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Appendix 4D

AGL Energy Limited

ABN 74 115 061 375

Half Year Report

Results for announcement to the market for the half year ended 31 December 2008

Extracts from this report for announcement to the market — *$A Million*

Revenue	**Up**	**5.1%**	To	**2,977.7**
Profit after tax attributable to shareholders (Statutory)	**Up**	**7,326%**	To	**1,654.8**
Underlying profit after tax attributable to shareholders	**Up**	**5.3%**	To	**192.5**

Dividends	Amount per ordinary share	Franked amount per ordinary share
Interim dividend	26.0¢	26.0¢
Prior interim dividend	26.0¢	26.0¢

Record date for determining entitlements to the dividends:

Interim dividend	12 March 2009 and payable on 3 April 2009
Prior interim dividend	27 March 2008 and paid on 16 April 2008

Brief explanation of results:

Profit after tax of $1,654.8 million included a loss of $88.2 million from the changes in the fair value of financial instruments and a profit of $1,523.5 million from significant items. Excluding the after tax impact of changes in the fair value of financial instruments and significant items, profit after tax was $219.5 million. In order to calculate underlying profit, a pro forma reduction in profit of $27.0 million relating to the reclassification of PNG as an asset held for sale was made. Following this adjustment, the underlying profit was $192.5 million.

Underlying profit is reported to give information to shareholders that provides a greater understanding of the underlying business performance of AGL's operations.

An analysis of these results is in the Directors' Report of the half year report attached to this announcement.

AGL Energy Limited and Subsidiaries
Half Year Report
For the half year ended 31 December 2008

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Directors' Report for the half year ended 31 December 2008 (incorporating the commentary by Directors and dividend announcement made to the Australian Securities Exchange Limited on 25 February 2009)

The Directors report on the AGL Energy Limited (AGL) consolidated entity for the half year ended 31 December 2008 in accordance with the Corporations Act 2001.

Results

	31 December 2008	31 December 2007
	$m	$m
Profit/(loss) after tax from continuing operations	**764.1**	(7.9)
Profit/(loss) after tax from discontinued operations	**890.7**	(15.0)
Profit/(loss) after tax attributable to shareholders (Statutory)	**1,654.8**	(22.9)
Adjust for the following after tax items:		
Significant items	**(1,523.5)**	(23.1)
Changes in fair value of financial instruments	**88.2**	228.8
Pro-forma adjustments	**(27.0)**	-
Underlying Profit	**192.5**	182.8

Profit after tax from continuing operations excludes the contributions from PNG oil and gas assets and the North Queensland gas pipeline business.

Profit after tax from discontinued operations is the consolidated results of PNG oil and gas assets and the North Queensland gas pipeline business.

Profit after tax attributable to shareholders (Statutory) is the combined profit after tax from continuing operations and discontinued operations.

Underlying Profit is the Statutory profit adjusted for significant items, changes in fair value of financial instruments and a pro-forma adjustment. AGL believes that Underlying Profit provides a better understanding of its financial performance and allows for more relevant comparison of financial performance between financial years.

Earnings per Share

Earnings per share calculated on the profit after tax attributable to shareholders (Statutory) were 372.0 cents compared with a loss of 5.3 cents in the previous corresponding period.

Earnings per share calculated on the Underlying Profit attributable to shareholders were 43.3 cents compared with 42.2 cents in the previous corresponding period.

Interim Dividend

The Directors have declared a fully franked interim dividend of 26.0 cents per share for the half year, which will be paid on 3 April 2009 (compared with 26.0 cents in the previous corresponding period). The record date to determine shareholders' entitlements to the interim dividend is 12 March 2009 and shares will commence trading ex-dividend on 5 March 2009.

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 the second trading day after the dividend record date.

The following table provides a detailed reconciliation of the Statutory results to the Underlying Profit.

	Profit after tax (Statutory)						Profit after tax (Underlying Profit)	
	Continuing operations		Discontinued operations		Total		Total	
	31 Dec 2008 $m	31 Dec 2007 $m	**31 Dec 2008 $m**	31 Dec 2007 $m	**31 Dec 2008 $m**	31 Dec 2007 $m	**31 Dec 2008 $m**	31 Dec 2007 $m
EBITDA (before significant items and financial instruments)	**387.5**	355.9	**50.2**	97.4	**437.7**	453.3	**437.7**	453.3
Finance income included in EBITDA	**-**	-	**-**	-	**-**	-	**6.2**	18.1
Operating EBITDA	**387.5**	355.9	**50.2**	97.4	**437.7**	453.3	**443.9**	471.4
Depreciation and amortisation	**(57.8)**	(54.3)	**-**	(44.2)	**(57.8)**	(98.5)	**(57.8)**	(98.5)
EBIT (before significant items and financial instruments)	**329.7**	301.6	**50.2**	53.2	**379.9**	354.8	**386.1**	372.9
Significant income/(expense) items	**872.5**	48.9	**949.7**	(37.0)	**1,822.2**	11.9	**-**	-
Changes in fair value of financial instruments	**(69.2)**	(320.7)	**(33.6)**	(3.7)	**(102.8)**	(324.4)	**-**	-
Operating EBIT	**1,133.0**	29.8	**966.3**	12.5	**2,099.3**	42.3	**386.1**	372.9
Finance income	**21.4**	25.7	**0.3**	1.6	**21.7**	27.3	**21.7**	27.3
Finance income included in Operating EBITDA	**-**	-	**-**	-	**-**	-	**(6.2)**	(18.1)
Finance costs	**(73.9)**	(101.7)	**(2.5)**	(1.9)	**(76.4)**	(103.6)	**(76.4)**	(103.6)
Net financing costs	**(52.5)**	(76.0)	**(2.2)**	(0.3)	**(54.7)**	(76.3)	**(60.9)**	(94.4)
Profit/(loss) before tax	**1,080.5**	(46.2)	**964.1**	12.2	**2,044.6**	(34.0)	**325.2**	278.5
Tax (expense)/income	**(316.4)**	38.3	**(73.4)**	(27.2)	**(389.8)**	11.1	**(105.7)**	(95.7)
Profit/(loss) after tax attributable to shareholders	**764.1**	(7.9)	**890.7**	(15.0)	**1,654.8**	(22.9)	**219.5**	182.8
Pro-forma adjustments								
PNG depreciation and amortisation							**(27.0)**	-
Underlying Profit							**192.5**	182.8

Underlying Profit adjusts Statutory Profit to:

1. Remove the impact of significant items,
2. Remove the impact of changes in fair value of financial instruments,
3. Include the impact of a pro-forma adjustment.

1. Significant Items

	31 December 2008		31 December 2007	
	Pre-tax	**PAT**	Pre-tax	PAT
	$m	**$m**	$m	$m
Divestment of non-core businesses	**1,693.6**	**1,457.3**	123.7	86.4
Gain in fair value of oil derivatives	**160.8**	**75.0**	-	-
Impairment of non-current assets	**-**	**-**	(85.1)	(70.7)
Demerger adjustments	**(6.7)**	**9.1**	(5.6)	(3.9)
Phoenix change program costs	**(22.4)**	**(15.7)**	(10.4)	(7.3)
Redundancy, termination and integration costs	**(3.1)**	**(2.2)**	(10.7)	(7.5)
Tax on derivative financial instruments	**-**	**-**	-	26.1
Total significant items	**1,822.2**	**1,523.5**	11.9	23.1

Divestment of non-core businesses
AGL disposed of its oil and gas exploration and production interests in Papua New Guinea (PNG), including a 3.6% interest in the PNG LNG Project, effective 18 December 2008. The sale of the assets resulted in a pre-tax profit of $765.8 million and an after tax profit of $815.6 million. The after tax profit includes the reversal of a deferred tax asset write-off in the previous year of $67.8 million.

AGL disposed of its 21.5% ownership interest in Queensland Gas Company Limited (QGC) on 5 November 2008. The sale of the investment resulted in a pre-tax profit of $754.4 million and an after tax profit of $506.9 million.

AGL disposed of its 50.0% ownership interest in Auscom Holdings Pty Ltd (Elgas) on 2 October 2008. The sale of the investment resulted in a pre-tax profit of $149.9 million and an after tax profit of $120.9 million.

AGL disposed of its 100% ownership interest in North Queensland Pipeline No 1 Pty Ltd on 1 August 2008. The sale of the business resulted in a pre-tax profit of $23.1 million and an after tax profit of $13.6 million.

AGL disposed of its 100% ownership interest in AGL Power Generation (Hallett Hill) Pty Limited on 28 August 2008. The sale resulted in a pre-tax profit of $0.4 million and an after tax profit of $0.3 million.

Gain in fair value of oil derivatives
At 30 June 2008, AGL had classified its PNG investment as an asset held for sale. As required under AASB139, AGL could no longer designate as cash flow hedges oil derivatives maturing beyond the expected disposal date, resulting in AGL recognising a $154.7 million pre-tax fair value loss on oil derivatives as a significant item in the 2008 financial year. For the period from 1 July 2008 until the hedges were closed out, movements in oil derivatives resulted in AGL recognising a gain in fair value of $160.8 million pre-tax.

Demerger adjustments
AGL and Alinta jointly contract IBM to operate systems and infrastructure until AGL and Alinta are able to exit from these systems and infrastructure. The cost of running this shared bureau was $6.7 million before tax and $5.3 million after tax.

Refunds of income tax relating to pre-demerger periods resulted in AGL receiving a settlement from Alinta of $14.4 million. This benefit has been recognised in tax expense.

Phoenix change program one-off costs

One-off costs totalling $22.4 million before tax and $15.7 million after tax were incurred in implementing the Phoenix change program for the half year ended 31 December 2008. These one-off costs included data cleansing, additional labour and training costs and operating an additional call centre.

Redundancy, termination and integration costs

Redundancy, termination and integration costs of $3.1 million before tax and $2.2 million after tax were incurred during the half year.

2. Changes in Fair Value of Derivative Financial Instruments

AGL uses derivative financial instruments to manage its exposure to interest rate, foreign exchange rate, electricity purchase price and oil price risks arising in the normal course of business. All derivative financial instruments transacted are economic hedges but may not be "effective" hedges for accounting purposes.

Accounting standards require that economic hedges can only be treated as "effective" hedges where the change in the fair value of the item being hedged and the change in the fair value of the derivative instrument substantially offset each other. In these circumstances the change in the fair value of the derivative instrument is reported in equity in the hedge reserve. When the item being hedged is settled, the cumulative change in the fair value of the derivative is transferred from the hedge reserve to offset the financial impact on the Income Statement of the item being hedged.

All other economic hedges are deemed to be "ineffective" hedges. During periods of volatile prices these hedges can create substantial volatility in AGL's earnings.

The change in fair value of financial instruments recognised in profit and loss for the half year for both continuing and discontinued operations, excluding significant items, was a loss of $102.8 million before tax. In addition, a gain of $160.8 million before tax was recognised as a significant item.

A reconciliation of the balance sheet movement in the derivative balances to the amount included in the income statement is presented in the following table:

	Net Assets (Liabilities)		
	31 December 2008	30 June 2008	Change
	$m	$m	$m
Electricity derivative contracts	**672.3**	1,007.4	(335.1)
Oil derivative contracts	**-**	(247.5)	247.5
Interest rate swap and foreign currency derivative contracts	**(38.7)**	19.0	(57.7)
Total net assets for derivative contracts	**633.6**	778.9	(145.3)
Change in derivative net asset value	**(145.3)**		
Premiums paid	**(159.1)**		
Equity accounted fair value	**2.3**		
Less:			
premium roll off	**59.5**		
Total change in fair value	**(242.6)**		
recognised in equity hedge reserve	**(300.6)**		
recognised as a significant item relating to the PNG asset sale	**160.8**		
recognised in profit and loss	**(102.8)**		
Total change in fair value	**(242.6)**		

3. Pro-Forma Adjustment

Due to the reclassification of PNG as an asset held for sale, AGL did not charge the income statement with any depreciation or amortisation relating to the PNG assets from 1 May 2008, the date the asset was deemed to be held for sale. For the half year ended 31 December 2008 the net impact of the reduced depreciation and amortisation was to increase profit by $27.0 million (2007 $nil). AGL has removed this impact to calculate the Underlying Profit.

Review of Operations

The following review of operations focuses on the Earnings before Interest and Tax ("EBIT") from the combined continuing and discontinued operations before changes in fair value of financial instruments and significant items ("Operating EBIT"). Operating EBIT better reflects the underlying performance of the business. Each section commences with a table reconciling Statutory EBIT with the Operating EBIT. All discussion and analysis of the results refers to the Operating EBIT.

Operating EBIT for the half year ended 31 December 2008 was $386.1 million (2007 $372.9 million). The Statutory and Operating EBIT by segment is presented in the following table:

	EBIT (Statutory)		EBIT (Operating)	
	31 December 2008	31 December 2007	**31 December 2008**	31 December 2007
	$m	$m	**$m**	$m
Retail Energy [(1)]	**122.4**	120.8	**145.7**	134.8
Merchant Energy [(2)]	**130.9**	(173.2)	**211.9**	156.9
Gas and Power Development [(3)]	**1,738.7**	72.9	**61.5**	82.0
Energy Investments [(4)]	**180.4**	125.6	**30.5**	50.6
Centrally managed expenses [(5)]	**(73.1)**	(103.8)	**(63.5)**	(51.4)
Total	**2,099.3**	42.3	**386.1**	372.9
Depreciation & amortisation			**57.8**	98.5
EBITDA (Operating)			**443.9**	471.4
Average funds employed			**6,577.2**	6,743.7
EBIT / Average funds employed			**5.9%**	5.5%

Detailed reconciliations of movements between Statutory EBIT and Operating EBIT are shown on:

[(1)] page 10
[(2)] page 13
[(3)] page 17
[(4)] page 21
[(5)] page 23

Retail Energy Operating EBIT: Increased 8.1% to $145.7 million from $134.8 million

	31 December 2008	31 December 2007
	$m	$m
Statutory EBIT	**122.4**	120.8
Significant items	**22.5**	13.1
Finance income included in EBIT	**0.8**	0.9
Operating EBIT	**145.7**	134.8
Add back:		
Depreciation and amortisation	**15.6**	14.5
Operating EBITDA	**161.3**	149.3
Average funds employed	**3,096.2**	2,858.2
EBIT/Average funds employed	**4.7%**	4.7%

Retail Energy is responsible for servicing customers and growing AGL's solid position in downstream gas and electricity markets. Retail Energy currently services 3.2 million residential, small business and commercial customers across New South Wales, Victoria, South Australia and Queensland.

The key business priorities for Retail Energy are to achieve operational excellence, and to continue improving customer service.

Retail Energy sources its energy from AGL's Merchant Energy business. For mass market customers, the transfer price for this energy is the cost implicit in the regulators' tariff decisions. For AGL's industrial and commercial customers, the transfer price reflects the market price at the time of contracting.

Retail Energy contributed $145.7 million to Operating EBIT for the half year ended 31 December 2008, up 8.1% on the prior corresponding period. A number of factors contributed to the increase in Operating EBIT and they have been summarised in the table below.

	$m
Operating EBIT for the half year ended 31 December 2007	**134.8**
Increase in mass market margins	26.8
Increase in depreciation and amortisation	(1.1)
Increase in net operating expenditure	(14.8)
Operating EBIT for the half year ended 31 December 2008	**145.7**

Mass Market Margins
Management of the mass market gross margin during the half year ended 31 December 2008 contributed an additional $26.8 million to Operating EBIT through price changes and increased volume, particularly in the winter period.

Depreciation and Amortisation
Depreciation relating to the Phoenix Change Program assets increased reflecting the progressive roll out of releases. This was partly off set by lower customer amortisation.

Net Operating Expenditure
Retail Energy's net operating expenditure increased by $14.8 million. The majority of the increase, $11.2 million, was attributable to the bedding down of the SAP billing platform

implemented as part of the Phoenix change program, resulting in increased labour costs, bad and doubtful debts, and Ombudsman costs. The bad and doubtful debt increases were due to the temporary suspension of collection activities during the Phoenix change program to ensure call centre stability. Ombudsman costs increased as a result of conversion issues from legacy systems to SAP, including tariff and concession inconsistencies. The remaining increase in net operating expenditure was due to bringing forward $3.6 million of advertising costs.

Phoenix Change Program

Retail Energy substantially completed rationalising and redesigning its core operating processes, by replacing its disparate mass-market billing systems. This strategy is intended to drive down operating costs while improving customer service capability.

The final stage of the Phoenix change program was successfully implemented in November 2008, with the remaining 1.6 million mass market customers transferred to the SAP billing platform.

A Retail Transformation business unit has been created and given responsibility for delivering an additional $35.0 million per annum of benefits, with the first full year of the benefits expected in the 2010 financial year.

Dual Fuel Strategy

Retail Energy continued to pursue its dual fuel strategy in the face of increasingly competitive markets. AGL now services 1.19 million dual fuel customer accounts, compared with 1.18 million as at 30 June 2008.

Customer Numbers and Competition

Relatively high levels of competitor activity persisted throughout the half year ended 31 December 2008. Total billable customer accounts were up by approximately 1,900 compared with 30 June 2008.

EBIT / Sales Analysis

AGL offers competitively priced products to customers while providing acceptable shareholder returns. The following table analyses the EBIT margin as a percentage of the sales revenue. The EBIT to sales margin for the half year ended 31 December 2008 was 5.8% compared to 5.7% for the prior corresponding period.

	31 December 2008	31 December 2007	Movement	Movement
	$m	$m	$m	%
Electricity revenue	**1,675.0**	1,619.0	56.0	3.5
Gas revenue	**809.9**	716.1	93.8	13.1
Other fees and charges	**25.4**	24.1	1.3	5.4
Total revenue	**2,510.3**	2,359.2	151.1	6.4
Cost of sales	**(2,205.7)**	(2,082.6)	(123.1)	5.9
Gross margin	**304.6**	276.6	28.0	10.1
Operating costs (excl D&A)	**(143.3)**	(127.3)	(16.0)	12.6
EBITDA	**161.3**	149.3	12.0	8.0
Depreciation and amortisation	**(15.6)**	(14.5)	(1.1)	7.6
EBIT	**145.7**	134.8	10.9	8.1
EBIT / Sales %	**5.8%**	5.7%		

Cost to Serve Analysis

The following table provides an analysis on the cost to serve.

	31 December 2008	31 December 2007	Movement	Movement
	$	$	$	%
Net operating expenditure	**133.5m**	117.7m	15.8m	13.4
Net operating cost per customer account	**41.42**	36.88	4.5	12.3
Cost to grow/retain	**30.4m**	25.4m	5.0m	19.7
Cost to grow per account acquired/retained	**71.98**	72.31	(0.3)	(0.5)
Cost to serve	**103.1m**	92.3m	10.8m	11.7
Cost to serve per customer account	**31.98**	28.91	3.1	10.6

Net operating expenditure is defined as follows:

	31 December 2008	31 December 2007	Movement	Movement
	$m	$m	$m	%
Operating costs (excl D&A)	**143.3**	127.3	16.0	12.6
Depreciation & amortisation	**15.6**	14.5	1.1	7.6
Other fees & charges	**(25.4)**	(24.1)	(1.3)	5.4
Net operating expenditure	**133.5**	117.7	15.8	13.4

The underlying net operating cost per customer account for the half year ended 31 December 2008 was $41.42, a 12.3% increase on the prior corresponding period.

The cost to acquire customers reduced by 0.5% from $72.31 per acquired customer for the half year ended 31 December 2007 compared to $71.98 for the current financial half year.

The operating cost to serve customers, excluding the cost to acquire new customers, was $103.1 million for the half year ended 31 December 2008. When this cost is spread over the average customer base, it results in a cost to serve of $31.98, a 10.6% increase. Productivity decreases and operating cost increases associated with final conversion of 1.6 million mass market customers in November 2008 disproportionately increased costs compared to the prior corresponding period.

It is anticipated that the comparison of the costs to serve for the year ending 30 June 2009 with the cost to serve in the prior corresponding period will show a smaller percentage increase than detailed above. Under the Phoenix change program timetable, further reductions in cost to serve are not forecast to occur until the financial year ending 30 June 2010.

Merchant Energy Operating EBIT:
Increased 35.1% to $211.9 million from $156.9 million

The Merchant Energy group is responsible for operating and maintaining AGL's power generation assets, developing AGL's carbon strategy and managing the risks associated with the procurement and delivery of gas and electricity for AGL's Wholesale and Retail portfolios. The business uses financial hedges, bilateral contracts and physical generation to ensure adequacy of competitively priced supply. Generation assets includes Australia's largest privately owned and operated renewable portfolio and a pipeline of development opportunities that positions AGL to benefit from the introduction of the Carbon Pollution Reduction Scheme.

Operating EBIT for the half year was $211.9 million compared with $156.9 million for the prior corresponding period. A reconciliation of Statutory EBIT to Operating EBIT and EBITDA is presented below.

	31 December 2008	31 December 2007
	$m	$m
Statutory EBIT	**130.9**	(173.2)
Significant items	**0.1**	3.9
Change in fair value of financial instruments	**75.5**	320.7
Finance income from Loy Yang investment	**5.4**	5.5
Operating EBIT	**211.9**	156.9
Add back:		
Depreciation and amortisation	**27.9**	26.0
Operating EBITDA	**239.8**	182.9
Average funds employed	**2,236.6**	2,331.1
EBIT/Average funds employed	**9.5%**	6.7%

The Merchant Energy group is structured into four business units; Energy Portfolio Management, Merchant Operations, Energy Services and Carbon Solutions.

The contribution of each business unit to Merchant Energy's Operating EBIT and EBITDA is set out in the following table, together with sundry expenses.

	Operating EBIT		**Operating EBITDA**	
	31 December 2008	31 December 2007	**31 December 2008**	31 December 2007
	$m	$m	**$m**	$m
Energy Portfolio Management	**244.2**	179.0	**247.6**	180.1
Merchant Operations	**(46.1)**	(32.2)	**(25.7)**	(11.0)
Energy Services	**13.9**	14.8	**17.9**	18.6
Carbon Solutions	**4.0**	(0.5)	**4.0**	(0.5)
Sundry	**(4.1)**	(4.2)	**(4.0)**	(4.3)
Total Merchant Energy	**211.9**	156.9	**239.8**	182.9

Energy Portfolio Management Operating EBIT:
Increased 36.4% to $244.2 million from $179.0 million

Energy Portfolio Management (EPM) is responsible for managing the price risk associated with procuring electricity and gas. It also controls the dispatch of owned and contracted generation assets which complement the portfolio of electricity hedges.

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

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

- reducing hedging costs through optimising load diversity between customer classes and regions,
- harnessing the implicit optionality of the generation portfolio including arbitraging fuel types,
- accelerating or decelerating hedging programs based on a view of market price,
- utilising a variety of instruments including weather derivatives in order to optimise risk and return.

The following table provides the component parts of EPM's Operating EBIT and EBITDA:

	Operating EBIT		**Operating EBITDA**	
	31 December 2008	31 December 2007	**31 December 2008**	31 December 2007
	$m	$m	**$m**	$m
Wholesale Electricity	**182.9**	151.7	**186.1**	152.8
Wholesale Gas	**61.3**	27.3	**61.5**	27.3
Total EPM	**244.2**	179.0	**247.6**	180.1

Wholesale Electricity Operating EBIT:
Increased 20.6% to $182.9 million from $151.7 million
The improvement in Operating EBIT was driven by:

- effective portfolio management resulting in a relatively lower net electricity purchase cost for the half year compared to the prior half year,
- higher revenues primarily resulting from regulatory price increases for mass market customers,
- offset by higher operating costs arising from the full period of amortisation of Oakey power station dispatch rights, acquired in August 2007.

Wholesale Gas Operating EBIT:
Increased 124.5% to $61.3 million from $27.3 million
The improvement in Operating EBIT was driven by:

- portfolio benefits resulting from gas constraints in the Victorian market which led to a period of high volatility,
- higher mass market volumes, particularly in NSW and Victoria, partially offset by lower generation volumes for Torrens Island Power Station.

Merchant Operations Operating EBIT Expense:
Increased 43.2% to $46.1 million from $32.2 million

Merchant Operations is responsible for managing and maintaining both owned and third party thermal and renewable assets. It is a cost centre with all generation revenues and variable fuel costs included in the Energy Portfolio Management division. The Loy Yang investment consists of an interest bearing loan and 32.54% equity stake in Greater Energy Alliance Corporation Pty Limited (trading as Loy Yang Power).

The following table provides the component parts of the business unit Operating EBIT and EBITDA:

	Operating EBIT		**Operating EBITDA**	
	31 December 2008	31 December 2007	**31 December 2008**	31 December 2007
	$m	$m	**$m**	$m
Merchant Operations	**(48.6)**	(48.2)	**(28.2)**	(27.0)
Loy Yang Investment	**2.5**	16.0	**2.5**	16.0
Total Merchant Operations	**(46.1)**	(32.2)	**(25.7)**	(11.0)

Merchant Operations excluding Loy Yang Operating EBIT Expense
Increased 0.8% to $48.6 million from $48.2 million

The small increase in Merchant Operations costs was due to increased labour costs offset by targeted reductions in other operating expenses.

The thermal and renewable generation portfolio primarily consists of the 1,280MW gas fired Torrens Island Power Station, the 150MW Somerton gas fired power station and 571MW of hydro generation, in addition to dispatch rights for the 320MW gas fired Oakey power station and off-take agreements for the Wattle Point and Hallett I wind farms.

During the half year the business began the refurbishment of the 60MW West Kiewa Power Station, which will take four years to complete. The refurbishment of the first 15MW unit was completed in November 2008.

At Torrens Island Power Station, the operations team began work on modernising the majority of the plant's control systems. This is a three year project expected to cost approximately $39 million.

The Dartmouth hydro facility was unable to generate during the half year ended 31 December 2008 due to insufficient water levels. However, inflows to the dam continued to improve over the period with a commensurate rise in water level resulting in an increase in dam levels to 22.7% at 31 December 2008 from 17.3% at 31 December 2007.

The West Kiewa scheme experienced an average snow melt from winter 2008 and dam levels rose accordingly. A Kiewa Scheme water management plan has been developed to allow for normal operations in addition to the provisioning of water for the commissioning of the Bogong Hydro Power Station during the second half of 2009.

Merchant Operations completed planning activities for the commissioning of the 150MW Bogong hydro power station, which is anticipated to begin in July 2009. Commissioning is expected to take three months with full operational capability scheduled from October 2009.

Loy Yang Investment Operating EBIT:
Decreased 84.4% to $2.5 million from $16.0 million

Operating EBIT of $2.5 million (2007 $16.0 million) comprised an equity share of losses of $2.9 million (2007 profit of $10.5 million) and interest income of $5.4 million (2007 $5.5 million).

Loy Yang's operating result fell sharply during the half year ended 31 December 2008 for two main reasons.

Firstly, revenue fell by 7.9% due largely to a significant reduction in the Victorian electricity pool price as evidenced in the following table:

Time Weighted Victorian Reference Pool Price

	$/MWh
Half year ended 31 December 2007	49.19
Half year ended 31 December 2008	35.46

Secondly, Loy Yang's operating costs, depreciation expense and interest costs increased by 7%, 6% and 3% respectively.

Energy Services Operating EBIT:
Decreased 6.1% to $13.9 million from $14.8 million

The Energy Services business unit is responsible for maximising opportunities to make customers' businesses more sustainable and energy efficient. It also manages the HC Extractions LPG facility. The Energy Services business continued to build upon its expertise in program maintenance, gas combustion, customer energy infrastructure, customer based asset development and energy efficiency related carbon benefits.

HC Extractions produces LPG and naptha by processing refinery off-gases supplied by the adjacent Caltex oil refinery in Kurnell, Sydney, with all production sold back to Caltex.

During the half year, construction of the Brisbane City Council Compressed Natural Gas (CNG) bus facility at Willawong commenced in addition to the expansion of the CNG refuelling facility at Leichhardt in New South Wales. Two landfill projects were successfully completed during the half year being the Woy Woy and Kincumber landfills in New South Wales.

The decline in earnings arose from lower contracted electricity prices and a turbine failure at one of the plants, partially offset by higher LPG prices for HC Extractions.

Carbon Solutions Operating EBIT Expense:
Increased to $4.0 million from ($0.5) million

The Carbon Solutions business unit trades green products and liaises with various State and Federal government departments to ensure legislative outcomes that deliver a smooth transition to a carbon constrained energy economy. Carbon Solutions shapes AGL's carbon strategy and was responsible for Australia's first carbon trade.

This business unit was formed during the prior year and the improvement in Operating EBIT was due to an entire half year contribution. Effective trading and purchasing strategies to procure green products at a lower purchase cost than internally and externally contracted sales were the main drivers of EBIT.

Gas and Power Development Operating EBIT (including pro-forma adjustments): Decreased 57.9% to $34.5 million from $82.0 million

Operating EBIT for the half year was $34.5 million compared with $82.0 million for the corresponding prior period. A reconciliation of Statutory EBIT to Operating EBIT and EBITDA is presented below:

	31 December 2008	31 December 2007
	$m	$m
Statutory EBIT	**1,738.7**	72.9
Significant items	**(1,704.5)**	5.4
Changes in fair value of financial instruments	**27.3**	3.7
Operating EBIT	**61.5**	82.0
Pro-forma depreciation adjustment	**(27.0)**	-
Operating EBIT after pro-forma adjustment	**34.5**	82.0
Add back:		
Depreciation and amortisation (including pro-forma)	**35.9**	48.9
Operating EBITDA	**70.4**	130.9
Average funds employed	**1,214.7**	988.9
EBIT/Average funds employed	**2.8%**	8.3%

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

	Operating EBIT		**Operating EBITDA**	
	31 December 2008	31 December 2007	**31 December 2008**	31 December 2007
	$m	$m	**$m**	$m
PNG upstream investment	**22.4**	42.9	**49.4**	84.0
Upstream gas	**(3.8)**	4.9	**5.0**	12.7
Wind farm development fees	**16.5**	31.3	**16.5**	31.3
Equity investments	**2.4**	3.5	**2.4**	3.5
Sundry	**(3.0)**	(0.6)	**(2.9)**	(0.6)
Total Gas and Power Development	**34.5**	82.0	**70.4**	130.9

PNG Upstream Investment Operating EBIT:
Decreased 47.1% to $22.4 million from $42.9 million

On 18 December 2008, AGL completed the sale of its oil and gas exploration and production interests in Papua New Guinea (PNG), including a 3.6% interest in the PNG LNG Project. After costs and tax, the net profit on disposal was $815.6 million which has been recorded as a significant item.

On a pro forma basis, Operating EBIT was $22.4 million (2007 $42.9 million). The decrease in pro forma earnings was due to declining field production, rising operating costs and fewer liftings than in the prior corresponding period.

Upstream Gas Operating EBIT:
Decreased to ($3.8 million) from $4.9 million

Upstream Gas is responsible for AGL's investments in gas (coal seam and conventional) exploration, development and production tenements, as well as exploration and development of other renewable energy sources including geothermal. The portfolio is divided into two broad regions: (i) Queensland / South Australia and (ii) New South Wales.

The Queensland / South Australia portfolio includes the Moranbah Gas Project and North Queensland Energy (NQE) joint ventures with Arrow Energy Limited (Arrow), the Galilee Basin assets and the gas markets development services agreement with QGC.

The New South Wales portfolio includes the Camden Gas Project and Sydney Basin exploration joint ventures with Sydney Gas Limited (SGL) and the Gloucester Basin assets.

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

	31 December 2008 $m	31 December 2007 $m
Queensland / South Australia	**(4.5)**	4.2
New South Wales	**0.7**	0.7
Upstream Gas Operating EBIT	**(3.8)**	4.9

Queensland / South Australia

The reduction in Operating EBIT was due largely to higher costs for the NQE joint venture following the contracting of additional gas transportation capacity in advance of full capacity operations of the Moranbah Gas Project and Yabulu Power Station. The Power Station also underwent a scheduled maintenance outage of approximately six weeks during which time a turbine blade upgrade was performed that increased the capacity of the Power Station by 12.7 MW.

Moranbah sales fell during the half year while production was shut-in for six weeks during scheduled maintenance at the Yabulu Power Station. All wells recovered to pre-shut-in production levels on their return to operation.

On 30 June 2008, AGL and Arrow entered into a sale and purchase agreement with Victorian Funds Management Corporation for the sale of the North Queensland Gas Pipeline. The sale was completed on 1 August 2008 and resulted in a pre-tax profit of $23.1 million (after tax $13.6 million) which has been classified as a significant item. Prior to disposal, this asset contributed Operating EBIT of $0.8 million (2007 $0.9 million).

On 11 July 2008, AGL announced a $37 million investment in a coal seam gas production pilot and exploration and appraisal program in Queensland's Galilee Basin. This investment did not contribute to Operating EBIT in the half year.

New South Wales

At $0.7 million, Operating EBIT contribution from AGL's 50% operating interest in the Camden Gas Project and all other Sydney Basin exploration joint ventures was the same as the prior corresponding period.

Five wells were drilled at Camden during the half year targeting the Bulli and Balgownie coal seams, comprising four surface-to-in-seam wells and one vertical well completion. All wells are currently either being dewatered or producing to the Rosalind Park Gas Plant.

On 19 December 2008, AGL acquired 100% of the interests in PEL 285 in the Gloucester Basin of New South Wales for $370 million. This investment did not contribute to Operating EBIT in the half year.

On 24 December 2008, AGL agreed the terms of a recommended transaction with the board of SGL under which AGL offered to acquire all the issued shares of SGL at 42.5 cents per share by way of a formal off-market takeover bid valuing the company at $171 million.

The following table summarises the production and associated revenue from each operating region during the period:

	31 December 2008	31 December 2007
AGL share of gas sales (PJ)		
Queensland / South Australia	**3.1**	4.0
New South Wales	**1.3**	1.3
Sales revenue ($m)		
Queensland / South Australia	**7.2**	8.9
New South Wales	**4.5**	4.5

AGL's share of coal seam gas 2P and 3P reserves by project is summarised in the table below:

AGL Share of CSG reserves (PJ)	**31 December 2008**		30 June 2008	
	2P	**3P**	2P	3P
Moranbah Gas Project (50%)	**416**	**1,051**	277	867
Camden Gas Project (50%)	**41**	**54**	41	54
Gloucester Basin (PEL 285) (100%)	**175**	**370**	-	-
Spring Gully Project (various)	**6**	**8**	-	-
Total	**638**	**1,483**	318	921

Certified reserves at Moranbah were recently upgraded as a result of ongoing appraisal and development within the Project area. Further additions are expected to arise from an updated reserves report for PEL 285 and from the pending consolidation of all SGL's reserves following successful completion of the takeover.

Wind Farm Development Fees Operating EBIT:
Decreased 47.3% to $16.5 million from $31.3 million

Development fees are recognised from the construction of wind farms for third parties for which AGL has an off-take and capacity fee agreement in place.

AGL continued the construction of the Hallett 2 Wind Farm during the half year ended 31 December 2008 and recognised $16.5 million in development fees. In the prior corresponding period, $31.3 million in development fees relating to Hallett 1 were recognised. Development fees are recognised on a percentage of completion basis.

AGL continued to grow its portfolio of wind farm development opportunities during the period including the acquisition of six development projects from Allco Finance Group Limited and two development projects from Investec Wind Holdings Pty Ltd. The growing pipeline of wind farm development opportunities is expected to continue to deliver a stream of development fees providing an ongoing contribution to Operating EBIT.

Equity Investments Operating EBIT:
Decreased 31.4% to $2.4 million from $3.5 million

Equity investments included AGL's share investments in QGC, CSM Energy Limited and Torrens Energy Limited (TEY).

AGL disposed of its 21.5% ownership interest in QGC on 5 November 2008. The sale of QGC resulted in a pre-tax profit of $754.4 million ($506.9 million after tax) which has been classified as a significant item. Prior to the disposal, QGC contributed Operating EBIT of $2.6 million (2007 $3.5 million).

AGL has a 35% equity interest in CSM Energy Limited, an unlisted public company. The Operating EBIT contribution from this investment was a loss of $0.2 million (2007 nil).

AGL's renewable energy portfolio was enhanced during the period with the acquisition of a 9.99% equity interest in TEY. AGL and TEY also entered into a Geothermal Alliance Agreement to commercialise base load geothermal projects close to the National Electricity Market. This investment did not contribute to Operating EBIT in the half year.

Energy Investments Operating EBIT: Decreased 39.7% to $30.5 million from $50.6 million

	31 December 2008	31 December 2007
	$m	$m
Statutory EBIT	**180.4**	125.6
Significant items	**(149.9)**	(86.7)
Interest on loan to AlintaAGL	**-**	11.7
Operating EBIT	**30.5**	50.6
Add back:		
Depreciation and amortisation (GasValpo)	**-**	2.9
Operating EBITDA	**30.5**	53.5

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

	31 December 2008	31 December 2007
	$m	$m
ActewAGL	**17.1**	15.2
Elgas	**10.6**	9.9
GasValpo	**-**	9.4
AlintaAGL	**-**	13.6
Other	**2.8**	2.5
Operating EBIT	**30.5**	50.6

ActewAGL (50% AGL ownership) Operating EBIT: Increased 12.5% to $17.1 million from $15.2 million

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

ActewAGL contributed an equity share of profits of $17.1 million for the half year ended 31 December 2008 compared to $15.2 million for the corresponding prior period.

This favourable outcome resulted from increased margins in both the gas and electricity markets due to increased consumption, retail electricity revenue growth, the retention of key customers and growth in the customer base across both markets. The generally colder winter patterns, compared to the prior corresponding period, resulted in higher consumption which increased gas margins.

Elgas (50% AGL ownership disposed) Operating EBIT: Increased 7.1% to $10.6 million from $9.9 million

AGL disposed of its 50.0% ownership interest in Auscom Holdings Pty Ltd (Elgas) on 2 October 2008. The sale of Elgas resulted in a pre-tax profit of $149.9 million (after tax $120.9 million) which has been classified as a significant item.

There was no equity share of profits for the half year (2007 $9.9 million) as AGL had classified Elgas as an investment held for sale from 1 May 2008. However, AGL received a dividend of $10.6 million prior to the sale of Elgas that has been recognised as income in the current period.

GasValpo (100% AGL ownership previously disposed) Operating EBIT: Decreased to $nil from $9.9 million

AGL disposed of GasValpo on 30 April 2008 and therefore there was no Operating EBIT contribution for the current half year (2007 $9.9 million).

AlintaAGL (33% AGL ownership previously disposed) Operating EBIT: Decreased to $nil from $13.6 million

AGL disposed of its investment in AlintaAGL on 12 December 2007 and therefore there was no Operating EBIT contribution for the current half year (2007 $13.6 million).

Centrally Managed Expenses:
Increased 23.5% to $63.5 million from $51.4 million

	31 December 2008	31 December 2007
	$m	$m
Statutory EBIT	**(73.1)**	(103.8)
Significant items	**9.6**	52.4
Operating EBIT	**(63.5)**	(51.4)
Add back:		
Depreciation and amortisation	**5.4**	6.2
Operating EBITDA	**(58.1)**	(45.2)

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

	31 December 2008	31 December 2007
	$m	$m
Labour	**17.2**	16.2
Office leases	**6.5**	5.1
Hardware and software costs	**17.0**	9.4
Consultants and contractor fees	**4.3**	4.1
Insurance premiums	**3.8**	2.3
Depreciation and amortisation	**5.4**	6.2
Other	**9.3**	8.1
Total	**63.5**	51.4

The major increases in hardware and software costs were due to the roll out of AGL IT infrastructure and systems to Powerdirect and SunGas ($1.3 million), Phoenix operating costs ($4.0 million), additional application support ($1.5 million) and increased data centre costs ($1.0 million).

Net Financing Costs:
Decreased 35.5% to $60.9 million from $94.4million

	31 December 2008 $m	31 December 2007 $m
Statutory finance costs	**(76.4)**	(103.6)
Statutory finance income	**21.7**	27.3
Remove finance income included in EBITDA	**(6.2)**	(18.1)
Net financing costs	**(60.9)**	(94.4)

Net financing costs for the half year were $60.9 million (2007 $94.4 million). The decrease in net financing costs was mainly due to lower average net debt. Average net debt for the half year ended 31 December 2008 was $1,520 million (2007 $2,651 million). Average net debt decreased during the half year due largely to the impact of AGL's divestment of non-core assets, including:

- 21.5% ownership interest in QGC for $1,176.6 million in gross proceeds,
- 50% ownership interest in Elgas for $221.1 million in gross proceeds,
- 100% of the North Queensland gas pipeline business for $102.9 million in gross proceeds,
- PNG oil and gas assets for $1,127 million in gross proceeds,
- GasValpo for $74 million in gross proceeds,
- 33% ownership interest in Alinta AGL for $520 million in gross proceeds.

The average net interest rate increased from 7.13% to 7.53% due largely to tightening credit markets.

Tax Expense:
Increased 10.4% to $105.7 million from $95.7 million

	31 December 2008 $m	31 December 2007 $m
Statutory tax (expense) / income	**(389.8)**	11.1
Tax expense / (benefit) from significant items	**298.7**	(11.2)
Tax benefit from fair value movements	**(14.6)**	(95.6)
Underlying tax expense	**(105.7)**	(95.7)

The underlying effective tax rate was 32.5% (2007 34.4%). AGL's effective tax rate exceeded the 30% Australian corporate tax rate due largely to the contribution from PNG where the tax rate on taxable income was 50%.

Net Cash Provided by Operating Activities: Increased 33.0% to $309.4 million from $232.6 million

	31 December 2008	31 December 2007
	$m	
Statutory net cash provided by operating activities	**266.5**	111.1
Cash flow relating to significant items	**32.2**	27.3
Refund of NEMMCO deposits	**-**	(238.3)
Margin calls on futures contracts	**10.7**	332.5
Operating Cash	**309.4**	232.6

Net cash provided by underlying operating activities ("Operating Cash") for the half year ended 31 December 2008 was $309.4 million (2007: $232.6 million).

The significant improvement in Operating Cash Flow was due to the timing of income tax payments and cash flows associated with the Hallett wind farm development projects. Adjusting for these items, there was a $6.0 million improvement in Operating Cash Flow.

Directors in Office

The names of Directors of the Parent Entity who held office during or since the end of the year are:

	First Appointed
Mark Roderick Granger Johnson – Chairman	17 February 2006
Michael Anthony Fraser – Managing Director	22 October 2007
Carolyn Judith Hewson	17 February 2006
Maxwell Gilbert Ould	17 February 2006
Graham John Reaney	5 July 2006
Jeremy Charles Roy Maycock	9 October 2006
Sandra Veronica McPhee	9 October 2006
Bruce John Phillips	23 August 2007
Leslie Victor Hosking	1 November 2008

Rounding of Amounts to Nearest $0.1 Million

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

Auditor's Independence Declaration

The auditor's independence declaration is on page 48.

Mark Johnson

Mark Johnson
Chairman

AGL Energy Limited and Subsidiaries
Income Statement
For the half year ended 31 December 2008

	Note	31 Dec 2008 $m	31 Dec 2007 $m
Continuing operations			
Revenue	3	**2,891.9**	2,714.6
Other income	4	**921.6**	155.4
Expenses	5	**(2,641.9)**	(2,815.8)
Share of profits of associates and jointly controlled entities using the equity method	13	**19.2**	29.9
Profit before net financing costs, depreciation and amortisation		**1,190.8**	84.1
Depreciation and amortisation	6	**(57.8)**	(54.3)
Profit before net financing costs		**1,133.0**	29.8
Finance income		**21.4**	25.7
Finance costs		**(73.9)**	(101.7)
Net financing costs	7	**(52.5)**	(76.0)
Profit / (loss) before tax from continuing operations		**1,080.5**	(46.2)
Income tax (expense)/income	9	**(316.4)**	38.3
Profit / (loss) after tax from continuing operations		**764.1**	(7.9)
Discontinued operations			
Profit/(loss) after tax from discontinued operations	12	**890.7**	(15.0)
Profit / (loss) after tax attributable to shareholders of the Parent Entity		**1,654.8**	(22.9)
Earnings per share			
From continuing and discontinued operations:			
Basic earnings per share (cents)		**372.0**	(5.3)
Diluted earnings per share (cents)		**371.7**	(5.3)
From continuing operations:			
Basic earnings per share (cents)		**171.8**	(1.8)
Diluted earnings per share (cents)		**171.6**	(1.8)
Weighted average number of ordinary shares			
Basic (millions)		**444.8**	433.6
Diluted (millions)		**445.2**	433.7

The income statement is to be read in conjunction with the notes to the financial statements.

AGL Energy Limited and Subsidiaries
Balance Sheet
As at 31 December 2008

	Note	31 Dec 2008 $m	30 June 2008 $m
Current assets			
Cash and cash equivalents		**1,858.0**	63.8
Trade and other receivables		**1,054.7**	1,171.0
Inventories		**43.7**	38.7
Current tax assets		**-**	47.9
Other financial assets		**811.7**	1,210.9
Other assets		**164.8**	97.6
		3,932.9	2,629.9
Non-current assets classified as held for sale		**-**	71.2
Assets of disposal group classified as held for sale		**-**	459.3
Total current assets		**3,932.9**	3,160.4
Non-current assets			
Trade and other receivables		**0.7**	0.8
Investments accounted for using the equity method		**87.8**	585.0
Exploration and evaluation assets		**408.7**	25.9
Oil and gas assets		**212.1**	150.7
Property, plant and equipment		**1,941.1**	1,821.2
Intangible assets		**3,172.8**	3,154.9
Other financial assets		**433.8**	464.1
Other assets		**57.5**	89.9
Total non-current assets		**6,314.5**	6,292.5
Total assets		**10,247.4**	9,452.9
Current liabilities			
Trade and other payables		**760.0**	852.0
Borrowings		**634.3**	-
Provisions		**23.1**	24.3
Current tax liabilities		**347.0**	23.4
Other financial liabilities		**449.6**	770.4
Other liabilities		**29.4**	1.9
		2,243.4	1,672.0
Liabilities of disposal group classified as held for sale		**-**	53.0
Total current liabilities		**2,243.4**	1,725.0
Non-current liabilities			
Trade and other payables		**19.0**	38.2
Borrowings		**1,121.7**	2,101.7
Provisions		**199.5**	201.6
Deferred tax liabilities		**353.6**	379.2
Other financial liabilities		**3.6**	12.8
Other liabilities		**94.7**	14.5
Total non-current liabilities		**1,792.1**	2,748.0
Total liabilities		**4,035.5**	4,473.0
Net assets		**6,211.9**	4,979.9
Equity			
Issued capital	14	**4,010.0**	3,971.6
Reserves		**248.2**	501.3
Retained earnings		**1,953.7**	507.0
Total equity		**6,211.9**	4,979.9

The balance sheet is to be read in conjunction with the notes to the financial statements.

AGL Energy Limited and Subsidiaries
Cash Flow Statement
For the half year ended 31 December 2008

	Note	31 Dec 2008 $m	31 Dec 2007 $m
Cash flows from operating activities			
Receipts from customers		**3,507.2**	3,283.3
Payments to suppliers and employees		**(3,268.7)**	(3,063.5)
Dividends received		**32.1**	23.0
Finance income received		**14.7**	18.5
Finance costs paid		**(78.1)**	(92.3)
Income taxes refunded/(paid)		**59.3**	(57.9)
Net cash provided by operating activities		**266.5**	111.1
Cash flows from investing activities			
Payments for property, plant and equipment		**(211.7)**	(105.2)
Payments for exploration and evaluation assets		**(16.0)**	(5.2)
Payments for oil and gas assets		**(48.2)**	(27.2)
Payments for investments		**(12.9)**	-
Payments for other		**(0.9)**	(5.1)
Payments for businesses and subsidiaries, net of cash acquired	16	**(414.9)**	(613.0)
Proceeds from sale of property, plant and equipment		**0.7**	117.2
Proceeds from sale of investments		**1,397.3**	244.3
Proceeds from sale of business and subsidiaries, net of cash disposed -			
discontinued operations	12	**1,183.2**	-
subsidiary disposed in current period		**42.1**	-
subsidiary disposed in prior period		**3.6**	-
Net cash provided by / (used in) investing activities		**1,922.3**	(394.2)
Cash flows from financing activities			
On market share purchases		**(1.9)**	(2.0)
Proceeds from borrowings		**445.5**	715.0
Repayment of borrowings		**(785.0)**	(737.6)
Loans advanced		**(6.1)**	(4.9)
Proceeds from loan repayments		**-**	277.1
Dividends paid	10	**(81.5)**	(112.7)
Net cash (used in) / provided by financing activities		**(429.0)**	134.9
Net increase / (decrease) in cash and cash equivalents		**1,759.8**	(148.2)
Cash and cash equivalents at the beginning of the financial year		**73.2**	279.2
Effect of exchange rate changes on the balance of cash held in foreign currencies		**25.0**	(1.9)
Cash and cash equivalents at the end of the financial period		**1,858.0**	129.1

The cash flow statement is to be read in conjunction with the notes to the financial statements.

AGL Energy Limited and Subsidiaries
Statement of Recognised Income and Expense
For the half year ended 31 December 2008

	31 Dec 2008	31 Dec 2007
	$m	$m
Cash flow hedges:		
Loss taken to equity	**(259.7)**	(1,474.9)
Transferred to profit or loss for the period	**(40.9)**	(717.6)
Loss on available-for-sale investments taken to equity	**(1.5)**	-
Net (loss)/gain on hedge of net investment in foreign operations	**(62.8)**	0.8
Exchange differences arising on translation of foreign operations	**163.1**	4.5
Exchange differences transferred to profit or loss on disposal of foreign operation	**(72.9)**	-
Actuarial (loss)/gain on defined benefit plans	**(90.2)**	1.4
Share of actuarial loss on defined benefit plans attributable to associates	**(25.2)**	-
Share of net (loss)/gain in reserves attributable to associates	**(47.5)**	127.5
Share of gain in reserves transferred to profit or loss on disposal of jointly controlled entity	**(0.3)**	-
Income tax on items taken directly to or transferred from equity	**97.1**	669.6
Net expense recognised directly in equity	**(340.8)**	(1,388.7)
Profit/(loss) for the period	**1,654.8**	(22.9)
Total recognised income and (expense) for the period attributable to shareholders of the Parent Entity	**1,314.0**	(1,411.6)

Reconciliation of statement of recognised income and expense to equity movements

	31 Dec 2008	
	Reserves	**Retained earnings**
	$m	**$m**
Balance at beginning of financial year	**501.3**	**507.0**
Current period movements	**(252.6)**	**(88.2)**
Movement in reserves not reflected in statement of recognised income and expense above:		
Share-based payment transactions	**(0.5)**	**-**
Profit for the period	**-**	**1,654.8**
Dividends paid	**-**	**(119.9)**
Balance at end of financial period	**248.2**	**1,953.7**

Note 1 - Summary of significant accounting policies

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

The half year financial report includes the consolidated financial statements which comprise the Parent Entity and its subsidiaries (together referred to as the consolidated entity).

(a) Statement of compliance

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

The half year financial report does not include all notes of the type normally included in an annual financial report. It is recommended the half year financial report be read in conjunction with the 30 June 2008 annual financial report and with any public announcements made by AGL Energy Limited during the half year ended 31 December 2008 in accordance with the continuous disclosure obligations of the ASX listing rules.

(b) Basis of preparation

The half year financial report has been prepared on the basis of historical cost, except for derivative financial instruments which have been measured at fair value.

The Parent Entity is a company of the kind referred to in ASIC Class Order 98/100, dated 10 July 1998, and in accordance with that Class Order, amounts in the financial report are rounded off to the nearest tenth of a million dollars, unless otherwise indicated. The financial report is presented in Australian dollars, unless otherwise noted.

The accounting policies that have been adopted in the preparation and presentation of the financial report are consistent with those at 30 June 2008.

(c) Significant accounting judgements, estimates and assumptions

In the application of the consolidated entity's accounting policies, management is required to make judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

(d) Adoption of new and revised standards

Since 1 July 2008, the consolidated entity has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board that are relevant to its operations and effective for annual reporting periods beginning on or after 1 July 2008. Adoption of these Standards and Interpretations did not have any material effect on the financial position or performance of the consolidated entity.

(e) New standards and interpretations not yet adopted

Certain new standards, amendments to existing standards and interpretations have been issued, but are not yet effective. They are available for early adoption at 31 December 2008, but have not been applied in preparing this financial report .The potential effect of the standards and interpretations on the consolidated entity's financial report has not yet been determined.

Note 2 - Segment information

Segment information is presented in respect of the consolidated entity's business and geographical segments. The primary format, business segments, is based on the consolidated entity's management and internal reporting structure. The consolidated entity comprises the following four main business segments:

Retail Energy - Buying and selling of gas and electricity.

Merchant Energy - Buying and selling of wholesale gas and electricity; operating and maintaining of power generation infrastructure; and extraction and sale of liquid petroleum gas.

Gas and Power Development - Exploration, extraction, production and sale of coal seam methane gas; construction of power generation infrastructure; and extraction and sale of crude oil.

Energy Investments - Investments in energy entities.

The Gas and Power Development segment is now reported as a new segment. The businesses within this segment were previously included as part of the Merchant Energy segment. Accordingly, the December 2007 comparative segment information has been restated in accordance with the new reporting basis. The restatement has resulted in no adjustment to the consolidated entity's totals for the information reported in this note.

December 2007 comparative amounts have also been restated to present the discontinued operations separately from continuing operations. Refer Note 12 for a discussion of the discontinued operations.

Inter-segment pricing is determined on an arm's length basis. Inter-segment revenue is eliminated on consolidation.

	Continuing operations							Discontinued operations				
Business segments	**Retail Energy**	**Merchant Energy**	**Gas & Power Development**	**Energy Investments**	**Eliminations**	**Unallocated**	**Total continuing operations**	**Gas & Power Development - PNG oil and gas**	**Gas & Power Development - North Qld gas pipeline**	**Energy Investments Chile**	**Total discontinued operations**	**Consolidated**
31 Dec 2008	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**
Revenue	2,492.6	362.4	23.9	13.4	-	-	2,892.3	84.7	0.7	-	85.4	2,977.7
Inter-segment revenue	15.5	1,423.9	4.3	-	(1,444.1)	-	(0.4)	-	0.4	-	0.4	-
	2,508.1	1,786.3	28.2	13.4	(1,444.1)	-	2,891.9	84.7	1.1	-	85.8	2,977.7
Other income	-	-	771.7	149.9	-	-	921.6	930.9	23.1	-	954.0	1,875.6
Segment revenue	2,508.1	1,786.3	799.9	163.3	(1,444.1)	-	3,813.5	1,015.6	24.2	-	1,039.8	4,853.3
EBIT (before significant items and financial instruments)	144.9	206.5	11.3	30.5	-	(63.5)	329.7	49.4	0.8	-	50.2	379.9
Significant income/(expense) items	(22.5)	(0.1)	754.8	149.9	-	(9.6)	872.5	926.6	23.1	-	949.7	1,822.2
Changes in fair value of financial instruments	-	(75.5)	6.3	-	-	-	(69.2)	(33.6)	-	-	(33.6)	(102.8)
Segment EBIT result	122.4	130.9	772.4	180.4	-	(73.1)	1,133.0	942.4	23.9	-	966.3	2,099.3
Finance income	1.0	6.1	0.1	-	-	14.2	21.4	0.3	-	-	0.3	21.7
Finance costs	-	-	-	-	-	(73.9)	(73.9)	(2.5)	-	-	(2.5)	(76.4)
Profit/(loss) before tax	123.4	137.0	772.5	180.4	-	(132.8)	1,080.5	940.2	23.9	-	964.1	2,044.6
Income tax expense							(316.4)				(73.4)	(389.8)
Profit after tax							764.1				890.7	1,654.8
Segment assets	3,330.5	3,852.3	1,123.3	12.6	-	1,928.7	10,247.4	-	-	-	-	10,247.4
Segment liabilities	387.7	1,178.9	260.0	2.5	-	2,206.4	4,035.5	-	-	-	-	4,035.5
Other segment information												
Share of profits of associates and jointly controlled entities using the equity method	-	(0.5)	2.5	17.2	-	-	19.2	-	-	-	-	19.2
Investments accounted for using the equity method	0.9	73.7	3.4	9.8	-	-	87.8	-	-	-	-	87.8
Acquisition of non-current assets	44.7	19.2	643.0	-	-	7.6	714.5	20.5	-	-	20.5	735.0
Depreciation and amortisation	15.6	27.9	8.9	-	-	5.4	57.8	-	-	-	-	57.8
Impairment losses	-	-	-	-	-	-	-	-	-	-	-	-
Other non-cash expenses	28.0	4.9	0.8	-	-	4.9	38.6	-	-	-	-	38.6

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Note 2 - Segment information (continued)

Business segments	**Retail Energy**	**Merchant Energy**	**Gas & Power Development**	**Energy Investments**	**Eliminations**	**Unallocated**	**Total continuing operations**	**Gas & Power Development - PNG oil and gas**	**Gas & Power Development - North Qld gas pipeline**	**Energy Investments Chile**	**Total discontinued operations**	**Consolidated**
	Continuing operations							**Discontinued operations**				
31 Dec 2007	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**
Revenue	2,347.3	350.6	13.5	2.5	-	0.7	2,714.6	92.5	1.4	25.3	119.2	2,833.8
Inter-segment revenue	9.5	1,305.4	4.7	-	(1,319.6)	-	-	-	-	-	-	-
	2,356.8	1,656.0	18.2	2.5	(1,319.6)	0.7	2,714.6	92.5	1.4	25.3	119.2	2,833.8
Other income	-	-	31.7	123.7	-	-	155.4	9.7	-	2.9	12.6	168.0
Segment revenue	2,356.8	1,656.0	49.9	126.2	(1,319.6)	0.7	2,870.0	102.2	1.4	28.2	131.8	3,001.8
EBIT (before significant items and financial instruments)	133.9	151.4	38.2	29.5	-	(51.4)	301.6	42.9	0.9	9.4	53.2	354.8
Significant income/(expense) items	(13.1)	(3.9)	(5.4)	123.7	-	(52.4)	48.9	-	-	(37.0)	(37.0)	11.9
Changes in fair value of financial instruments	-	(320.7)	-	-	-	-	(320.7)	(3.7)	-	-	(3.7)	(324.4)
Segment EBIT result	120.8	(173.2)	32.8	153.2	-	(103.8)	29.8	39.2	0.9	(27.6)	12.5	42.3
Finance income	1.6	7.9	0.1	11.8	-	4.3	25.7	1.1	-	0.5	1.6	27.3
Finance costs	-	-	-	-	-	(101.7)	(101.7)	(0.8)	-	(1.1)	(1.9)	(103.6)
(Loss) / profit before tax	122.4	(165.3)	32.9	165.0	-	(201.2)	(46.2)	39.5	0.9	(28.2)	12.2	(34.0)
Income tax income/(expense)							38.3				(27.2)	11.1
Loss after tax							(7.9)				(15.0)	(22.9)
Segment assets	3,159.3	5,340.1	700.8	86.2	-	203.0	9,489.4	476.1	94.1	139.6	709.8	10,199.2
Segment liabilities	510.9	2,005.8	82.6	2.9	-	2,480.2	5,082.4	81.9	1.8	40.7	124.4	5,206.8
Other segment information												
Share of profits of associates and jointly controlled entities using the equity method	-	(0.6)	3.5	27.0	-	-	29.9	-	-	-	-	29.9
Investments accounted for using the equity method	0.9	126.8	337.4	83.7	-	-	548.8	-	-	-	-	548.8
Acquisition of non-current assets	33.2	763.0	111.6	-	-	5.5	913.3	10.4	90.4	0.9	101.7	1,015.0
Depreciation and amortisation	14.5	26.0	7.6	-	-	6.2	54.3	41.1	0.2	2.9	44.2	98.5
Impairment losses	-	3.5	5.4	-	-	39.2	48.1	-	-	37.0	37.0	85.1
Other non-cash expenses	23.7	3.1	1.0	-	-	4.6	32.4	2.2	-	0.4	2.6	35.0

Geographical segments

The consolidated entity's geographical segments are determined based on the location of the consolidated entity's assets.

	Segment revenue		**Assets**		**Acquisition of non-current assets**	
	Dec 2008	Dec 2007	**Dec 2008**	Dec 2007	**Dec 2008**	Dec 2007
	$m	$m	**$m**	$m	**$m**	$m
Australia	**3,837.7**	2,871.4	**10,247.4**	9,583.5	**714.5**	1,003.7
Papua New Guinea	**1,015.6**	102.2	**-**	476.1	**20.5**	10.4
Chile	**-**	28.2	**-**	139.6	**-**	0.9
	4,853.3	3,001.8	**10,247.4**	10,199.2	**735.0**	1,015.0

	31 Dec 2008	31 Dec 2007
	$m	$m
Note 3 - Revenue		
Continuing operations		
Revenue from sale of goods	**2,841.4**	2,672.9
Revenue from rendering of services	**39.9**	41.7
Dividends		
Jointly controlled entity	**10.6**	-
	2,891.9	2,714.6
Discontinued operations		
Revenue from sale of goods	**71.5**	122.0
Gain/(loss) in fair value of oil derivatives	**13.6**	(5.4)
	85.1	116.6
Revenue from rendering of services	**0.7**	2.6
	85.8	119.2

	31 Dec 2008	31 Dec 2007
Note 4 - Other income		
Continuing operations		
Gain on disposal of investments	**904.3**	123.7
Development fee income	**16.5**	31.3
Gain on disposal of subsidiary	**0.4**	-
Other	**0.4**	0.4
	921.6	155.4
Discontinued operations		
Gain on disposal of businesses and subsidiaries	**788.9**	-
Gain in fair value of oil derivatives	**160.8**	-
Net foreign exchange gains	**-**	8.7
Other	**4.3**	3.9
	954.0	12.6

	31 Dec 2008	31 Dec 2007
	$m	$m
Note 5 - Expenses		
Continuing operations		
Cost of sales	**2,278.5**	2,199.9
Loss in fair value of electricity derivatives	**69.2**	320.7
	2,347.7	2,520.6
Administrative expenses	**76.7**	59.9
Employee benefits expense	**136.3**	123.6
Other expenses		
Impairment of property, plant and equipment	**-**	42.7
Impairment of exploration and evaluation assets	**-**	5.4
Phoenix Change Program one-off costs	**22.4**	10.4
Redundancy, termination and integration costs	**3.1**	10.7
Demerger costs	**6.7**	5.6
Other	**49.0**	36.9
	2,641.9	2,815.8
Discontinued operations		
Cost of sales	**18.0**	32.2
Administrative expenses	**-**	0.9
Employee benefits expense	**0.1**	2.0
Other expenses		
Impairment of intangible assets	**-**	18.2
Impairment of property, plant and equipment	**-**	18.8
Net foreign exchange losses	**53.0**	-
Other	**2.4**	3.0
	73.5	75.1
Note 6 - Depreciation and amortisation		
Property, plant and equipment	**37.8**	37.7
Oil and gas assets	**6.0**	47.9
Intangible assets	**11.1**	11.7
Other	**2.9**	1.2
	57.8	98.5
Attributable to:		
Continuing operations	**57.8**	54.3
Discontinued operations	**-**	44.2
	57.8	98.5

	31 Dec 2008 $m	31 Dec 2007 $m
Note 7 - Net financing costs		
Finance income		
Interest income		
Associates	**5.4**	17.2
Other entities	**16.3**	10.1
	21.7	27.3
Attributable to:		
Continuing operations	**21.4**	25.7
Discontinued operations	**0.3**	1.6
	21.7	27.3
Finance costs		
Interest expense		
Other entities	**74.7**	97.1
Less finance costs capitalised	**(9.9)**	(4.1)
Unwinding of discounts on provisions	**8.0**	7.3
Other finance costs	**3.6**	3.3
	76.4	103.6
Attributable to:		
Continuing operations	**73.9**	101.7
Discontinued operations	**2.5**	1.9
	76.4	103.6
Net financing costs		
Attributable to:		
Continuing operations	**52.5**	76.0
Discontinued operations	**2.2**	0.3
	54.7	76.3

	31 Dec 2008 $m	31 Dec 2007 $m
Note 8 - Significant income / (expense) items		
Profit before tax from continuing and discontinued operations includes the following significant income/(expense) items:		
Gain on disposal of investment in Queensland Gas Company Limited	**754.4**	-
Gain on disposal of investment in Auscom Holdings Pty Limited	**149.9**	-
Gain on disposal of investment in AlintaAGL Pty Limited	**-**	123.7
Gain on disposal of PNG oil and gas interests	**765.8**	-
Gain on disposal of North Queensland gas pipeline business	**23.1**	-
Gain on disposal of subsidiary	**0.4**	-
Gain in fair value of oil derivatives	**160.8**	-
Impairment of non-current assets net of writeback of lease incentive	**-**	(85.1)
Demerger costs	**(6.7)**	(5.6)
Phoenix Change Program one-off costs	**(22.4)**	(10.4)
Redundancy, termination and integration costs	**(3.1)**	(10.7)
	1,822.2	11.9
Income tax (expense)/income applicable:		
Gain on disposal of investment in Queensland Gas Company Limited	**(247.5)**	-
Gain on disposal of investment in Auscom Holdings Pty Limited	**(29.0)**	-
Gain on disposal of investment in AlintaAGL Pty Limited	**-**	(37.3)
Gain on disposal of PNG oil and gas interests	**(18.0)**	-
Gain on disposal of North Queensland gas pipeline business	**(9.5)**	-
Gain on disposal of subsidiary	**(0.1)**	-
Gain in fair value of oil derivatives	**(85.8)**	-
Impairment of non-current assets net of writeback of lease incentive	**-**	14.4
Demerger costs	**1.4**	1.7
Phoenix Change Program one-off costs	**6.7**	3.1
Redundancy, termination and integration costs	**0.9**	3.2
	(380.9)	(14.9)
Reversal of previous write-down of deferred tax assets relating to PNG operations	**67.8**	-
Refunds of income tax relating to pre-demerger periods	**14.4**	-
Recognition of a deferred tax asset on derivatives issued as consideration for acquisition of an asset	**-**	26.1
	(298.7)	11.2
Significant income items before income tax	**1,822.2**	11.9
Income tax (expense)/income	**(298.7)**	11.2
	1,523.5	23.1

	31 Dec 2008 $m	31 Dec 2007 $m
Note 9 - Income tax		
Income tax recognised in the income statement		
Income tax expense/(income) attributable to:		
Continuing operations	**316.4**	(38.3)
Discontinued operations	**73.4**	27.2
Total income tax expense/(income)	**389.8**	(11.1)
Numerical reconciliation between tax expense/(income) and pre-tax profit		
The prima facie income tax expense on pre-tax accounting profit reconciles to the income tax expense/(income) in the financial statements as follows:		
Profit/(loss) before tax from continuing operations	**1,080.5**	(46.2)
Profit before tax from discontinued operations	**964.1**	12.2
Profit/(loss) from operations	**2,044.6**	(34.0)
Income tax expense/(income) calculated at 30%	**613.4**	(10.2)
Impairment of non-current assets	**-**	11.1
Non-deductible expenses	**25.6**	12.1
Gain on disposal of investments	**5.2**	-
Gain on disposal of businesses and subsidiaries	**(221.8)**	-
Non-assessable income	**(1.8)**	(3.6)
Share of profits of associates and jointly controlled entities	**(3.7)**	(2.9)
Effect of different tax rates in foreign jurisdictions	**47.4**	8.0
Reversal of previous write-down of deferred tax assets	**(67.8)**	-
Recognition of a deferred tax asset on derivatives issued as consideration for acquisition of an asset	**-**	(26.1)
Other	**0.5**	0.5
Adjustments in respect of current income tax of prior years	**(7.2)**	-
	389.8	(11.1)

	31 Dec 2008 **$m**	31 Dec 2007 $m
Note 10 - Dividends		
Recognised amounts		
Final dividend		
Final dividend of 27.0 cents per share, fully franked at 30%, paid 26 September 2008 (2007: Final dividend of 26.0 cents per share, fully franked at 30%, paid 28 September 2007)	**119.9**	112.7
Total dividends	**119.9**	112.7
Dividends satisfied by the issue of shares under the AGL Dividend Reinvestment Plan (Note 14)	**(38.4)**	-
Dividends paid as per the cash flow statement	**81.5**	112.7
Unrecognised amounts		
Since the end of the financial period, the Directors have declared an interim dividend for the half year ended 31 December 2008 of 26.0 cents per share (2007: 26.0 cents), fully franked at 30%, payable 3 April 2009	**116.0**	112.7

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

Dividend reinvestment plan

The AGL Dividend Reinvestment Plan (DRP) will be in operation 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 the ASX during each of the 10 trading days commencing on the second trading day after the dividend record date.

	31 Dec 2008 **$**	31 Dec 2007 $
Note 11 - Net tangible asset backing		
Net tangible asset backing per ordinary share	**$6.81**	$4.12

Note 12 - Discontinued operations

Disposal of Papua New Guinea oil and gas interests

On 22 May 2008, the consolidated entity announced its decision to proceed with the sale of its Papua New Guinea (PNG) oil, gas and LNG project assets. This followed execution of a gas agreement by the PNG LNG joint venture participants and the PNG Government and the subsequent formal decision by the joint venture participants to commence Front End Engineering and Design for the PNG LNG project.

On 30 October 2008, the consolidated entity announced that it had executed sale and purchase agreements (SPA) for all of its oil and gas exploration and production interests in PNG, which included a 3.6% interest in the PNG LNG project. The agreed sale price under the SPA was US$800 million. The SPA was unconditional, other than Government approvals and was subject to a pre-emptive rights process.

The disposal of the PNG oil and gas interests was completed on 18 December 2008, on which date control of the business passed to the acquirers.

Merlin Petroleum Company (Merlin), an affiliate of Nippon Oil Exploration Limited, exercised its pre-emptive rights and acquired the consolidated entity's interests in production licences PDL 2 and PDL 4 for US$795 million. Both Merlin and Petroleum Resources Kutubu Limited exercised their pre-emptive rights in respect of the pipeline licence PL 2 and acquired 6.0% and 5.9% of the consolidated entity's 11.9% interest in this licence respectively for US$5 million.

Disposal of North Queensland gas pipeline business

On 30 June 2008, the consolidated entity and its 50/50 joint venture partner, Arrow Energy Limited (Arrow), announced they had entered into a sale and purchase agreement with Victorian Funds Management Corporation (VFMC) for the sale of the North Queensland gas pipeline. The disposal was completed on 1 August 2008, on which date control of the business passed to the acquirer.

The sale follows the purchase by the consolidated entity and Arrow of the Enertrade assets in November 2007, and relates to the on-sale of the gas pipeline asset only. The joint venture retained ownership of the gas processing and compression facility located at Moranbah, which has been integrated into the Moranbah Gas Project joint venture.

The sale of the pipeline is consistent with the intentions outlined at the time the consolidated entity acquired this asset. Ownership of the pipeline was non-core to the consolidated entity's integrated strategy.

Under the terms of the sale, the consolidated entity and Arrow will continue to operate the pipeline through a 50/50 jointly owned company, which will provide contracted operating and maintenance services to VFMC.

Financial performance of operations disposed

The results of the discontinued operations which have been included in the income statement are as follows:

	PNG oil and gas 31 Dec 2008 $m	**North Queensland gas pipeline 31 Dec 2008 $m**	**Total 31 Dec 2008 $m**	PNG oil and gas 31 Dec 2007 $m	North Queensland gas pipeline 31 Dec 2007 $m	Chile 31 Dec 2007 $m	Total 31 Dec 2007 $m
Revenue	**84.7**	**1.1**	**85.8**	92.5	1.4	25.3	119.2
Other income	**165.1**	**-**	**165.1**	9.7	-	2.9	12.6
Expenses	**(73.2)**	**(0.3)**	**(73.5)**	(21.9)	(0.3)	(52.9)	(75.1)
Depreciation and amortisation	**-**	**-**	**-**	(41.1)	(0.2)	(2.9)	(44.2)
Net financing (costs)/income	**(2.2)**	**-**	**(2.2)**	0.3	-	(0.6)	(0.3)
Profit/(loss) before tax	**174.4**	**0.8**	**175.2**	39.5	0.9	(28.2)	12.2
Income tax expense	**(45.9)**	**-**	**(45.9)**	(25.0)	(0.3)	(1.9)	(27.2)
	128.5	**0.8**	**129.3**	14.5	0.6	(30.1)	(15.0)
Profit on disposal of operations (a)	**765.8**	**23.1**	**788.9**	-	-	-	-
Income tax expense	**(18.0)**	**(9.5)**	**(27.5)**	-	-	-	-
	747.8	**13.6**	**761.4**	-	-	-	-
Profit / (loss) after tax from discontinued operations	**876.3**	**14.4**	**890.7**	14.5	0.6	(30.1)	(15.0)

(a) Includes gains of $72.9 million recycled into profit and loss on the reversal of associated amounts previously deferred in the foreign currency translation reserve.

Note 12 - Discontinued operations (continued)

Cash flows from discontinued operations

The combined net cash flows of operations disposed which have been included in the cash flow statement are as follows:

	31 Dec 2008 $m	31 Dec 2007 $m
Net cash flows from operating activities	**42.5**	58.6
Net cash flows from/(used in) investing activities	**1,160.3**	(101.9)
Net cash flows from discontinued operations	**1,202.8**	(43.3)

Operations disposed

Details of the disposals are as follows:

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

	PNG oil and gas 31 Dec 2008 $m	**North Queensland gas pipeline 31 Dec 2008 $m**	**Total 31 Dec 2008 $m**
Assets			
Cash and cash equivalents	**7.5**	**-**	**7.5**
Trade and other receivables	**7.9**	**0.6**	**8.5**
Inventories	**25.3**	**0.2**	**25.5**
Exploration and evaluation assets	**61.7**	**-**	**61.7**
Oil and gas assets	**445.2**	**-**	**445.2**
Property, plant and equipment	**-**	**90.4**	**90.4**
Other assets	**0.6**	**-**	**0.6**
	548.2	**91.2**	**639.4**
Liabilities			
Trade and other payables	**(17.9)**	**(0.2)**	**(18.1)**
Provisions	**(38.3)**	**(0.1)**	**(38.4)**
Deferred tax liabilities	**-**	**(13.1)**	**(13.1)**
	(56.2)	**(13.4)**	**(69.6)**
Net assets disposed	**492.0**	**77.8**	**569.8**
Consideration received or receivable:			
Cash consideration received	**1,168.5**	**102.7**	**1,271.2**
Consideration receivable	**20.4**	**-**	**20.4**
Costs directly attributable to the disposal	**(4.0)**	**(1.8)**	**(5.8)**
Total disposal consideration	**1,184.9**	**100.9**	**1,285.8**
Net assets disposed	**(492.0)**	**(77.8)**	**(569.8)**
	692.9	**23.1**	**716.0**
Transferred from foreign currency translation reserve to profit or loss on disposal of foreign operation	**72.9**	**-**	**72.9**
Profit on disposal	**765.8**	**23.1**	**788.9**
Net cash inflow on disposal:			
Cash consideration received	**1,168.5**	**102.7**	**1,271.2**
Costs directly attributable to the disposal paid	**(1.1)**	**(1.8)**	**(2.9)**
Net payments for settlement of foreign currency and oil hedges	**(77.6)**	**-**	**(77.6)**
Cash and cash equivalent balances disposed of	**(7.5)**	**-**	**(7.5)**
Net cash inflow on disposal	**1,082.3**	**100.9**	**1,183.2**

Note 13 - Interests in associates, jointly controlled entities and jointly controlled operations and assets

Name of entity	Ownership interest 31 Dec 2008 %	31 Dec 2007 %	Contribution to net profit 31 Dec 2008 $m	31 Dec 2007 $m
Associates				
Queensland Gas Company Limited (a)	**-**	27.6	**2.6**	3.5
Greater Energy Alliance Corporation Pty Limited	**32.5**	32.5	**(0.5)**	(0.6)
Gascor Pty Ltd	**33.3**	33.3	**-**	-
CSM Energy Limited	**35.0**	35.0	**(0.2)**	-
AlintaAGL Pty Limited	**-**	-	**-**	1.9
Jointly controlled entities				
ActewAGL Retail Partnership	**50.0**	50.0	**17.2**	15.2
Auscom Holdings Pty Limited (b)	**-**	50.0	**-**	9.9
Energy Infrastructure Management Pty Ltd (formerly North Queensland Pipeline Management Pty Ltd)	**50.0**	50.0	**0.1**	-
Central Queensland Pipeline Pty Ltd	**50.0**	50.0	**-**	-
MWF JV Pty Limited	**50.0**	-	**-**	-
			19.2	29.9

(a) The consolidated entity disposed of its 21.5% ownership interest in Queensland Gas Company Limited on 5 November 2008. The sale of the investment resulted in a pre-tax profit of $754.4 million.

(b) The consolidated entity disposed of its 50.0% ownership interest in Auscom Holdings Pty Limited on 2 October 2008. The sale of the investment resulted in a pre-tax profit of $149.9 million.

Jointly controlled operations and assets	31 Dec 2008 %	31 Dec 2007 %
Camden Gas Project	**50.0**	50.0
Sydney Basin Exploration	**50.0**	50.0
Hunter Exploration	**50.0**	50.0
Moranbah Gas Project	**50.0**	50.0
Moranbah Exploration	**50.0**	50.0
Galilee Basin Exploration	**50.0**	-
Spring Gully Project	**0.8**	-
PNG - PDL 2 (Kutubu, Moran, SE Mananda) (Note 12)	**-**	11.9
PNG - PDL 4 (Gobe Main, SE Gobe) (Note 12)	**-**	66.7
PNG - Moran Unit (Note 12)	**-**	5.4
PNG - SE Gobe Unit (Note 12)	**-**	27.3
PNG - PL 2 Kutubu Pipeline (Note 12)	**-**	11.9
PNG - PL 3 Gobe Pipeline (Note 12)	**-**	47.0
North Queensland Energy	**50.0**	50.0
North Queensland Gas Pipeline	**-**	50.0

Note 14 - Issued capital

	31 Dec 2008		30 June 2008	
	Number of shares	**$m**	Number of shares	$m
Movement in fully paid ordinary shares				
Balance at beginning of financial year	**443,354,097**	**3,971.6**	433,555,467	3,858.9
Shares issued under AGL Dividend Reinvestment Plan (a)	**2,783,210**	**38.4**	2,633,758	29.8
Shares issued to underwriter of the AGL Dividend Reinvestment Plan	**-**	**-**	7,164,872	83.1
Transaction costs, net of related income tax	**-**	**-**	-	(0.2)
Balance at end of financial period	**446,137,307**	**4,010.0**	443,354,097	3,971.6

(a) On 26 September 2008, 2,783,210 ordinary shares were issued at $13.80 per share to participating shareholders under the AGL Dividend Reinvestment Plan.

Note 15 - Contingent liabilities and contingent assets	**31 Dec 2008 $m**	30 June 2008 $m
Contingent liabilities		
Contingent consideration under contract	**-**	51.0
	-	51.0

In November 2005, AGL and Sydney Gas Limited (SGL) formed a 50/50 joint venture involving all of SGL's assets and permits in New South Wales. Under the joint venture arrangement, AGL would pay up to a further $51.0 million upon the proving up of up to an additional 500 petajoules of Proved (1P) coal seam gas reserves in the Camden Gas Project area by 31 December 2008, based upon an agreed reserve formula with reserves verified by an independent external expert. As at 31 December 2008, any increase in 1P reserves was not achieved.

Other contingent liabilities

Details of other 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) The consolidated entity has various contingent liabilities arising in connection with the sale of certain subsidiaries and a jointly controlled entity. Under the various sale agreements the consolidated entity has given warranties and indemnities in relation to tax related matters, environmental and other specific liabilities.

(b) Pursuant to ASIC Class Order 98/1418 (as amended), the Parent Entity and certain wholly-owned Australian subsidiaries entered in to a new Deed of Cross Guarantee on 27 June 2008. 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 2008 are expected to arise.

(c) The consolidated entity's financial statements include income derived from gas sales in the Victorian gas market on 22 November 2008 when the spot gas price reached the enforced price cap of $800 per gigajoule. TRUenergy Pty Ltd has issued a dispute notice to VENCorp, the gas market operator in Victoria, claiming that a “participant force majeure event” occurred and that VENCorp should have declared an administered price cap of $40 per gigajoule. AGL is a party to the dispute and has indicated that it will be supporting VENCorp’s decision. If TRUenergy is successful, the amount of $800 per gigajoule would be replaced with the administered price cap of $40 per gigajoule and would require a resettlement of receipts for that day. The impact to AGL if that occurred would be approximately $27.0 million before tax.

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

Note 16 - Acquisition of subsidiaries and businesses

Acquisition of wind farm development projects

On 23 July 2008, the consolidated entity acquired 100% of the issued capital of AGL Power Generation (Wind) Pty Limited (formerly Allco Wind Energy Investments Pty Limited) and its subsidiaries from Allco Finance Group Limited for $14.7 million including costs directly attributable to the acquisition of $2.2 million.

The assets of the acquired entities comprised seven wind farm development projects in Queensland, New South Wales and South Australia.

On 9 December 2008, the consolidated entity acquired 100% of the issued capital of Coopers Gap Wind Farm Pty Ltd and Oaklands Hill Pty Ltd from Investec Wind Holdings Pty Ltd for $14.3 million including costs directly attributable to the acquisition of $0.3 million.

The assets of the acquired entities comprised two wind farm development projects in Queensland and Victoria.

Acquisition of 50% of Tri-Star's interests in the Spring Gully Project

On 5 November 2008, the consolidated entity acquired 50% of Tri-Star Petroleum Company's (Tri-Star) joint venture working interests and related assets in the Spring Gully Project in Queensland for $15.8 million including costs directly attributable to the acquisition of $0.1 million.

Tri-Star held a 1.5% interest in the project agreement in relation to ATP 592P, PL 195 and PL 203 and a 0.075% interest in the project agreement in relation to PL 204. The consolidated entity has acquired 50% of these interests and will become a participant in the associated joint ventures.

The consolidated entity has also acquired the rights to take 400 terajoules of Tri-Star's banked gas from the Spring Gully Project comprising past production where Tri-Star has elected not to participate in gas sales agreements.

Acquisition of Gloucester Basin coal seam gas assets

On 19 December 2008, the consolidated entity acquired 100% of the issued capital of AGL Gloucester LE Lucas Energy Pty Limited from AJ Lucas Group Limited and 100% of the issued capital of Molopo (Gloucester) N.L. from Molopo Australia Limited for $372.6 million including costs directly attributable to the acquisition of $2.6 million.

The acquired entities hold 100% of the interests in PEL 285, the Gloucester Basin gas project in New South Wales. PEL 285 has 175 petajoules of 2P reserves certified by the internationally recognised petroleum consultant Netherland, Sewell & Associates, Inc. (NSAI) as at February 2008.

Note 16 - Acquisition of subsidiaries and businesses (continued)

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

	Wind farm development projects	Spring Gully Project interests	Gloucester Basin CSG assets	
	Fair value on acquisition	Fair value on acquisition	Fair value on acquisition	Total fair value on acquisition
	31 Dec 2008	31 Dec 2008	31 Dec 2008	31 Dec 2008
Net assets acquired	$m	$m	$m	$m
Assets				
Inventories	-	1.3	-	1.3
Exploration and evaluation assets	-	-	372.6	372.6
Oil and gas assets	-	14.5	-	14.5
Intangible assets	29.0	-	-	29.0
	29.0	15.8	372.6	417.4
Fair value of identifiable net assets	29.0	15.8	372.6	417.4
Goodwill on acquisition	-	-	-	-
	29.0	15.8	372.6	417.4
Consideration				
Cash paid including directly attributable costs	29.0	15.8	370.1	414.9
Directly attributable costs payable	-	-	2.5	2.5
	29.0	15.8	372.6	417.4
Net cash outflow on acquisitions				
Cash paid including directly attributable costs	29.0	15.8	370.1	414.9

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

AGL Energy Limited and Subsidiaries
Notes to the Financial Statements
For the half year ended 31 December 2008

Note 17 - 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 year, that has significantly affected, or may significantly affect, the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in future financial periods other than:

Interim dividend

On 25 February 2009, the Directors of AGL resolved to pay a fully franked interim dividend of 26.0 cents per share, amounting to $116.0 million. The record date for the interim dividend is 12 March 2009 with payment to be made on 3 April 2009. Shares will commence trading ex-dividend on 6 March 2009.

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 the ASX during each of the 10 trading days commencing on the second trading day after the dividend record date.

Sydney Gas Limited takeover offer

On 24 December 2008, AGL announced that it had agreed the terms of a recommended transaction with the board of Sydney Gas Limited (SGL) under which AGL offered to acquire all the issued shares of SGL at $0.425 cash per share by way of a formal off-market takeover offer (Offer).

On 9 February 2009, AGL announced that it had acquired a relevant interest in more than 90 per cent of SGL shares. The Offer closed on 24 February 2009 and AGL will now acquire the remaining SGL shares under the compulsory acquisition provisions of the Corporations Act 2001.

Note 18 - Information on audits or review

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

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

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

Mark Johnson

Mark Johnson
Chairman

25 February 2009

AGL Energy Limited and Subsidiaries

Directors' Declaration
For the half year ended 31 December 2008

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) compliance with accounting standards; and

(b) giving a true and fair view of the financial position and performance of the consolidated entity.

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;

This declaration is made in accordance with a resolution of the directors.

Mark Johnson
Chairman

Sydney, 25 February 2009

Deloitte.

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25 February 2009

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

Dear Directors

AUDITOR'S INDEPENDENCE DECLARATION TO 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 2008, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- the auditor independence requirements of the Corporations Act 2001 in relation to the review; and
- any applicable code of professional conduct in relation to the review.

Yours faithfully,

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

G. Couttas

G Couttas
Partner
Chartered Accountants

Deloitte.

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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 balance sheet as at 31 December 2008, and the income statement, cash flow statement, statement of recognised income and expense for the half-year ended on that date, selected explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the end of the half-year or from time to time during the half-year as set out on pages 27 to 47.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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 an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2008 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.

Auditor's Independence Declaration

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001.*

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 2008 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

G Couttas
Partner
Chartered Accountants
Sydney, 25 February 2009