

ASX and Media release

AGL reports 20 per cent underlying earnings growth post acquisition of Loy Yang A power station

27 February 2013

AGL Energy Limited (AGL) today reported a statutory net profit after tax of \$364.7 million for the six months ended 31 December 2012. This was up 211.7% on the prior corresponding period, reflecting changes in the fair value of certain electricity derivatives and the inclusion of operating earnings following the acquisition of the Loy Yang A power station on 29 June 2012.

AGL's Underlying Profit of \$279.4 million was up 20.0% on the prior corresponding period. Underlying Profit is the statutory net profit after tax adjusted for significant items and changes in the fair value of certain electricity derivatives.

AGL's customer accounts overall grew by 56,700 (1.6%) with continued strong growth in New South Wales electricity customers (+64,220). Increased competition was evident in both the New South Wales gas and Victorian electricity markets.

AGL has declared an interim dividend of 30.0 cents per share fully franked.

RESULT OVERVIEW:

- **Revenue \$4,970.2 million, up 37.5%**
- **Statutory NPAT \$364.7 million, up 211.7%**
- **Underlying Profit¹ \$279.4 million, up 20.0%**
- **Statutory EPS² 66.5 cents per share, up 171.4%**
- **Underlying EPS² 51.0 cents per share, up 4.7%**
- **Underlying Operating cash flow before interest & tax \$644.8 million, up \$492.4 million**
- **2013 interim dividend of 30.0 cents per share (100% franked), up 6.8%²**

Commenting on the interim results, AGL Managing Director, Michael Fraser, said: "AGL's strong earnings growth reflects the benefits of our integrated strategy and the acquisition of the Loy Yang A power station. Loy Yang has been successfully integrated into our portfolio of generation assets. It has performed well since we acquired it in June last year.

"Our competitive product offerings have contributed to the growth in customers numbers over the past six months. New South Wales is now home to our largest electricity customer base with over 680,000 customers."

The half year result was affected by the previously announced decision of the Queensland Competition Authority to change its methodology for setting electricity prices. This reduced AGL's earnings before interest and tax by \$29 million for the half year and also saw competition in Queensland slump to historic lows.

1. Underlying Profit has been presented with reference to the Australian Securities and Investment Commission Regulatory Guide 230 "Disclosing non-IFRS financial information". AGL's policy for reporting Underlying Profit is consistent with this guidance. The Directors have had the consistency of the application of the policy reviewed by the external auditors of AGL.
2. After adjusting for the bonus element of the rights issue associated with the acquisition of the Loy Yang A power station and adjacent coal mine.

Retail result: The half year result for Retail Energy was affected by two timing issues.

The introduction of a cost on carbon resulted in a liability for carbon being incurred from 1 July 2012. However, price increases to customers to recover that cost were progressively introduced over four months from July to October 2012. Costs were under-recovered by approximately \$40 million in the first half which will be recovered in the second half. The financial effect is approximately split \$30 million in electricity gross margin and \$10 million in gas gross margin.

A change in AGL's internal transfer pricing methodology resulted in a reduction of \$28 million in Retail Energy's earnings for the six months and a corresponding increase of \$28 million in Merchant Energy's results.

Excluding these timing differences, the Retail Energy result was up 14.7% for the six months.

NSW Government announcements on CSG: On 19 February 2013, the NSW Government announced a range of new measures addressing regulation of the coal seam gas industry in NSW. Included in the package of new measures is a two kilometre exclusion zone around residential areas and land identified for future residential growth. Exclusion zones will also apply in relation to "critical industry clusters" including the equine and viticulture industries. It is understood there will be a period of consultation before the new rules are finalised.

The changes do not apply to any coal seam gas activities that have already been approved. AGL's existing Camden Gas Project operations and the recently approved Stage 1 of the Gloucester Gas Project development are not expected to be materially affected by the new measures.

AGL's proposed northern expansion of the Camden Gas Project and the development of the Hunter Gas Project are likely to be significantly affected by the new measures. The full impact will not be able to be determined until the new rules are finalised, but there is an impairment risk to the existing book value of both projects. As at 31 December 2012, AGL's Camden Gas Project (including the northern expansion) had a book value of \$134.5 million. This includes the value of the producing assets at Camden that are not expected to be affected by the new measures. The Hunter Gas Project had a book value of \$191.0 million as at 31 December 2012.

AGL's further development of the Gloucester Gas Project beyond Stage 1 may also be affected by the new measures but, based on current information, there is not expected to be a material effect on the book value of the project.

Further analysis is required to make an informed assessment of the potential operational and financial consequences of the changes for AGL. This analysis is expected to be undertaken in the second half of this financial year.

AGL remains committed to safely developing coal seam gas reserves in NSW to help alleviate the expected shortage of gas as east coast annual gas demand increases to over 2000 PJ/pa following the commencement of LNG exports from Gladstone in 2014-2015.

On 11 February 2013, AGL received approval of Stage 1 of the Gloucester Gas Project under the *Environment Protection and Biodiversity Conservation Act 1999 (Cth)* (EPBC Act) from the Commonwealth Department of Sustainability, Environment, Water, Population and Communities. The EPBC Act approval contains 36 conditions relating to protecting matters of national environmental significance and is valid until 2062. This is in addition to the 92 conditions which apply to the New South Wales development application received in February 2011. AGL will satisfy these conditions to enable the development of up to 110 gas wells and associated infrastructure.

Dividends: AGL has declared a fully franked interim dividend of 30.0 cents per share, an increase of 6.8% on the prior corresponding period after adjusting for the bonus element of the rights issue in 2012.

The interim dividend will be paid on 4 April 2013. The record date to determine shareholders' entitlements to the dividend is 12 March 2013. Shares will commence trading ex-dividend on 5 March 2013.

The AGL Dividend Reinvestment Plan will operate in respect of the dividend. 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 14 March 2013.

Outlook: Volatile wholesale electricity prices in Queensland over January and February have reduced pre-tax earnings by approximately \$10 million. The deregulation of electricity prices in South Australia will also reduce pre-tax earnings by approximately \$15 million. These factors, combined with continued low electricity demand, will slightly constrain profit growth in the second half of the financial year.

Subject to normal trading conditions over the remainder of the financial year, AGL reaffirms Underlying Profit guidance of \$590 million to \$640 million for the 12 months ending 30 June 2013.

Conference call: A webcast and conference call will be held today to discuss AGL's 2013 interim profit result.

eWebcast via: www.agl.com.au

10.30am

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About AGL

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

Appendix 1: Reconciliation of Statutory Profit to Underlying Profit

Statutory Profit is prepared in accordance with the Corporations Act 2001 and the Australian Accounting Standards. Underlying Profit is the Statutory Profit adjusted for significant items and changes in fair value of financial instruments.

AGL believes Underlying Profit provides a better understanding of its financial performance because it:

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

Table 1: Reconciliation of Statutory Profit to Underlying Profit

	Six months ended 31 December 2012	Six months ended 31 December 2011
	\$m	\$m
Statutory Profit	364.7	117.0
Adjust for the following after tax items:		
Significant items	-	-
Changes in fair value of financial instruments	(85.3)	115.9
Underlying Profit	279.4	232.9