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ASX and Media release

AGL reports FY2011 profit in line with guidance. 96,000 NSW electricity customers signed up in second half.

25 August 2011

AGL Energy Limited (AGL) today reported an Underlying Profit of $431.1 million for the year ended 30 June 2011, up 0.5% on the prior corresponding period.

This is in line with the earnings guidance provided in February when AGL advised that a combination of weather events in eastern and southern Australia would reduce expected full year earnings by $30 million to $35 million, after tax.

Underlying Profit is the statutory net profit after tax adjusted for significant items and changes in the fair value of financial instruments. AGL's statutory net profit after tax was $558.7 million.

AGL's organic growth strategy in New South Wales (NSW) is off to a good start with 96,000 new electricity customers contracted in the six months ended 30 June 2011. The strong growth in lead sales, up 75% on the prior corresponding period, reflected the competitiveness of AGL's product offering to both residential customers and small to medium enterprises.

AGL has declared a final dividend of 31.0 cents per share, bringing the dividend for the year to 60.0 cents per share, an increase of 1 cent per share, or 1.7 percent, on the 2010 dividend. The final dividend will be fully franked.

RESULT OVERVIEW:

- **Revenue $7,072.5 million, up 7.0%**
- **Statutory NPAT $558.7 million, up 56.9%**
- **Underlying Profit[1] $431.1 million, up 0.5%**
- **Underlying Earnings 94.4 cents per share, down 1.3%**
- **Underlying Operating cash flow before tax $676.0 million, up 7.3%**
- **2011 dividend of 60.0 cents per share (52% franked), up 1.7%**

1. Underlying profit is the Statutory Profit adjusted for significant items and changes in fair value adjustments

Commenting on the full year results, AGL Managing Director, Michael Fraser, said:

"This is a solid result for AGL given the effects of the severe weather conditions we faced in early February, and the much lower contribution from Loy Yang A.

"Our core businesses remain strong. The operational cash flow before tax of $676 million is particularly pleasing. This is an increase of more than 7 per cent on last year even though operating profit has been relatively flat.

"I am also pleased with the start we have made in growing the number of electricity customers we have in New South Wales. Our average acquisition cost of $170 per customer will create real value for shareholders compared to the prices AGL would have had to pay to acquire customers under the privatisation process."

Operational Highlights

Group: Operating EBIT for the year was $656.5 million compared with $652.1 million, an increase of 0.7%. Improved earnings from Retail Energy were offset by a lower contribution from Merchant Energy and Loy Yang A.

Table 1: Operating EBIT	Year ended 30 June 2011 $m	Year ended 30 June 2010 $m	Change $m	Change %
Operating EBIT				
Retail Energy	**373.0**	318.7	54.3	17.0
Merchant Energy	**378.2**	386.1	(7.9)	(2.0)
Upstream Gas	**13.6**	5.5	8.1	147.3
Energy Investments	**40.5**	81.7	(41.2)	(50.4)
Centrally managed expenses	**(148.8)**	(139.9)	(8.9)	6.4
Total operating EBIT	**656.5**	652.1	4.4	0.7

Retail Energy: The operating EBIT for Retail Energy of $373.0 million was up 17.0% on the prior corresponding period, due mainly to improvements in gross margin which increased by $65.8 million, or 10.4%. Most of the margin increase, $62.6 million, related to the mass market customer segment. The margin improvement for the C&I customer segment was $3.2 million.

Mass market gross margin increased because of a combination of tariff increases in all states, and a net increase in customer numbers (up by 52,000).

The operating expenses to gross margin ratio improved to 46.5% compared with 49.5% for the prior corresponding period.

Customer accounts increased by 1.6% to 3.29 million. Importantly, there has been a solid start to the NSW growth strategy with 96,000 lead sales generated in the 6 months to 30 June 2011 at an average cost per lead of $170. This has been supported by the good start to AGL Energy Online with over 40,000 registrations in the first four months. Dual fuel customer accounts continue to grow with an 8.1% increase during the year and now total 1.47 million.

All energy retail markets remain highly competitive. On 1 January 2011 new legislation took effect limiting the hours of operation of door-to-door marketers resulting. AGL had expected some reduction in competitive activity as a consequence, which in hindsight didn't occur as second tier retailers in particular simply increased door knocking resources. As a consequence, AGL saw the loss of some electricity customers outside NSW. The benefit of recently increased marketing activity by AGL in these states is already being evidenced.

Customer service levels continued to improve, with AGL's customer churn 3.8 ppts (19%) below industry average and a substantial fall in the number of customer complaints.

Merchant Energy: AGL's Merchant Energy business delivered an Operating EBIT of $378.2 million, down 2.0% on the prior corresponding period. Wholesale Electricity gross margin decreased 3.0% to $304.3 million. The severe summer weather events resulted in an increase of $43.7 million in the net cost of procuring electricity. Wholesale Gas gross margin increased 2.0% to $104.3 million. Eco-Markets gross margin increased 23.7% to $44.4 million reflecting improved portfolio management and increased renewable generation partly offset by costs associated with discontinued green schemes and unfavourable tariff outcomes in NSW and Queensland.

The 67.2 MW Oaklands Hill wind farm was sold in June 2011. AGL will realise a development fee of $38 million from the transaction which will be recognised on a "completion of construction" basis. An amount of $30 million has been recognised in FY2011 with the balance to be booked in FY2012. AGL will construct, operate and maintain the facility, as well as taking the electricity output and renewable energy certificates through off-take arrangements until 2036.

Upstream Gas: Upstream Gas's Operating EBIT increased to $13.6 million compared with $5.5 million for the prior corresponding period. This includes a fee of $16.7 million from the provision of gas storage services, a new business developed at Silver Springs in Queensland following completion of the acquisition of Mosaic Oil NL earlier in the year.

Upstream Gas is responsible for expanding AGL's interests in gas reserves entitlements. During the year, AGL's share of proved plus probable (2P) coal seam gas (CSG) reserves entitlements increased by 33% to 2,089PJ. In the first half of the year, AGL booked its first gas reserves in the Hunter Valley (142PJ). AGL's share of gas reserves in the Bowen Basin increased 310PJ during the year. The Mosaic acquisition also contributed to reserves growth with 69PJ of 2P reserves booked at 30 June 2011.

Energy Investments: The Operating EBIT decreased to $40.5 million compared with $81.7 million in the prior corresponding period largely due to a decrease in earnings from AGL's investment in Loy Yang A. The fall of $35 million in AGL's share of equity profits from Loy Yang was driven by a significant reduction in the pool price together with lower generation volumes.

Centrally Managed Expenses: Centrally managed expenses increased by $8.9 million. Labour cost increased by $4.4 million (11.2%). Cash labour costs increased by $2.0 million with the remaining $2.4 million increase related to movements in provisions associated with long service leave and employee incentives.

Insurance premiums increased largely due to the transfer from Merchant Energy of insurance costs associated with Torrens Island power station.

Financial Highlights

Cash flow: The underlying operating cash flow before tax for the year was $676.0 million, an increase of $45.7 million compared with $630.3 million in the prior corresponding period.

Financing costs: Net financing costs decreased by $10.1 million, to $37.4 million. The decrease was mainly due to reduced bank commitment fees following the cancellation of revolving credit facilities and interest associated with the substantial tax refund received during the year. Investment in key projects increased average net debt for the year to $667.0 million, compared with $462.5 million for the prior year .

Net debt as at 30 June 2011 was $471.4 million, an increase of $50.0 million from 30 June 2010.

The average net interest rate remained stable at 6.3%.

Refinancing: In July 2011, AGL announced that it had signed two financing transactions totalling $1.2 billion. The funds will be used to refinance $886 million of existing debt, due for repayment in October 2011, and provide additional funding for the group's capital expenditure program. These transactions lengthen AGL's debt maturity profile and further diversify its funding sources.

Credit rating: AGL's long-term credit rating of BBB/stable was reaffirmed by Standard & Poor's in August 2011.

Significant items: Significant items after tax resulted in a loss of $27.3 million. Acquisition related costs of $13.1 million after tax were incurred on activities associated with submitting a bid for the privatisation of energy assets in New South Wales and the acquisition of Mosaic Oil NL. During the year, AGL also undertook two major reviews of its organisational and operational structures. Firstly, the transfer of substantial elements of Retail Energy's back office processes to offshore service providers resulted in redundancy and restructuring costs of $8.0 million before tax ($6.5 million of which was recognised in the first half). The second initiative, undertaken as part of the annual budget cycle, identified a number of opportunities to improve operating efficiencies and organisational reporting lines. As a result, a number of positions became redundant with one-off costs of implementing the restructure of $19.0 million before tax.

Table 2: Significant items	**Year ended 30 June 2011**		Year ended 30 June 2010	
	Pre-tax	**PAT**	Pre-tax	PAT
	$m	**$m**	$m	$m
Merger and acquisition related costs	**(17.3)**	**(13.1)**	(5.1)	(4.4)
Redundancy, termination and restructuring costs	**(27.0)**	**(19.7)**	(11.1)	(7.8)
Impairment of non-current assets	**-**	**-**	(21.7)	(15.2)
Phoenix change program costs	**-**	**-**	(11.7)	(8.2)
Tax consolidation adjustment	**-**	**5.5**	-	85.5
Total significant items	**(44.3)**	**(27.3)**	(49.6)	49.9

Dividends: AGL has declared a fully franked final dividend of 31.0 cents per share bringing the total dividend for 2011 to 60.0 cents per share, an increase of 1.7% on the prior corresponding period.

The record date for the final dividend is 8 September 2011 with payment to be made on 29 September 2011. Shares will commence trading ex-dividend on 1 September 2011.

The AGL Dividend Reinvestment Plan (DRP) will be in operation. Shares will be allotted at a 1.5% discount to the simple average of the daily weighted average market price at which AGL's ordinary shares are traded on the ASX during each of the 10 trading days commencing on 12 September 2011.

Outlook

Strong growth is expected from AGL's Merchant Energy business on the assumption that there will not be a recurrence of the costs incurred in connection with the severe weather events of February 2011, and reflecting an increased contribution from AGL's hydro assets, a partial contribution from the South Australian desalination contract and the currently favourable wholesale electricity market conditions. These factors will be offset to some extent by reduced wind farm development fees, softer electricity demand and a more conservative hedge book.

Solid growth is expected from the Retail Energy business, including a continuation of the growth in NSW electricity customers, while no improvement is expected in the performance of Loy Yang A. All retail markets in which AGL operates are expected to remain very competitive.

Subject to the obtaining of planning approvals, AGL anticipates announcing in FY12 the commencement of construction of a 500MW gas-fired electricity generator at Dalton in NSW and a gas storage facility at Newcastle.

Consistent with its normal practice, AGL will provide formal earnings guidance for FY12 at the Annual General Meeting to be held on 27 October 2011.

A webcast and conference call will be held today to discuss AGL's 2011 full year profit result.

Webcast via: www.aglinvestor.com **10.30am** Dial In numbers: Toll Free Australia:1800 554 798 (no pin required) International Dial In: +61 2 8113 1401 (no pin required)

Sales

Switch to AGL electricity and gas:	www.agl.com.au
Register for AGL Online:	https//aglenergyonline.agl.com.au
Call Customer Service:	131 245

Information

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About AGL

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