margin decreased 26.4% to \$48.3 million, while Eco-Markets gross margin increased 170.6% to \$13.8 million.

The half year was characterised by milder weather, which reduced volumes and the value of capacity based hedges. While there were some periods of very high volatility in the electricity market, the revenues earned were not sufficient to offset interregional constraints lifting the cost of hedging and the decline in gas volatility.

On 20 November 2009 the Hon. John Brumby, Victorian Premier, officially opened Bogong Hydro power station, which is the largest hydroelectricity project to be built on mainland Australia in the last 25 years. At full capacity Bogong will generate up to 140 MW.

AGL has also today committed to the construction of Hallett 5 which, at 52 MW, is the smallest of the Hallett wind farms. The investment in Hallett 5 is required for AGL to meet its obligations under long term contracts with the South Australian and Victorian desalination plants as well as the recently announced Melbourne Water transaction. The total installed capital cost of Hallett 5 is approximately \$120 million and completion is expected in December 2011.

Upstream Gas: Following the sale of AGL's Papua New Guinea oil and gas interests in December 2008, Upstream Gas's operating EBIT fell to \$3.0 million compared with \$28.4 million for the prior corresponding period. The reduction in earnings contribution to Upstream Gas was more than offset by the sale proceeds received and the reduced interest payments on AGL's debt.

During the half year, AGL's share of certified proved plus probable (2P) CSG reserves entitlement increased by 18% to 1,308PJ. No additional certification of gas reserves was undertaken at either the Camden or Gloucester CSG projects during the half year but this will occur at the end of the financial year.

Geothermal energy is a potentially important future source of renewable energy but it is likely to be several years before the technology is capable of commercialisation in Australia. AGL's geothermal investments include a 9.99% shareholding in ASX-listed Torrens Energy Limited and 100% interests in seven tenements across Victoria and New South Wales. Activities are at the early exploration stage.



Energy Investments: The Operating EBIT increased to \$43.4 million compared with the prior corresponding period of \$33.0 million. The absence of earnings contribution from AGL's 50% interest Elgas, following its sale in 2008, was more than offset by the contribution from AGL's investment in Loy Yang which showed a \$20.3 million improvement to \$22.8 million.

Financial Highlights

Financing costs: Net financing costs decreased \$34.1 million to \$26.8 million for the half year. The decrease was mainly due to lower average net debt. Average net debt for the half year was \$445.0 million compared with \$1,520.0 million for the prior corresponding period and reflected the benefit of AGL's divestment of non-core assets in November and December 2008.

Net debt as at 31 December 2009 was \$522.5 million, an increase of \$25.4 million from 30 June 2009.

The average net interest rate increased from 7.53% to 7.88% due largely to tightening credit markets which increased the cost of funding.

Cash flow: The underlying operating cash flow before tax for the half year was \$312.1 million, an increase of 14.0% compared with \$273.7 million in the prior corresponding period.

Significant items: Significant items after tax for the half year ended 31 December 2008 were a gain of \$1,523.5 million reflecting the sale of assets. During the first half this year, there were no material gains on the sale of assets and the significant items after tax were a loss of \$14.7 million.

The two major costs incurred during the period were related to Project Phoenix and redundancy, termination and restructuring costs. The implementation of the Phoenix program has been completed and accordingly no further significant items are anticipated from the rationalisation of AGL's mass market billing systems.

Half year ended	31 Dec 2009		31 Dec 2008	
	Pre-tax \$m	PAT \$m	Pre-tax \$m	PAT \$m
Divestment of non-core businesses	-	-	1,693.6	1,457.3
Gain in fair value of oil derivatives	-	-	160.8	75.0
Demerger adjustments	-	-	(6.7)	9.1
Phoenix change program costs	(11.7)	(8.2)	(22.4)	(15.7)
Other items	(6.2)	(6.5)	(3.1)	(2.2)
Total significant items	(17.9)	(14.7)	1,822.2	1,523.5

Dividends: The Directors have declared a fully franked interim dividend of 29.0 cents per share for the half year, an 11.5% increase on the prior corresponding period's interim dividend of 26.0 cents per share. The interim dividend will be paid on 7 April 2010. The record date to determine shareholders' entitlements to the interim dividend is 11 March 2010 and shares will commence trading ex-dividend on 4 March 2010.

The AGL Dividend Reinvestment Plan (DRP) will be in operation and shares will be allotted at the simple average of the daily weighted average market price at which AGL's ordinary shares are traded on ASX during each of the 10 trading days commencing on 15 March 2010. No discount will be applied to the DRP for this dividend payment.



Outlook

AGL continues to engage with the Commonwealth Government about the deficiencies that have been identified in the current Renewable Energy Certificate (REC) scheme. In light of current regulatory and market conditions in relation to RECs, AGL has put consideration of investments in the Macarthur wind farm in Victoria, and most of its wind farm development opportunities, on hold.

AGL has a strong pipeline of development opportunities and intends to use its robust balance sheet and operating cash flow to pursue continued organic growth and prudent acquisitions.

The privatisation of electricity assets by the NSW government has been delayed until later in 2010 and is unlikely to complete prior to the end of the current financial year. If the privatisation does proceed then AGL remains interested in evaluating the assets for sale.

The Directors have reaffirmed their current policy of maintaining a dividend payout ratio of approximately 60% of underlying NPAT. The Directors expect that dividends will remain fully franked.

Despite relatively mild temperatures across the southern States for the start of the second half, AGL remains on track to deliver a full year result within the previous released earnings guidance range for underlying NPAT of \$390 million and \$420 million.

A webcast and conference call will be held today to discuss AGL's 2010 half-year profit result.

Webcast via: www.agl.com.au

10.30am AEDT

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About AGL

AGL is one of Australia's leading integrated energy companies and is taking action toward creating a sustainable energy future for our investors, communities and customers. Drawing on over 170 years of experience, AGL operates retail and merchant energy businesses, power generation assets and an upstream gas portfolio. AGL has Australia's largest retail energy and dual fuel customer base. AGL has a diverse power generation portfolio including base, peaking and intermediate generation plants, spread across traditional thermal generation as well as renewable sources including hydro, wind, landfill gas and biomass. AGL is Australia's largest private owner and operator of renewable energy assets and is looking to further expand this position by exploring a suite of low emission and renewable energy generation development opportunities.