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ASX & Media Release

Financial Results – Half Year Ended 31 December 2021

10 February 2022

Attached are the following documents relating to AGL Energy Limited's results for the half year ended 31 December 2021:

- Appendix 4D
- Half Year Report

John Fitzgerald

Company Secretary

Authorised for release by AGL's Board of Directors.

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About AGL

Proudly Australian for more than 180 years, AGL supplies around 4.5 million energy and telecommunications customer services[1]. We're committed to becoming a leading multi-product retailer, making energy and other essential services simple, fair and transparent. AGL operates Australia's largest private electricity generation portfolio within the National Electricity Market, comprising coal and gas-fired generation, renewable energy sources such as wind, hydro and solar, batteries and other firming technology, and gas production and storage assets. We are building on our history as Australia's leading private investor in renewable energy to now lead the business of transition to a low emissions, affordable and smart energy future in line with the goals of our Climate Statement. We have a passionate belief in progress and a relentless determination to make things better for our communities, customers, the Australian economy and our planet.

[1] Services to customers number is as at 31 December 2021 and includes Click Energy and 100% of approximately 300,000 services to customers of ActewAGL, in which AGL owns a 50% equity stake of the retail operations.

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 2021

				31 December 2021 $A million	31 December 2020 (restated) $A million
Revenue	**Up**	**5.5%**	to	**5,713**	5,414
Statutory Profit/(Loss) after tax attributable to shareholders		**NM[1]**	to	**555**	(2,276)
Underlying Profit after tax attributable to shareholders	**Down**	**40.9%**	to	**194**	328
				31 December 2021 cents	31 December 2020 (restated) cents
Statutory Earnings per share		**NM[1]**	to	**86.6**	(365.3)
Underlying Earnings per share	**Down**	**42.4%**	to	**30.3**	52.6
				31 December 2021 $A	30 June 2021 $A
Net tangible asset backing per share	**Up**	**22.3%**	to	**4.33**	3.54

	Amount cents	Franked amount cents
Interim dividend per ordinary share	16.0	0.00
Prior interim dividend per ordinary share	41.0	0.00

[1] Not Meaningful

Record date for determining entitlements to the interim dividend:
24th February 2022 and payable 30th March 2022.

Dividend reinvestment plan:
The AGL Dividend Reinvestment Plan (DRP) will operate in respect of the 2022 interim dividend. AGL will issue shares and allot them to DRP participants at no discount to the simple average of the daily weighted average price at which AGL's ordinary shares trade during each of the 20 trading days commencing 28th February 2022. The last date for shareholders to elect to participate in the DRP for the 2022 interim dividend is 25th February 2022.

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

Statutory profit after tax of $555 million includes $276 million after tax treated as significant items and a gain of $85 million after tax from the changes in the fair value of financial instruments. Excluding these items, the Underlying Profit after tax was $194 million, 40.9% down on the prior corresponding period.

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

Prior year restatement:

Following clarifying guidance from the International Financial Reporting Interpretations Committee (IFRIC), AGL adopted a change in accounting policy in relation to the treatment of configuration and customisation costs related to cloud computing arrangements, commonly referred to as Software as a Service (SaaS). Under the revised accounting policy, costs that would have been previously capitalised are treated as operating expenditure where the entity cannot demonstrate the ability to control the relevant software. In accordance with Australian Accounting Standards, the change in accounting policy has been adopted retrospectively and prior comparative periods have been restated. For more details, please refer to Note 1 within the Consolidated Financial Statements.

This report should be read in conjunction with the AGL Directors' Report incorporating the Operating and Financial Review and the Half-Year Financial Report for the half-year ended 31 December 2021 released to the market on 10 February 2022.

AGL Energy Half-Year Report

For the period ended 31 December 2021

Progress for life

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Directors' Report

for the half-year ended 31 December 2021

In accordance with a resolution of the Board, the Directors present their report on the consolidated entity consisting of AGL Energy Limited (AGL) and its controlled entities at the end of or during the half-year ended 31 December 2021 (the period). Financial comparisons used in this report are of results for the half-year ended 31 December 2020 (the prior corresponding period) for statement of profit or loss and cash flow analysis, and 30 June 2021 for statement of financial position analysis.

Directors in Office

The Directors of AGL Energy Limited who held office during or since the end of the half-year were:

	First Appointed
Current Directors	
Peter Botten – Chairman	21 October 2016 (appointed as Chairman on 22 April 2021)
Graeme Hunt – Managing Director	22 April 2021 (appointed as a Director on 1 September 2012 and Managing Director on 22 April 2021)
Jacqueline Hey	21 March 2016
Diane Smith-Gander	28 September 2016
Patricia McKenzie	1 May 2019
Mark Bloom	22 June 2020
Graham Cockroft	1 January 2022
Former Directors	
John Stanhope	9 March 2009 (retired 22 September 2021)

Review and results of operations

A review of AGL's operations during the half-year and the results of those operations is set out in the Operating & Financial Review, commencing on page 3.

Subsequent Events

Apart from the matters identified below and elsewhere in this Directors' Report and the Half-Year Financial Report, the Directors are not aware of any other matter or circumstance that has arisen since 31 December 2021 that has significantly affected or may significantly affect the operations of AGL, the results of those operations, or the state of affairs of AGL in the future.

Dividends

The Directors have declared an interim dividend of 16.0 cents per share, compared with 41.0 cents per share for the prior interim dividend. The dividend will be unfranked and will be paid on 30 March 2022. The record date to determine shareholders' entitlements to the interim dividend is 24 February 2022. Shares will commence trading ex-dividend on 23 February 2022.

AGL's dividend policy is to target a payout ratio of approximately 75% of annual Underlying Profit after tax. Before declaring the dividend the Directors satisfied themselves that: AGL's assets exceeded its liabilities immediately before declaring the dividend and the excess was sufficient for the payment of the dividend; the payment of the dividend was fair and reasonable to AGL's shareholders as a whole; and the payment of the dividend would not materially prejudice AGL's ability to pay its creditors.

The AGL Dividend Reinvestment Plan (DRP) will operate in respect of the 2022 interim dividend. AGL will issue shares and allot them to DRP participants at no discount to the simple average of the daily weighted average price at which AGL's ordinary shares trade during each of the 20 trading days commencing 28 February 2022. The last date for shareholders to elect to participate in the DRP for the 2022 interim dividend is 25 February 2022.

Directors' Report

for the half-year ended 31 December 2021

Non-IFRS Financial Information

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

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

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

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

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

Rounding

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

Auditor's Independence Declaration

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

Peter Botten
Chairman
10 February 2022

Operating & Financial Review

for the half-year ended 31 December 2021

Principal activities

The principal activities of AGL Energy as of the reporting date comprised the operation of energy businesses and investments, including electricity generation, gas storage, the sale of electricity and gas to residential, business and wholesale customers and the retailing of broadband and mobile services.

1. Key Operating Metrics

Key Operating Metrics – These performance measures have a direct influence on AGL Energy's H122 financial performance. The six key operating metrics comprise:

- Customer numbers and churn;
- Customer energy demand;
- Wholesale electricity prices;
- Generation volumes;
- Fuel costs; and
- Operating costs and capital expenditure.

1.1 Key Operating Metrics performance

A summary of performance in relation to the six key operating metrics over H122 is provided in the following sections.

1.1.1 Customer numbers

Total customer services decreased 0.1% to 4.205 million, from 4.208 million reported at 30 June 2021 due to forecast churn of 25,000 Click Energy services and strong competition, resulting in a 31,000 loss in energy services, offset by continued growth in telecommunication services. AGL Energy acquired Click Energy on 30 September 2020, and successfully migrated more than 200,000 customers in April 2021. Overall closing Click Energy services as at 31 December 2021 are in line with the business case.

Consumer Electricity decreased by 18,000 services primarily as a result of Click Energy services losses. Consumer Gas services decreased by 12,000 services partly as a result of churn of Click Energy services, competition and COVID-19 impacting New South Wales and Victoria offset slightly by growth in Queensland and Western Australia.

Total telecommunication services increased 14.3% to 224,000 due to the launch of AGL Telco during FY21.

Services to customers	H122 ('000)	FY21 ('000)
Consumer Electricity	**2,447**	2,465
New South Wales	**912**	916
Victoria	**743**	759
South Australia	**367**	369
Queensland	**425**	421
Consumer Gas	**1,518**	1,530
New South Wales	**627**	634
Victoria	**590**	601
South Australia	**136**	136
Queensland	**87**	86
Western Australia	**78**	73
Total Consumer energy services	**3,965**	3,995
Dual fuel services	**2,315**	2,249
Average consumer energy services	**3,980**	3,947
Total Large Business energy services[1]	**16**	17
Total energy services	**3,981**	4,012
Total telecommunication services	**224**	196
Total AGL Energy services to customers[2]	**4,205**	4,208

1. Included in Large Business energy services at December 2021 are approximately 100 Accel Energy customer services with a similar level in the prior corresponding period.
2. Excluding ActewAGL customers

AGL churn increased 1.9 ppts to 16.2% from 14.3% reported as at 30 June 2021, and Rest of Market churn increased 1.4 ppts to 18.9%, from 17.5% at 30 June 2021. Rest of Market churn at 30 June 2021 has been normalised to reflect the removal of Click Energy churn and was previously reported as 19.7%. AGL churn has increased predominately due to churn of Click Energy customers through integration, which has come in line with business case expectations, a one off impact of Faster Transfer regulation and heightened competition, which has also resulted in the increase in Rest of Market churn. The gap between AGL and the rest of the market was 2.7 ppts, down from 3.2 ppts at 30 June 2021 as a result of Click Energy churn.

1.1.2 Customer energy demand

Total electricity customer sales volumes were 19,741 GWh, down 801 GWh or 3.9%.

- Consumer customer electricity sales volumes were 7,396 GWh, down 0.9%, with growth in the average customer base offset by lower average demand due to a milder winter and increased solar volumes.
- Large Business customer electricity sales volumes were 5,056 GWh, up 0.4% driven by higher year on year volumes in Perth Energy as a result of strong acquisition and retention performance. This was partly offset by a change in customer demand impacting volumes due to COVID-19 and increased competition.
- Wholesale customer electricity sales volumes were 7,289 GWh, down 756 GWh or 9.4%, driven by lower consumption from AGL Energy's existing customer base.

Customer energy demand	H122 GWh	H121 GWh
Consumer customer electricity sales	**7,396**	7,461
Large Business customer electricity sales	**5,056**	5,036
Wholesale customer electricity sales	**7,289**	8,045
Total customer electricity sales volume	**19,741**	20,542

Total gas customer sales volumes were 81.5 PJ, down 1.0 PJ or 1.2%.

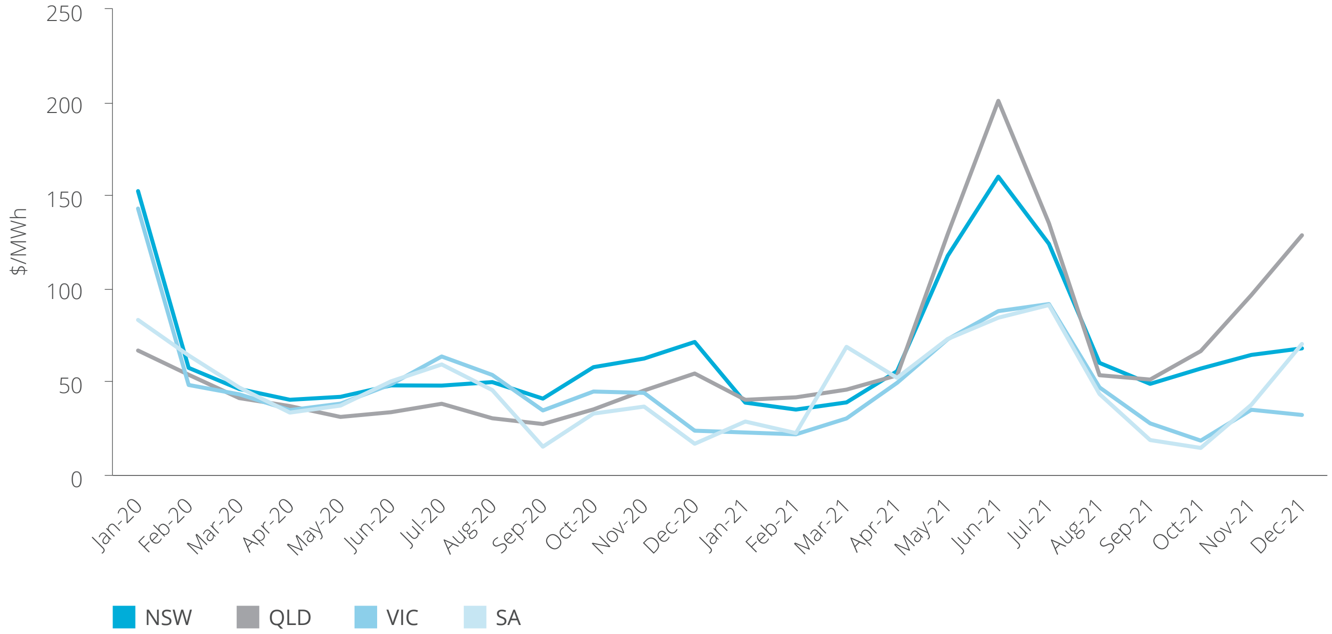
- Consumer customer gas sales volumes were 31.2 PJ, up 1.6%, with growth in the average customer base partly offset by lower average demand due to a milder winter.
- Large Business customer gas sales volumes were 8.7 PJ, down 6.5%, as a result of loss of customers.
- Wholesale customer gas sales and generation volumes were 41.6 PJ, a decrease of 2.1%, driven by lower gas generation volumes due to lower electricity prices, partly offset by wholesale customer growth, mainly driven by new customers.

Customer energy demand	H122 PJ	H121 PJ
Consumer customer gas sales	**31.2**	30.7
Large Business customer gas sales	**8.7**	9.3
Wholesale customer gas sales and generation	**41.6**	42.5
Total customer gas sales volume	**81.5**	82.5

1.1.3 Wholesale electricity prices

Average spot price varied between states, with Queensland being the highest priced state and the only state with significant price volatility during H122, driven by numerous constraints and limitations in ramping in a five minute settlement environment. NSW also experienced an uplift driven by higher demand and coupling to Queensland. Prices in Victoria and South Australia were flatter half on half and broadly in line with the prior corresponding period.

Wholesale electricity prices (AEMO spot prices)



1.1.4 Generation volumes

Generation sold to the pool was broadly flat on the prior corresponding period. Lower generation at AGL Loy Yang was driven by lower pool price outcomes and higher planned outage days. This was partly offset by higher Liddell generation, driven by higher availability due to lower outages. Gas-fired generation at AGL Torrens was lower due to lower pool prices, and higher generation from AGL's Victorian wind farms was due to lower unplanned network outages.

Pool generation volumes	H122 GWh	H121 GWh
AGL Macquarie (Bayswater Power Station)	**6,781**	6,664
AGL Loy Yang Power Station	**6,498**	7,263
AGL Macquarie (Liddell Power Station)	**4,087**	3,285
Gas generation	**702**	1,126
Renewable generation	**2,551**	2,478
Total pool generation volumes	**20,619**	20,816

1.1.5 Fuel costs

Total fuel costs for the electricity generation portfolio were $(412) million, down 7.4% compared with the prior corresponding period.

- Coal costs were $(318) million, down 3.3%, and on a per MWh basis decreased by $0.8 per MWh or 4.2%. This reflected the impact of lower contracted coal prices on short term purchases as well as a higher proportion of coal delivered from legacy contracts.
- Gas fuel costs were $(94) million, down 19.0%, due to lower generation volumes in response to lower electricity prices, resulting in reduced generation required from gas generation units in South Australia. This was partly offset by higher market gas costs, coupled with fixed haulage costs spread across lower generation volume.

Generation fuel costs	H122 $m	H121 $m	H122 $/MWh	H121 $/MWh
Coal	**(318)**	(329)	**(18.3)**	(19.1)
Gas	**(94)**	(116)	**(133.9)**	(103.0)
Total generation fuel costs	**(412)**	(445)	**(20.0)**	(21.4)

Total wholesale gas costs were $(743) million, up 16.6% largely due to the roll off of lower cost legacy gas contracts and higher oil prices. On a per GJ basis, costs increased by $1.40 per GJ or 18.2%.

Total wholesale gas costs	H122 $m	H121 $m	H122 $/GJ	H121 $/GJ
Gas purchases	**(565)**	(467)	**(6.9)**	(5.7)
Haulage, storage & other	**(178)**	(170)	**(2.2)**	(2.1)
Total wholesale gas costs	**(743)**	(637)	**(9.1)**	(7.7)

1.1.6 Operating costs and capital expenditure

Total operating costs (excluding depreciation and amortisation) were $(761) million, down 7.0%. Excluding costs attributed to acquired businesses, total operating costs were $(736) million, down 10.0%. Cost savings were driven by cost out initiatives ($74 million) and lower COVID-19 impacts ($17 million). These savings were partly offset by Enterprise Agreement cost increases and the non-recurrence of AGL Loy Yang Unit 2 insurance proceeds received in the prior corresponding period.

Operating costs	H122 $m	Restated H121 $m
AGL Australia - Customer	**(247)**	(246)
AGL Australia - Supply and Trading	**(29)**	(32)
AGL Australia - Investments	**(9)**[1]	–
Accel Energy - Trading and Origination	**(22)**	(27)
Accel Energy - Operations	**(312)**	(342)
Centrally Managed Expenses	**(142)**	(171)
Total operating costs (excluding depreciation and amortisation)	**(761)**	(818)

1. Investments includes $(4) million operating costs attributable to non-controlling interests

Total capital expenditure was $278 million, a decrease of $7 million:

- Sustaining capital expenditure was $216 million, an increase of $11 million. This comprised $162 million of expenditure on AGL Energy's coal-fired plants, up $17 million, driven by the deferral of outage work from FY21 into H122 at AGL Loy Yang due to COVID-19 related personnel restrictions on site, partly offset by the absence of Liddell outage work in the current period due to closure. Other sustaining capital expenditure was $54 million, down $6 million, largely due to decreased corporate capital expenditure.
- Growth and transformation capital expenditure was $62 million, a decrease of $18 million. This was driven by the non-recurrence of capital expenditure from the prior corresponding period including the cancelled LNG import jetty at Crib Point, spend on systems to support AGL's expansion into the provision of broadband services and spend on expanding AGL's residential batteries business. This was partly offset by spend in the current period on the Torrens Island battery.

Capital expenditure	H122 $m	Restated H121 $m
AGL Australia - Customer	**36**	43
AGL Australia - Supply and Trading	**41**	45
Accel Energy - Trading and Origination	**5**	6
Accel Energy - Operations	**181**	169
Centrally Managed Expenses	**15**	22
Total capital expenditure	**278**	285
Sustaining	**216**	205
Growth and transformation	**62**	80
Total capital expenditure	**278**	285

2. Group Financial Performance and Position

2.1 Group results summary

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

Statutory Profit after tax was $555 million, up $2,831 million compared with the prior corresponding period. This included two items excluded from Underlying Profit (that had a net profit impact):

- Significant items of $276 million from onerous contract provision revaluations, costs associated with separation, restructuring and integration, and impairment losses. See Section 2.1.2 for more detail.
- A movement in the fair value of financial instruments of $85 million compared with $93 million in the prior corresponding period. This net gain reflected a positive fair value movement in oil and gas derivative contracts as a result of higher oil and gas forward prices against a net buy position. See Section 2.1.5 for more detail.

Underlying Profit after tax was $194 million, down 40.9% from the prior corresponding period. A description of the factors driving Underlying Profit is included in Section 2.1.4.

	H122 $m	Restated H121 $m
Statutory (Loss)/Profit after tax attributable to AGL Energy shareholders	**555**	(2,276)
Adjust for:		
Significant items after tax	**(276)**	2,697
(Profit) on fair value of financial instruments after tax	**(85)**	(93)
Underlying Profit after tax	**194**	328
Earnings per share on Statutory (Loss)/Profit	**86.6 cents**	(365.3 cents)
Earnings per share on Underlying Profit	**30.3 cents**	52.6 cents

Earnings per share (EPS) calculations have been based upon a weighted average number of ordinary shares (WANOS) of 641,090,661 (31 December 2020 WANOS: 623,060,434). The weighted average number of ordinary shares was 18,030,227 higher than the prior corresponding period largely due to the underwriting of 26,960,022 shares and dividend reinvestment plan issue of 8,385,341 shares in September 2021.

2.1.2 Significant items

	H122 $m		H121 $m	
	Pre-tax	Post-tax	Pre-tax	Post-tax
Onerous contracts	**451**	**316**	(1,920)	(1,344)
Impairment losses	**(6)**	**(4)**	(1,644)	(1,342)
Separation costs	**(34)**	**(24)**	–	–
Restructuring and integration costs	**(17)**	**(12)**	(11)	(11)
Total significant items	**394**	**276**	(3,575)	(2,697)

H122

During the period AGL Energy:

- Revalued $451 million pre-tax ($316 million post-tax) onerous contract provision related to various renewable asset PPAs, driven by the uplift in the forward prices on both electricity and large-scale generation certificates (LGC) prices (FY23 onwards) since 30 June 2021.
- Recognised an impairment of $6 million pre-tax ($4 million post-tax) related to the carrying value of the 644 Collins Street Right-of-use and make good assets.
- Recognised $34 million pre-tax ($24 million post-tax) in separation costs. Costs related to preparing for the proposed demerger of AGL Energy's retail business.
- Recognised $17 million pre-tax ($12 million post-tax) in restructuring and integration costs. Costs related to the delivery of cost reduction initiatives and related redundancy costs.

H121

During the prior corresponding period, AGL Energy:

- Recognised a $1,920 million pre-tax ($1,344 million post-tax) onerous contract provision related to various out of the money renewable asset Power Purchase Agreements (PPAs).

- Recognised a pre-tax impairment of $1,644 million ($1,342 million post-tax) related to the carrying value of the AGL Energy Generation Fleet cash-generating unit, including goodwill, inventories and natural gas assets.
- Acquired 100% of the outstanding share capital of Click Energy Holdings Pty Ltd, incurring pre-tax $11 million of acquisition, and integration costs ($11 million post-tax).

2.1.3 Earnings Before Interest and Tax (EBIT)

	H122 $m	Restated H121 $m
Statutory EBIT	**894**	(2,890)
Significant items	**(394)**	3,575
(Gain) on fair value of financial instruments	**(122)**	(133)
Underlying EBIT	**378**	552

On 30 June 2021 AGL Energy confirmed its intent to execute a demerger of its retail business and form two listed energy businesses, Accel Energy and AGL Australia. Effective 1 July 2021, the internal reporting structure of AGL Energy has been updated, to align to the two new businesses.

Revised and previous structure from 1 July 2021

AGL Energy Group	H122 $m	Restated H121 $m
Revised Structure:		
AGL Australia - Customer	**74**	110
AGL Australia - Supply and Trading	**111**	150
AGL Australia - Investments	**(1)**	5
Accel Energy - Trading and Origination	**816**	989
Accel Energy - Operations	**(443)**	(501)
Centrally Managed Expenses	**(179)**	(201)
Underlying EBIT	**378**	552
Previous Structure:		
Customer Markets	**76**	111
Integrated Energy	**482**	637
Investments	**(1)**	5
Centrally Managed Expenses	**(179)**	(201)
Underlying EBIT	**378**	552

2.1.4 Group financial performance

	H122 $m	Restated H121 $m
Revenue	**5,713**	5,414
Cost of sales	**(4,236)**	(3,783)
Other income	**7**	107
Gross margin	**1,484**	1,738
Operating costs (excluding depreciation and amortisation)	**(761)**	(818)
Underlying EBITDA	**723**	920
Depreciation and amortisation	**(345)**	(368)
Underlying EBIT	**378**	552
Net finance costs	**(112)**	(94)
Underlying Profit before tax	**266**	458
Income tax expense	**(76)**	(130)
Underlying Profit after tax	**190**	328
Non-controlling interests[1]	**4**	–
Underlying Profit after tax attributable to AGL Energy shareholders	**194**	328

1. Relates to the 49% attributable to non-controlling interests.

Underlying Profit after tax attributable to AGL Energy shareholders was $194 million, down 40.9%. In the prior corresponding period $105 million of insurance proceeds was recognised, related to the AGL Loy Yang Unit 2 extended outage in 2019. Excluding insurance proceeds, Underlying Profit after tax attributable to AGL Energy shareholders was down $59 million, or 23.3%. The principal drivers of the decrease were lower contracted electricity prices, lower electricity demand as a result of increased penetration of rooftop solar and a milder winter, and compressed gas margins driven by the impact of legacy supply contracts maturing and increases to haulage and storage costs. This was partly offset by $57 million lower operating costs, or 7.0% compared with the prior corresponding period, driven by cost out initiatives.

Refer to Section 3 for further analysis on the movement in gross margin for each operating segment and Section 1.1.6 for commentary on group operating costs.

Depreciation and amortisation of $(345) million was down 6.3%, driven by the impact of asset impairments recorded during the prior corresponding period.

Net finance costs were $(112) million, up 19.1% largely driven by the embedded interest cost unwinding from the onerous contracts and rehabilitation provisions recognised at 31 December 2020. This was partially offset by a reduction in the underlying interest rate.

The impacts to Underlying Profit before tax were partially offset by a 41.5% reduction in Underlying tax expense to $76 million, primarily reflecting the decrease in profit. The underlying effective tax rate was 28.6%, an increase of 0.2 ppts.

2.1.5 Change in fair value of financial instruments

Approach to hedging

AGL Energy's approach to managing energy price risks, through physical ownership of energy generation, contracting for energy supply and financial hedging, reflects the need to provide pricing certainty to customers and to limit exposure to adverse wholesale market outcomes. AGL Energy generates electricity or has contracted gas supply in excess of its customers' demand in some states. In other states, AGL Energy has sources of supply less than its customers' demand.

AGL Energy uses certain financial instruments (derivatives) to manage these energy price risks and to manage its exposure to interest and foreign exchange rates arising in the normal course of business, provided the overall AGL Energy risk appetite is not exceeded. The majority of these financial instruments exchange a fixed price for a floating market-based price of a given commodity, interest rate, currency or a quoted asset, with the net differential settled with the counterparty. AGL Energy is exposed to price volatility on the sale and purchase of energy-related commodities in the normal course of business, and therefore enters into contracts that minimise the price risk to AGL Energy on both sold and purchased forecast exposures.

AGL Energy has in place a governance framework that establishes the policy guidelines under which energy hedging activities are conducted. Key components of that policy include segregation of duties, independent risk oversight, earnings-at-risk limits, compliance management and regular reporting to the Board. The risk policy represents the Board's and Senior Management's commitment to an effective risk management function to ensure appropriate management and oversight of AGL Energy's risks related to wholesale markets energy risk. The policy allows for commercial optimisation of the portfolio provided that AGL Energy adheres to overall earnings-at-risk limits that reflect its risk appetite.

Energy price risk

AGL Energy's energy related risk primarily relates to energy price fluctuations. Derivative contracts to minimise the exposure to market-based fluctuations are executed pursuant to AGL Energy's Trading, Origination and Portfolio risk management policy. The energy-related derivative contracts include electricity, gas, oil and other energy related commodities which can be purchased or sold, with the movements in fair value recognised in profit or loss. The purchased contracts result in AGL Energy paying a fixed price in exchange for a floating price received from the counterparty, and the sold contracts result in AGL Energy receiving a fixed price in exchange for a floating price paid to the counterparty.

AGL Energy is required to make margin payments in respect of futures contracts traded through the Australian Securities Exchange (ASX). Initial margin call payments are made at the time contracts are entered in order to manage intra-day credit exposure. The quantum of initial margin depends on the volume traded, the expected market volatility as well as forward prices at the time. The initial margin call can move subsequently as forward prices move. AGL Energy also receives or makes payments known as variation margin calls, which cover mark to market movements of AGL Energy's open futures position. These typically reverse through future earnings as contract positions roll off.

Treasury related risk

AGL Energy's treasury related risk primarily relates to interest and foreign currency rate fluctuations. Contracts to minimise the exposure to market-based fluctuations are executed pursuant to AGL Energy's treasury risk management policy. These contracts primarily result in fixed interest and foreign currency rates. These contracts are designated in hedge relationships when they can be matched to forecast transactions with sufficient probability of the forecast transaction occurring.

In addition to the above, AGL Energy is counterparty to cross-currency interest rate swap arrangements to convert its fixed interest rate US dollar private placement borrowing instruments to floating interest rate Australian dollar equivalent borrowing instruments. The cross-currency interest rate swap arrangements are designated as fair value and cash flow hedge relationships.

Movement in fair value

The initial fair value of a derivative is the consideration paid or received (the premium). Fair value movements in any given period are a function of changes to underlying indices, market prices or currencies and the roll-off of realised contractual volumes or amounts. A reconciliation of the movements in financial instruments carried at fair value for H122 is presented in the following table.

	H122 $m	FY21 $m	Change $m
Energy derivative contracts	**837**	711	126
Cross currency and interest rate swap derivative contracts	**135**	72	63
Total net assets for financial instruments	**972**	783	189
Change in net assets	**189**		
Premiums paid	**(23)**		
Premium roll off	**22**		
Equity accounted fair value	**(3)**		
Total change in fair value	**185**		
Recognised in equity hedge and other reserve	**53**		
Recognised in borrowings	**16**		
Recognised in profit or loss – pre-tax	**116**		
Total change in fair value	**185**		

The movement in net derivative assets in the period of $189 million is expanded on in the table below.

		Unrealised fair value recognised in:					
	FY21 $m	Profit or loss	Hedge reserve	Borrowings	Currency basis	Premiums and roll offs paid/ (received)	H122 $m
Energy derivative contracts	**711**	125	-	-	-	1	**837**
Cross currency and interest rate swap contracts	**72**	(4)	46	16	5	-	**135**
Net asset/(liability)	**783**	**121**	**46**	**16**	**5**	**1**	**972**
Fair value recognised within equity accounted investments		(5)	2				
Profit or loss		**116**					
Realised fair value to be recognised in cost of sales		6					
Fair value recognised in profit or loss		**122**					

The fair value movement driving the change in the net derivative assets position reflected in unrealised fair value movements is as follows:

- An increase in the fair value of energy-related derivatives of $125 million was recognised in profit or loss (excluded from Underlying Profit). The net gain reflected a positive fair value movement in oil and gas derivative contracts as a result of higher oil and gas forward prices against a net buy position. The electricity sell and buy contracts largely offset each other, resulting in a relatively flat position.
- Currency related fair value gain of $16 million recognised in borrowings. This related primarily to the depreciation of the AUD/USD foreign exchange rate. The $46 million movement in hedge reserve was largely driven by the increase in the AUD forward curve.

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2.2 Cash flow

2.2.1 Reconciliation of Underlying EBITDA to cash movement

Operating cash flow before significant items, interest and tax was $807 million, up $50 million. The rate of conversion of EBITDA to cash flow was 112%, up from 82% in the prior corresponding period. Adjusting for margin calls, the cash conversion rate was 95%, up from 90% in the prior corresponding period.

		H122 $m		Restated H121 $m
Underlying EBITDA		**723**		920
Equity accounted income (net of dividends received)		**(3)**		(2)
Accounting for onerous contracts		**(67)**		(15)
Other assets/liabilities and non-cash items		**17**		(28)
Working capital movements				
Decrease in receivables	**37**		21	
(Decrease)/Increase in payables	**(216)**		9	
Decrease/(Increase) in inventories	**34**		(30)	
Net derivative premiums paid/roll-offs	**1**		(4)	
Decrease/(Increase) in financial assets (margin calls)	**122**		(68)	
Net movement in green assets/liabilities	**161**		(45)	
Other working capital movements	**(2)**		(1)	
Total working capital movements		**137**		(118)
Operating cash flow before significant items, interest and tax		**807**		757
Net finance costs paid		**(42)**		(63)
Income taxes paid		**(53)**		(75)
Cash flow relating to significant items		**(51)**		(11)
Net cash provided by operating activities		**661**		608
Net cash used in investing activities		**(552)**		(405)
Net cash used in financing activities		**(93)**		(243)
Net increase/(decrease) in cash and cash equivalents		**16**		(40)

The principal reason for a higher operating cash flow was a positive working capital movement compared with a negative cash flow impact from working capital in the prior corresponding period, partly offset by lower Underlying EBITDA. Components of working capital movement were:

- Receivables cash flow of $37 million reflected the seasonality of customer consumption, which each year results in a higher opening receivables balance at 1 July compared with the closing balance at 31 December. This was partly offset by the impact of a short term cash flow management strategy to lower inventory holdings of green certificates. There is an offsetting positive cash flow impact for this transaction within the net movement in green assets/liabilities line in the cash flow. The prior corresponding period receivables cash flow of $21 million reflected a similar seasonality impact of customer consumption, partly offset by receivables cash flow relating to the 2019 AGL Loy Yang Unit 2 insurance claim.
- Payables cash flow of $(216) million reflected the decrease in energy payables across the current period as a result of AGL Energy being a net purchaser of electricity during periods of high spot prices in NSW and Queensland in June 2021. It also reflected higher gas spot market sales, lower gas purchases leading to a lower accounts payable balance at December, and AGL Loy Yang mine coal royalty payments. The prior corresponding period payables cash flow of $9 million reflected lower electricity pool prices on Victorian long positions and the impact of high price events during periods where AGL was purchasing electricity from the pool due to outages at AGL Macquarie, largely offset by AGL Loy Yang mine coal royalty payments and network tariff decreases in Queensland and South Australia for electricity and in New South Wales for gas.
- Inventory cash flow of $34 million reflected higher gas net withdrawals from storage to meet winter demand. The prior corresponding period inventory cash flow of $(30) million reflected higher coal stockpile levels due to lower generation volumes, higher gas injection volumes due to cheaper available gas and a step-up in the Iona Gas Storage Facility storage capacity, an increase in batteries inventory as part of the ramp up of AGL's residential battery program and the timing of inventory used on a number of commercial solar projects.
- Financial assets (margin calls) cash flow of $122 million reflected the variation margin reduction with an increased buy position at a lower strike against a lifting market curve between June and December, partly offset by an increase in initial margin due to an increase in net volume traded. This contrasted to the prior corresponding period cash flow of $(68) million, which reflected an increase in initial margin call requirements and a net cash outflow of variation margin calls due to a decrease of mark to market value of open future positions in the period, with average contract prices decreasing by more than the forward curve across the same period.

- Green assets and liabilities cash flow of $161 million largely reflected the impact of a short term cash flow management strategy to lower inventory holdings of green certificates (offsetting impact to receivables above). This short term transaction impact will be reversed in H2 FY22, coinciding with the timing of surrender. It also reflected the impact of timing with certificates purchased in FY20 and surrendered in H122. The prior corresponding period green assets and liabilities cash flow of $(45) million reflected higher SREC purchases in response to an anticipated compliance percentage increase in calendar year 2021.

The onerous contracts cash flow of $(67) million reflected the onerous portion of payments made to suppliers under legacy wind farm offtake agreements and Yabulu PPA and Gas Transport Agreements (GTAs), previously recognised as onerous. The prior corresponding period cash flow of $(15) million reflects the onerous portion of payments related to Yabulu PPA and GTAs.

The movement in other assets/liabilities of $17 million largely relates to a movement in unearned revenue. The prior corresponding period cash flow of $(28) million included payments for rehabilitation works, insurance receipts and employee incentives.

Cash tax paid during H122 was lower than H121, in line with lower profit before tax and utilisation of prior year tax losses.

Investing cash flow of $(552) million reflected capital expenditure, the acquisition of Tilt Renewables, and the sale of investments in EIP Funds and Ecobee Inc. The prior corresponding period Investing cash flow of $(405) million reflected capital expenditure and the Click Energy acquisition. For further details on capital expenditure, see Section 1.1.6.

Financing cash flow of $(93) million reflected the net repayment of borrowings. The prior corresponding period cash flow of $(243) million included dividends of $(318) million and a net borrowings drawdown of $79 million.

2.3 Financial position

Summary Statement of Financial Position

At 31 December 2021 AGL Energy's total assets were $15,450 million, consistent with 30 June 2021 assets of $15,450 million. The main movements within assets are an increase in investments in associates and joint ventures as a result of additional capital contribution into Powering Australian Renewables (PowAR) to fund AGL's 20% interest in PowAR's acquisition of Tilt Renewables Limited's Australian business. Value of other financial assets has increased predominately as a result of higher forward price curve, an increase in the forward interest rate curve and a decrease in the AUD/USD exchange rate. These increases are offset by a reduction in trade receivables and deferred tax assets.

Total liabilities at 31 December 2021 were $9,324 million, a decrease from $9,944 million at 30 June 2021, primarily reflecting the reduction in onerous contract provision, and a reduction in trade payables, partly offset by an increase in financial liabilities. The decrease in onerous contract provisions was predominantly driven by an uplift in the forward prices on both electricity and large-scale generation certificates.

Total equity at 31 December 2021 was $6,126 million, an increase from $5,506 million, reflecting the Statutory Profit for the period, and dividend reinvestments, partially offset by dividends paid. AGL Energy's return on equity, calculated on a rolling 12-month basis was 7.3%, a decrease compared with 30 June 2021.

	H122 $m	FY21 $m
Assets		
Cash and cash equivalents	**104**	88
Other current assets	**3,799**	3,587
Property, plant and equipment	**6,241**	6,283
Intangible assets	**3,276**	3,302
Other non-current assets	**2,030**	2,190
Total assets	**15,450**	15,450
Liabilities		
Borrowings	**3,027**	3,185
Other liabilities	**6,297**	6,759
Total liabilities	**9,324**	9,944
Net assets/total equity[1]	**6,126**	5,506

1. Total equity at 31 December 2021 includes $2m attributable to non-controlling interests.

Net debt reconciliation

Net debt at 31 December 2021 was $2,807 million, down from $2,997 million at 30 June 2021 due to repayment of debt from the EIP sale proceeds and net margin call receipts.

AGL Energy's gearing (measured as the ratio of net debt to net debt plus adjusted equity) at 31 December 2021 was 31.5% compared with 35.1% at 30 June 2021.

AGL Energy maintained its credit rating of Baa2 throughout the period as provided by Moody's Investors Service. Key metrics consistent with this credit rating at 31 December 2021:

- Interest cover: 7.6 times
- Funds from operations to net debt: 26.9%

AGL Energy's funds from operations has been calculated with a similar methodology to Moody's whereby the movement in tax assets and liabilities as a result of onerous contract provision revaluations is not considered as working capital.

	H122 $m	FY21 $m
Net debt reconciliation		
Borrowings	**3,027**	3,185
Less: Adjustment for cross currency swap hedges and deferred borrowing costs	**(116)**	(100)
Cash and cash equivalents	**(104)**	(88)
Net debt	**2,807**	2,997

3. Segmental Analysis

AGL Energy manages its business in five key operating segments: AGL Australia - Customer, AGL Australia - Supply and Trading, AGL Australia - Investments, Accel Energy - Trading and Origination and Accel Energy - Operations. Further detail on the activities of each operating segment is provided below.

AGL Energy manages and reports a number of expense items including Information Technology under Centrally Managed Expenses. These costs are not reallocated to AGL Energy's operating segments because their management is the responsibility of various corporate functions.

3.1 AGL Australia - Customer

AGL Australia - Customer comprises the consumer and large business customer portfolios responsible for the retailing of electricity, gas, solar and energy efficiency products and services to residential, small and large business customers and the retailing of telecommunications. This segment includes revenue from the sale of energy, telecommunications and other products to customers, the cost of supply and operating costs to support AGL Australia's 4.2 million customer services.

3.1.1 AGL Australia - Customer - Underlying EBIT

Customer Markets Underlying EBIT was $74 million, down 32.7% due to lower consumer gross margin. The decrease in gross margin was driven by lower average demand in the Consumer portfolio due to a milder winter, higher cost of energy associated with an increase in solar volumes, and margin compression due to customers swapping to lower-priced products, predominantly in the Click Energy customer base following integration into Customer Markets on 1 April 2021.

	H122 $m	Restated H121 $m
Consumer Electricity gross margin	**227**	244
Consumer Gas gross margin	**127**	133
Large Business Electricity gross margin	**15**	14
Large Business Gas gross margin	**4**	4
Fees, charges and other gross margin	**6**	9
Telecommunication gross margin	**5**	5
Perth Energy gross margin	**2**	8
SBES gross margin	**6**	3
Gross margin	**392**	420
Operating costs (excluding depreciation and amortisation)	**(247)**	(246)
Underlying EBITDA	**145**	174
Depreciation and amortisation	**(71)**	(64)
Underlying EBIT	**74**	110

- Consumer Electricity gross margin was $227 million, down 7.0%, driven by lower average demand due to a milder winter, higher cost of energy associated with increased solar volumes, and margin compression due to customers swapping to lower-priced products, predominantly within the Click Energy customer base.
- Consumer Gas gross margin was $127 million, down 4.5%, driven by lower average demand due to a milder winter, and margin compression due to customers swapping to lower-priced products predominantly within the Click Energy customer base.
- Large Business Electricity gross margin was $15 million, up 7.1% due to favourable customer mix outcomes.
- Large Business Gas gross margin was $4 million, in line with the prior corresponding period.

- Fees, charges and other gross margin was $6 million, down $3 million as result of the impacts of COVID-19 on movers, resulting in lower real estate non energy revenue.
- Telecommunication gross margin was $5 million, flat on the prior corresponding period, with growth in the customer base since the launch of AGL Telco last year, offset by one-off increased costs associated with investment in network upgrades.
- Perth Energy gross margin was $2 million, down 75.0%, driven by power station running costs, which were reflected in AGL Australia - Supply and Trading in the prior corresponding period, and lower generation due to forced outages which limited AGL Energy's ability to hedge against higher wholesale costs and resulted in margin compression. This was partly offset by higher retail volumes.
- Sustainable Business Energy Solutions (SBES) is a newly formed business unit encapsulating the acquisition of Solgen and Epho and AGL Energy's Business Energy Solutions. SBES includes the sales of solar engineering, procurement, construction and asset maintenance services and distribution sales of wholesale solar components. SBES gross margin was $6 million, up $3 million, predominately due to the acquisition of Solgen and Epho in March 2021.
- Depreciation and amortisation was $(71) million, up 10.9% driven by an uplift of depreciation from the capitalisation of Multi-product retailer assets and the acquisitions of Solgen and Epho.

3.1.2 AGL Australia - Customer - Operating costs

Customer Markets operating costs (excluding depreciation and amortisation) were $(247) million, up $(1) million, primarily due to an increase in labour and contractor services driven by acquisitions (Click Energy, Solgen and Epho), growth of AGL Telco, the restructure of Future Business into Customer (previously within Centrally Managed Expenses) and the Retail Next Program (program to deliver capability to scale multi-product retailing efficiency through focus on middle layer technology upgrades).

Excluding the impact of the reduction in COVID-19 Net bad debt expense, the acquisitions of Solgen and Epho, and operating costs associated with the growth of AGL Telco and the Retail Next Program, operating costs were $(212) million, down 6.2% due to cost reductions achieved through digital and marketing campaign efficiencies.

	H122 $m	Restated H121 $m
Labour and contractor services	**(116)**	(95)
Net bad debt expense	**(40)**	(53)
Campaigns and advertising	**(38)**	(47)
Other expenditure	**(53)**	(51)
Operating costs (excluding depreciation and amortisation)	**(247)**	(246)
Add: depreciation and amortisation	**(71)**	(64)
Operating costs (including depreciation and amortisation)	**(318)**	(310)

- Labour and contractor services costs were $(116) million, up 22.1% driven by the acquisitions of Click Energy, Solgen and Epho, the growth of AGL Telco, Future Business costs integrated into Customer Markets (previously within Centrally Managed Expenses) and the Retail Next Program. Excluding the impact of Solgen and Epho, Future Business, growth of AGL Telco and the Retail Next program, labour and contractor services costs were $(95) million, compared to $(94) million in the prior corresponding period, up 1.1%.
- Net bad debt expense was $(40) million, down 24.5% primarily due to a lower COVID-19 impact following heightened repayment risk and discounted settlements for impacted small business and large business customers in the prior corresponding period. Excluding the impact of the COVID-19 from both periods, net bad debt expense of $(35) million was in line with the prior corresponding period.
- Campaigns and advertising costs were $(38) million, down 19.1% with cost reductions achieved through digital and marketing campaign efficiencies. Excluding the impact of the growth of AGL Telco, campaigns and advertising costs were $(34) million, down 27.7%.
- Other expenditure was $(53) million, up 3.9%, due to the growth of AGL Telco and digital uplift outlays. Excluding the impact of Solgen and Epho, restructure of Future Business from Centrally Managed Expenses, digital uplift expenses, growth of AGL Telco and the Retail Next program, other expenditure was $(47) million, in line with the prior corresponding period .

3.1.3 AGL Australia - Consumer profitability and operating efficiency

Net operating costs per consumer service[1] were $(49), down 3.9% compared with the prior corresponding period. Excluding the impact of COVID-19 net bad debt expense from both periods, net operating cost per consumer service reduced to $(48) per service, flat compared to the prior corresponding period. The continued focus on digital efficiencies (lower marketing, advertising and loyalty spend) in energy services have been offset by the increase in operating costs associated with the strong organic growth in telecommunication services.

	H122 $m	Restated H121 $m
Gross margin	**359**	383
Net operating costs (including fees, charges, recoveries and excluding depreciation and amortisation)[1]	**(205)**	(208)
EBITDA	**154**	175
Average consumer services ('000)	**4,189**	4,063
Gross margin per consumer service ($)	**$ 86**	$ 94
Net operating costs per consumer service ($)	**$ (49)**	$ (51)
EBITDA per consumer service ($)	**$ 37**	$ 43
Net operating costs as a percentage of gross margin	**57.1%**	54.3%

1. Excludes impact of digital uplift expenses (Software as a Service)

Average consumer services increased compared with the prior corresponding period largely due to growth in Consumer Electricity and Gas services including the acquisition of Click Energy, and growth in telecommunication services. Growth was mainly in the states of New South Wales, Victoria, and Queensland.

Gross margin per consumer service reduced compared with the prior corresponding period driven by lower average demand in the consumer portfolio due to a milder winter, higher cost of energy associated with an increase in solar volumes, margin compression due to customers swapping to lower-priced products predominantly within the Click Energy customer base, and growth in telecommunication services, which have lower margins relative to energy services.

3.2 AGL Australia - Supply and Trading

AGL Australia - Supply and Trading comprises the Wholesale Electricity, Gas and Eco Markets trading and operating activities of AGL Australia. This segment sources the electricity and gas required to serve AGL Australia's customers and earns inter-segment revenues through sales to the AGL Australia Customer segment. It is involved in wholesale gas contracting relating to supply, sale, storage and haulage, and manages an electricity generation portfolio consisting of:

- Hydroelectric power stations in Victoria (Kiewa scheme, Dartmouth scheme, Eildon, Rubicon scheme, Yarrawonga) and NSW (Glenbawn, Copeton, Pindari, Burrendong).
- Gas peaking plants (Barker Inlet Power Station, Somerton Power Station, Kwinana Power Station).
- Power purchase agreements (Nyngan and Broken Hill solar farms, Silverton and Coopers Gap wind farms).

In addition, the AGL Australia – Supply and Trading segment includes the Decentralised Energy business, responsible for the management of the Residential Battery Program and Business Customer Demand Response products, along with other growth initiatives in AGL Australia's orchestration pathway.

3.2.1 AGL Australia - Supply and Trading - Underlying EBIT

Supply and Trading Underlying EBIT was $111 million, down $39 million or 26.0% with the prior corresponding period.

	H122 $m	Restated H121 $m
Wholesale Gas gross margin	**113**	167
Wholesale Electricity gross margin	**64**	50
Operations gross margin	**4**	-
Other gross margin	**(1)**	(1)
Gross margin	**180**	216
Operating costs (excluding depreciation and amortisation)	**(29)**	(32)
Underlying EBITDA	**151**	184
Depreciation and amortisation	**(40)**	(34)
Underlying EBIT	**111**	150

- Wholesale Gas gross margin was $113 million, down 32.3%, driven by compressed gas margins, partly offset by higher volumes and rates for Consumer customers. Compressed gas margins were driven by the impact of legacy supply contracts maturing and increases to haulage and storage costs.
- Wholesale Electricity gross margin was $64 million, up $14 million driven by the recovery of LGC prices from the prior corresponding period, partly offset by lower wholesale electricity prices as a result of increased renewable generation and decrease in system customer demand.

- Operations gross margin includes cost recovery from AGL Australia - Customer for Kwinana Power Station operating costs in the current period.
- Operating costs were $(29) million, down 9.4% driven by professional service fee optimisation, and higher Kwinana Swift Power Station gas turbine overhaul costs in the prior corresponding period. This was partly offset by additional labour at Barker Inlet Power Station.
- Depreciation and amortisation was $(40) million, up 17.6% driven by higher capital investment across the Decentralised Energy business and Somerton Power Station.

3.2.2 AGL Australia - Supply and Trading - Operating costs

Supply and Trading operating costs (excluding depreciation and amortisation) of $(29) million decreased by 9.4%, driven by professional service fee optimisation, and higher Kwinana Power Station gas turbine overhaul costs in the prior corresponding period. This was partly offset by additional labour costs at Barker Inlet Power Station.

	H122 $m	Restated H121 $m
Labour	**(20)**	(19)
Contracts and materials	**(5)**	(7)
Other	**(4)**	(6)
Operating costs (excluding depreciation and amortisation)	**(29)**	(32)
Add: depreciation and amortisation	**(40)**	(34)
Operating costs (including depreciation and amortisation)	**(69)**	(66)

3.3 AGL Australia - Investments

AGL Australia - Investments comprises AGL Energy's interests in the ActewAGL Retail Partnership, Tilt Renewables (formerly known as PowAR), Energy Impact Partners' Fund SCSp, Activate Capital Partners, Solar Analytics Pty Limited, Sunverge Energy Inc, Honey Insurance Pty Ltd, Ovo Energy Australia Pty Ltd and Generac. During the period AGL Energy completed the sales of investments in Energy Impact Partners' Fund 1 and Ecobee Inc.

	H122 $m	Restated H121 $m
ActewAGL	**8**	5
Tilt Renewables	**–**	–
Ovo	**(9)**[1]	–
Underlying EBIT	**(1)**	5

1. Includes $(4) million attributable to Non-controlling interests.

- ActewAGL Retail partnership contributed an equity share of profits of $8 million for the period compared with $5 million in the prior corresponding period.
- A 51% joint venture with Ovo was also entered into on 29 March 2021. AGL Energy's investment in Ovo creates a vehicle to explore innovative products and propositions including emerging segments. The $(9) million loss for the period is in line with the business case and is attributable to being in a growth phase, incurring significant customer acquisition and localisation costs that are expected to be recouped in the future.

3.4 Accel Energy - Trading and Origination

Accel Energy - Trading and Origination comprises the wholesale electricity and C&I customer portfolio of Accel Energy. This segment includes the revenues for the sale of energy to the AGL Australia Customer segment and wholesale and C&I customers, along with costs of generation, and the outcomes of the trading and hedging strategies employed.

- Trading and Origination - Electricity reflects the procurement of key fuel inputs, hedging of Accel Energy's wholesale electricity requirements, and management of Accel Energy's environmental liabilities relating to both voluntary and mandatory renewable and energy efficiency schemes. Operational costs to maintain the wind farms are reported within Trading and Origination – Electricity to align with the gross margin of the related power purchase agreements.
- Trading and Origination - Gas reflects the sourcing and management of gas from the Natural Gas portfolio, revenues for sale of gas from storage to AGL Australia's Customer segment and the North Queensland gas assets, including the Moranbah Gas Project.

	H122 $m	Restated H121 $m
Electricity gross margin[1]	**804**	998
Gas gross margin	**34**	19
Gross margin	**838**	1,017
Operating costs (excluding depreciation and amortisation)	**(22)**	(27)
Underlying EBITDA	**816**	990
Depreciation and amortisation	**(0)**	(1)
Underlying EBIT	**816**	989

1. Includes electricity sales of approximately 863 GWh related to Accel Energy customers (H121: 804 GWh).

Accel Energy - Trading and Origination Underlying EBIT was $816 million, down $173 million or 17.5%.

- Trading and Origination – Electricity gross margin was $804 million, down 19.4%. The decrease in gross margin was driven by the impact of lower contracted electricity prices coupled with lower offtake volumes sold to AGL Australia as a result of increased penetration of rooftop solar, load revisions and weather. Accel's contracted position was negatively impacted by lower energy prices in prior periods, these prices have since increased during the H122 period. During the prior corresponding period Trading and Origination received $87 million of insurance proceeds related to the AGL Loy Yang Unit 2 outage that occurred in 2019. This was partly offset by the decrease in coal costs as a result of a higher proportion of legacy contracts and reduced spot purchases and the release of an onerous PPA contract provision that did not commence until after 31 December 2020.
- Trading and Origination – Gas gross margin was $34 million, up 78.9%, driven by higher Silver Springs storage sales to AGL Australia - Supply and Trading.
- Operating Costs (excluding depreciation and amortisation) were $(22) million, a reduction of $5 million driven by lower costs of well workover activities at Moranbah, and the optimisation of labour and professional services.

3.5 Accel Energy - Operations

Accel Energy - Operations comprises the power generation portfolio and other assets of Accel Energy. The segment includes the costs associated with the operation and maintenance of Accel's generation fleet and other assets.

- Coal Operations primarily comprises AGL Macquarie (Bayswater and Liddell power stations) and AGL Loy Yang (includes a power station and mine).
- Gas generation primarily comprises AGL Torrens.
- Natural Gas includes the Newcastle Gas Storage Facility (currently 'held for sale' as at 31 December 2021), the Silver Springs underground gas storage and production facility, the natural gas compression and LPG separation facility, and the natural gas production assets at Camden in New South Wales.
- Other Operations primarily consists of the Major Projects business focused on the development and construction of greenfield growth opportunities, and technical and business support functions.

3.5.1 Accel Energy - Operations - Underlying EBIT

Accel Energy - Operations Underlying EBIT was $(443) million, up $58 million or 11.6%.

	H122 $m	Restated H121 $m
Gross margin	**66**	80
Operating costs (excluding depreciation and amortisation)	**(312)**	(342)
Underlying EBITDA	**(246)**	(262)
Depreciation and amortisation	**(197)**	(239)
Underlying EBIT	**(443)**	(501)

	H122 $m	Restated H121 $m
Coal	**(209)**	(213)
Gas generation	**(19)**	(23)
Natural Gas	**3**	(1)
Other	**(21)**	(25)
Underlying EBITDA	**(246)**	(262)
Depreciation and amortisation	**(197)**	(239)
Underlying EBIT	**(443)**	(501)

- Coal Underlying EBITDA was $(209) million, up 1.9%, driven by lower unplanned outage maintenance costs at AGL Macquarie and AGL Loy Yang, decreased labour and maintenance costs as a result of operational efficiencies, and lower COVID-19 response costs compared with the prior corresponding period. This was partly offset by increased labour costs due to Enterprise Agreement wage escalations, the non-recurrence of AGL Loy Yang Unit 2 insurance proceeds for material damages received in the prior corresponding period of $18 million, of which $14 million was recognised in gross margin and $4 million in operating costs, and costs on fully impaired assets that were previously capitalised in H121 before the prior period impairment.
- Gas generation Underlying EBITDA was $(19) million, up 17.4%, predominantly driven by lower operating costs resulting from the closure of two A station units at Torrens in September 2020 and decreased maintenance costs as a result of operational efficiencies.
- Natural Gas Underlying EBITDA was $3 million, up $4 million, driven by an increase in Silver Springs net oil sales predominantly due to higher prices, partly offset by the impact of maintenance costs previously capitalised for the Newcastle Gas Storage Facility, as a result of the asset being held for sale.
- Other Underlying EBITDA was $(21) million, up 16.0% driven primarily by cost efficiencies decreasing technical support costs and discretionary spend.

3.5.2 Accel Energy - Operations - Operating costs

Accel Energy - Operations operating costs (excluding depreciation and amortisation) of $(312) million decreased by 8.8% compared with the prior corresponding period.

	H122 $m	Restated H121 $m
Labour	**(166)**	(166)
Contracts and materials	**(113)**	(130)
Other	**(33)**	(46)
Operating costs (excluding depreciation and amortisation)	**(312)**	(342)

- Labour costs were $(166) million, remaining flat compared with the prior corresponding period. Labour efficiencies driven by organisational restructuring and management of overtime across the fleet were offset by increased labour costs due to Enterprise Agreement wage escalations primarily at AGL's coal operations.
- Contracts and materials costs were $(113) million, down 13.1% driven by maintenance efficiencies across the fleet through process optimisation, condition based monitoring and supplier contract renegotiations, a reduction in unplanned outage maintenance compared with the prior corresponding period, and lower maintenance costs driven by the closure of two Torrens A station units in September 2020. This was partly offset by the non-recurrence of AGL Loy Yang Unit 2 insurance proceeds received in the prior corresponding period of $4 million, costs on fully impaired assets that were previously capitalised in H121 before the prior period impairment, and the impact of costs previously capitalised for the Newcastle Gas Storage Facility as a result of the asset being held for sale.
- Other operating costs were $(33) million, down 28.3% driven by lower technical support costs and discretionary spend, the non-recurrence of COVID-19 response costs recognised in the prior corresponding period, and higher capitalisation of costs driven by AGL Loy Yang major outage activity.

3.5.3 Accel Energy - Operations - Depreciation and amortisation

Accel Energy - Operations depreciation and amortisation of $(197) million decreased by 17.6% compared with the prior corresponding period.

	H122 $m	Restated H121 $m
Coal	**(182)**	(184)
Gas generation	**(10)**	(40)
Natural Gas	**(3)**	(15)
Other operations	**(2)**	–
Depreciation and amortisation	**(197)**	(239)

- Coal depreciation and amortisation was $(182) million, down 1.1%, driven by the impact of the impairment recognised in the prior corresponding period across Accel's coal generation fleet. This was partly offset by higher depreciation associated with an increase in environmental rehabilitation assets in the current period and a higher asset base predominantly at AGL Macquarie and AGL Loy Yang due to increased reliability focused capital expenditure.
- Gas generation depreciation and amortisation was $(10) million, down 75.0% due to the impact of the impairment recognised in the prior corresponding period at AGL Torrens.
- Natural Gas depreciation and amortisation was $(3) million, down 80.0% due to the impact of Newcastle Gas Storage Facility being classified as held for sale and the impact of the impairment recognised in the prior corresponding period at Camden.

3.6 Centrally Managed Expenses

AGL manages and reports certain expense items including Information Technology under Centrally Managed Expenses. These costs are not reallocated to AGL Energy's operating segments because their management is the responsibility of various corporate functions.

Centrally Managed Expenses' Underlying EBIT was $(179) million, up $22 million or 10.9% compared with the prior corresponding period. Cost out initiatives, in response to market conditions, resulted in a decrease of labour and consultants costs. Future Business costs previously recognised within Centrally Managed Expenses were transferred to AGL Australia - Customer during the period following a restructure. These gains were partly offset by an increase in the corporate insurance policy premiums. Depreciation and amortisation increased due to AGL Energy's capitalisation of IT transformation costs.

	H122 $m	Restated H121 $m
Gross margin	–	–
Operating costs (excluding depreciation and amortisation)	**(142)**	(171)
Underlying EBITDA	**(142)**	(171)
Depreciation and amortisation	**(37)**	(30)
Underlying EBIT	**(179)**	(201)
Breakdown of operating costs (excluding depreciation and amortisation)		
Labour	**(73)**	(91)
Hardware and software costs	**(49)**	(49)
Consultants and contractor services	**(5)**	(11)
Insurance premiums	**(4)**	(3)
Other	**(11)**	(17)
Operating costs (excluding depreciation and amortisation)	**(142)**	(171)

3.7 Consolidated financial performance by operating segment

H122 $m	Accel Energy - Trading and Origination	Accel Energy - Operations	AGL Australia - Customer	AGL Australia - Supply and Trading	AGL Australia - Investments	Centrally Managed Expenses	Inter-segments	Total Group
Revenue	2,365	69	3,746	1,157	4	–	(1,628)	5,713
Cost of sales	(1,527)	(3)	(3,354)	(977)	(3)	–	1,628	(4,236)
Other income/(loss)	–	–	–	–	7	–	–	7
Gross margin	838	66	392	180	8	–	–	1,484
Operating costs (excluding depreciation and amortisation)	(22)	(312)	(247)	(29)	(9)	(142)	–	(761)
Underlying EBITDA	816	(246)	145	151	(1)	(142)	–	723
Depreciation and amortisation	(0)	(197)	(71)	(40)	–	(37)	–	(345)
Underlying EBIT	816	(443)	74	111	(1)	(179)	–	378
Net finance costs								(112)
Underlying Profit before tax								266
Income tax expense								(76)
Underlying Profit after tax								190
Non-controlling interests[1]								4
Underlying Profit after tax attributable to AGL Energy shareholders								194

1. Relates to the 49% attributable to non-controlling interests.

Restated H121 $m	Accel Energy - Trading and Origination	Accel Energy - Operations	AGL Australia - Customer	AGL Australia - Supply and Trading	AGL Australia - Investments	Centrally Managed Expenses	Inter-segments	Total Group
Revenue	2,264	62	3,812	1,057	–	–	(1,781)	5,414
Cost of sales	(1,349)	18	(3,392)	(841)	–	–	1,781	(3,783)
Other income/(loss)	102	–	–	–	5	–	–	107
Gross margin	**1,017**	**80**	**420**	**216**	**5**	**–**	**–**	**1,738**
Operating costs (excluding depreciation and amortisation)	(27)	(342)	(246)	(32)	–	(171)	–	(818)
Underlying EBITDA	**990**	**(262)**	**174**	**184**	**5**	**(171)**	**–**	**920**
Depreciation and amortisation	(1)	(239)	(64)	(34)	–	(30)	–	(368)
Underlying EBIT	**989**	**(501)**	**110**	**150**	**5**	**(201)**	**–**	**552**
Net finance costs								(94)
Underlying Profit before tax								458
Income tax expense								(130)
Underlying Profit after tax								**328**

4. Change in accounting policy

Following clarifying guidance from the International Financial Reporting Interpretations Committee (IFRIC), AGL Energy adopted a change in accounting policy in relation to the treatment of configuration and customisation costs related to cloud computing arrangements, commonly referred to as Software as a Service. Under the revised accounting policy, costs that would have been previously capitalised are treated as operating expenditure where the entity cannot demonstrate the ability to control the relevant software. In accordance with Australian Accounting Standards the change in accounting policy has been adopted retrospectively and prior comparative periods have been restated. The tables below show the effect of the change in accounting policy on previously reported financial results.

Segmental operating costs

	H121 $m	Policy change	Restated H121 $m
AGL Australia - Customer	(244)	(2)	**(246)**
AGL Australia - Supply and Trading	(32)	–	**(32)**
AGL Australia - Investments	–	–	**–**
Accel Energy - Trading and Origination	(27)	–	**(27)**
Accel Energy - Operations	(342)	–	**(342)**
Centrally Managed Expenses	(167)	(4)	**(171)**
Operating Costs (excluding depreciation & amortisation)	**(812)**	**(6)**	**(818)**

Segmental depreciation and amortisation

	H121 $m	Policy change	Restated H121 $m
AGL Australia - Customer	(75)	11	**(64)**
AGL Australia - Supply and Trading	(34)	–	**(34)**
AGL Australia - Investments	–	–	**–**
Accel Energy - Trading and Origination	(2)	1	**(1)**
Accel Energy - Operations	(239)	–	**(239)**
Centrally Managed Expenses	(40)	10	**(30)**
Depreciation & amortisation	**(390)**	**22**	**(368)**

Group financial performance

	H121 $m	Policy change	Restated H121 $m
Revenue	5,414	–	**5,414**
Cost of Sales	(3,783)	–	**(3,783)**
Other Income/(Loss)	107	–	**107**
Gross Margin	**1,738**	–	**1,738**
Operating Costs (Excluding D&A)	(812)	(6)	**(818)**
Underlying EBITDA	**926**	(6)	**920**
Depreciation & Amortisation	(390)	22	**(368)**
Underlying EBIT	**536**	16	**552**
Net Finance Costs	(94)	–	**(94)**
Underlying Profit Before Tax	**442**	16	**458**
Income Tax Expense	(125)	(5)	**(130)**
Underlying Profit After Tax	**317**	**11**	**328**

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Cash flow

		H121 $m	Policy change		Restated H121 $m
Underlying EBITDA		926	(6)		**920**
Equity accounted income (net of dividends received)		(2)	–		**(2)**
Accounting for onerous contracts		(15)	–		**(15)**
Movement in other assets/liabilities and non-cash items		(28)	–		**(28)**
Working capital movements			–		
Decrease in receivables	21		–	**21**	
Increase/(Decrease) in payables	9		–	**9**	
(Increase)/Decrease in inventories	(30)		–	**(30)**	
Net derivative premiums paid/roll-offs	(4)		–	**(4)**	
(Increase)/Decrease in other financial assets (margin calls)	(68)		–	**(68)**	
Net movement in green assets/liabilities	(45)		–	**(45)**	
Other	(1)		–	**(1)**	
Total working capital movements		(118)	–		**(118)**
Operating cash flow before significant items, interest and tax		763	(6)		**757**
Net finance costs paid		(63)	–		**(63)**
Income taxes paid		(75)	–		**(75)**
Cash flow relating to significant items		(11)	–		**(11)**
Net cash provided by operating activities		614	(6)		**608**
Net cash used in investing activities		(411)	6		**(405)**
Net cash used in financing activities		(243)	–		**(243)**
Net increase in cash and cash equivalents		(40)	–		**(40)**

Capital expenditure

	H121 $m	Policy change	Restated H121 $m
AGL Australia - Customer	45	(2)	**43**
AGL Australia - Supply and Trading	45	–	**45**
Accel Energy - Trading and Origination	6	–	**6**
Accel Energy - Operations	169	–	**169**
Centrally Managed Expenses	26	(4)	**22**
Total capital expenditure	291	(6)	**285**
Sustaining	211	(6)	**205**
Growth and transformation	80	–	**80**
Total capital expenditure	291	(6)	**285**

5. Portfolio Review Summary

The portfolio review for the Electricity (Section 5.2) and Gas (Section 5.3) businesses outlines the margin achieved for each of AGL Energy's portfolios across operating segments, and demonstrates how value is generated within each business. The portfolio reviews in Section 5.2 and 5.3 start with volume information before summarising external customer revenue, customer network and other costs, fuel and gas costs net of hedging, and costs of managing and maintaining owned and contracted generation assets, to arrive at a portfolio's margin. A per unit rate ($/MWh for electricity and $/GJ for gas) is derived from each category of revenue and cost using the relevant associated volumes.

The tables in Sections 5.2 and 5.3 should be read in conjunction with Section 5.4 to reconcile the segmental revenue and costs allocated to each portfolio with Group Underlying EBIT.

5.1 Portfolio Review Summary to Underlying Profit after Tax

	H122 $m	Restated H121 $m
Electricity Portfolio		
Total revenue	**3,344**	3,536
Customer network, green compliance, and other cost of sales	**(1,758)**	(1,750)
Fuel costs	**(412)**	(445)
Generation running costs	**(334)**	(313)
Depreciation and amortisation	**(222)**	(250)
Net portfolio management	**31**	30
Electricity Portfolio Margin (a)	**649**	808
Gas Portfolio		
Total revenue	**1,301**	1,241
Customer network and other cost of sales	**(295)**	(294)
Gas purchases	**(565)**	(467)
Haulage, storage and other	**(178)**	(170)
Gas Portfolio Margin	**263**	310
Natural Gas and Moranbah	**2**	(21)
Gas Portfolio Margin (including Natural Gas) (b)	**265**	289
Other AGL Energy		
Other margin[1]	**23**	23
Customer operating costs	**(247)**	(246)
Other operating costs	**(41)**	(48)
Centrally Managed Expenses operating costs	**(142)**	(171)
Investments operating costs	**(9)**	–
Other depreciation and amortisation	**(120)**	(103)
Net finance costs	**(112)**	(94)
Income tax expense	**(76)**	(130)
Total Other AGL Energy (c)	**(724)**	(769)
Underlying Profit after Tax (a + b + c)	**190**	328
Non-controlling interests[2]	**4**	–
Underlying Profit after tax attributable to AGL Energy shareholders	**194**	328

1. Other margin includes other income from investments, and gross margin from Customer Markets.
2. Relates to the 49% Non-controlling interest in Ovo.

5.2 Electricity portfolio

The Electricity portfolio review combines Accel Energy - Trading and Origination (Electricity), Accel Energy - Operations (Coal and Gas generation) and AGL Australia - Supply and Trading (Renewables and Gas generation), with AGL Australia - Customer (Consumer and Large Business) businesses to outline the portfolio's performance across operating segments.

All electricity volume generated by AGL Energy is sold into either the National Electricity Market (NEM) or Western Australian Wholesale Electricity Market (collectively "the pool") for which AGL Energy receives pool generation revenue. Pool generation revenue is a function of volume and pool prices, which are set by the real-time market in each state. In the NEM, the total volume demanded by AGL Energy customers is then purchased from the pool according to the geographical profile of customer demand and is reported as pool purchase volumes and costs. Where AGL Energy's customer demand volumes exceed pool generation volumes, the generation volume deficit needs to be purchased from the pool by AGL Energy.

	H122 GWh	H121 GWh	Movement %
Pool purchase volume to satisfy Consumer customers	**7,789**	7,878	(1.1%)
Pool purchase volume to satisfy Large Business customers and Wholesale customers	**12,580**	13,296	(5.4%)
Pool purchase volume[1]	**20,369**	21,174	(3.8%)
Add: Net generation volume (deficit)/surplus	**250**	(358)	–
Pool generation volume	**20,619**	20,816	(0.9%)
Consumer customer sales	**7,396**	7,461	(0.9%)
Large Business customer sales	**5,056**	5,036	0.4%
Wholesale customer sales	**7,289**	8,045	(9.4%)
Total customer sales volume	**19,741**	20,542	(3.9%)
Energy losses	**628**	632	(0.6%)
Pool purchase volume[1]	**20,369**	21,174	(3.8%)

1. Includes 1,385 GWh residential solar volumes purchases from consumers (H121: 884 GWh)

Refer to Section 1.1.4 for commentary on generation volumes.

Refer to Section 1.1.2 for commentary on customer energy demand.

	Portfolio Margin		Per Unit		Volume Denomination	
Revenue	H122 $m	H121 $m	H122 $/MWh	H121 $/MWh	H122 GWh	H121 GWh
Consumer customer	**2,044**	2,121	**276.4**	284.3	**7,396**	7,461
Large Business customer	**762**	819	**150.7**	162.6	**5,056**	5,036
Wholesale customer & Eco Markets[1]	**488**	549	**66.9**	68.2	**7,289**	8,045
Operations (Thermal & Renewables)	**50**	47	**–**	–	**–**	–
Total revenue	**3,344**	3,536	**169.4**	172.1	**19,741**	20,542

1. Wholesale customers revenue includes amounts from certain wholesale contracts that are treated as derivatives for statutory reporting purposes. In the statutory accounts the amounts associated with these contracts are recognised within cost of sales.

Total revenue was $3,344 million, down 5.4%.

- Consumer customer revenue was $2,044 million, down 3.6% due to lower average demand due to a milder winter and the impact of customers moving to lower-priced products compared to the prior corresponding period, partially offset by growth in the number of average electricity services and the inclusion of Click Energy.
- Large Business customer revenue was $762 million, down 7.0%, driven by decline in the revenue rate due to the decrease in wholesale costs and lower consumption as a result of COVID-19, partly offset by year on year growth of Perth Energy retail volumes.
- Wholesale customer revenue was $488 million, down 11.1%, largely driven by a decrease in volumes and prices sold to Wholesale customers in addition to a reduction in green certificates sold.
- Operations revenue was $50 million, up 6.4% compared with the prior corresponding period. This predominately comprises external revenue from the sale of coal from AGL Energy's mine at Loy Yang to the Loy Yang B Power Station.

Network and other cost of sales	H122 $m	H121 $m	H122 $/MWh	H121 $/MWh	H122 GWh	H121 GWh
Network costs	**(1,200)**	(1,205)	**(96.4)**	(96.4)	**12,452**	12,497
Consumer	**(915)**	(921)	**(123.7)**	(123.4)	**7,396**	7,461
Large Business	**(285)**	(284)	**(56.4)**	(56.4)	**5,056**	5,036
Green compliance costs	**(301)**	(328)	**(24.2)**	(26.2)	**12,452**	12,497
Consumer solar costs	**(143)**	(111)	**(103.2)**	(125.6)	**1,385**	884
Other cost of sales	**(114)**	(106)	**(9.2)**	(8.5)	**12,452**	12,497
Total customer network and other cost of sales	**(1,758)**	(1,750)	**(141.2)**	(140.0)	**12,452**	12,497

Total customer network and other costs of sales were $(1,758) million, up 0.5%.

- Total network costs were $(1,200) million, a decrease of 0.4%, due to network tariff decreases, partially offset by growth in the number of average electricity services and the inclusion of Click Energy network costs in the year.
- Green compliance costs were ($301) million, down 8.2% due to lower LREC scheme compliance costs following the release of an onerous provision.
- Consumer solar costs were $(143) million, up 28.8%, due to growth in the number of customers with solar installations and increase in the average export volumes per solar customer, partly offset by a reduction in average solar feed-in-tariffs across the year.
- Other cost of sales were $(114) million, up 7.5%, due to the growth in the number of average electricity services, and the inclusion of Click Energy costs.

	Portfolio Margin		Per Unit		Volume Denomination	
Fuel costs	H122 $m	H121 $m	H122 $/MWh	H121 $/MWh	H122 GWh	H121 GWh
Coal	**(318)**	(329)	**(18.3)**	(19.1)	**17,366**	17,212
Gas	**(94)**	(116)	**(133.9)**	(103.0)	**702**	1,126
Renewables	**–**	–	**–**	–	**2,551**	2,478
Total fuel costs (a)	**(412)**	(445)	**(20.0)**	(21.4)	**20,619**	20,816

Refer to Section 1.1.5 for commentary on fuel costs.

Generation running costs						
Coal Power plants	**(181)**	(199)	**(10.4)**	(11.6)	**17,366**	17,212
Gas Power plants	**(27)**	(31)	**(38.5)**	(27.5)	**702**	1,126
Renewables[1]	**(94)**	(154)	**(36.8)**	(62.1)	**2,551**	2,478
Other	**(32)**	(34)	**(1.6)**	(1.6)	**20,619**	20,816
AGL Loy Yang Unit 2 Insurance proceeds	**–**	105	**–**	–	**–**	–
Total generation running costs (b)	**(334)**	(313)	**(16.2)**	(15.0)	**20,619**	20,816

1. Renewables includes PPA costs.

Total generation running costs were $(334) million, up 6.7%.

- Coal operating costs were $(181) million, down 9.0%, driven by lower unplanned outage maintenance costs and lower COVID-19 response costs recognised compared with the prior corresponding period. This was partly offset by increased labour costs due to Enterprise Agreement wage escalations, and costs on fully impaired assets that were previously capitalised in H121 before the prior period impairment.
- Gas operating costs were $(27) million, down 12.9%, predominantly driven by lower operating costs resulting from the closure of two A station units at Torrens in September 2020.
- Renewables costs were $(94) million, down 39.0%, driven by an onerous provision release reducing the cost of sales in H122.
- Other costs were $(32) million and broadly flat to prior corresponding period driven by higher directional service revenue offset by higher Perth Energy generation costs.
- AGL Loy Yang Unit 2 insurance proceeds in the prior corresponding period relates to the insured event that occurred in 2019 leading to a major outage.

Depreciation and amortisation (c)	**(222)**	(250)	**(10.8)**	(12.0)	**20,619**	20,816

Depreciation and amortisation was $(222) million, down 11.2%, driven by asset impairments during the prior corresponding period across AGL Energy's generation fleet. This was partly offset by higher depreciation associated with an increase in environmental rehabilitation assets in the current period and a higher asset base predominantly at AGL Macquarie and AGL Loy Yang due to increased reliability focused capital expenditure.

Net Portfolio Management						
Pool generation revenue[1]	**1,327**	1,038	**64.4**	49.9	**20,619**	20,816
Pool purchase costs[1]	**(1,418)**	(1,067)	**(69.6)**	(50.4)	**20,369**	21,174
Net derivative revenue	**122**	59	**5.9**	2.8	**20,619**	20,816
Net Portfolio Management (d)	**31**	30	**1.6**	1.5	**19,741**	20,542

1. Pool generation revenue and pool purchase costs include amounts from certain wholesale contracts that are treated as derivatives for statutory reporting purposes. In the statutory accounts the amounts associated with these contracts are recognised within cost of sales.

Net pool generation revenue and pool purchase costs were $(91) million, down $(62) million, reflecting higher generation volumes at AGL Macquarie coupled with higher pool price outcomes offset by lower generation volumes at AGL Loy Yang coupled with lower pool prices outcomes in Victoria. The net derivative revenue of $122 million has increased by $63 million, or $3.1 per MWh driven largely by the performance of the wholesale electricity derivatives, with contracted prices higher than pool price outcomes in the current period.

	Portfolio Margin		Per Unit		Volume Denomination	
	H122 $m	H121 $m	H122 $/MWh	H121 $/MWh	H122 GWh	H121 GWh
Total wholesale costs (a + b + c + d)	**(937)**	(978)	**(46.0)**	(46.2)	**20,369**	21,174
Total costs	**(2,695)**	(2,728)	**(136.5)**	(132.8)	**19,741**	20,542
Portfolio margin	**649**	808	**32.9**	39.3	**19,741**	20,542
Consumer customer	**227**	244				
Large Business customer	**15**	14				
Wholesale Electricity	**868**	1,048				
Perth Energy	**2**	6				
Operations (Thermal & Renewables)	**(463)**	(504)				

In addition to the commentary above, Electricity portfolio margin is discussed in Section 3.

5.3 Gas portfolio

The gas portfolio review combines the Accel Energy - Trading and Origination (Gas), AGL Australia - Customer (Consumer and Large Business) and AGL Australia - Supply and Trading (Gas) businesses to outline the portfolio's performance across operating segments.

	H122 PJ	H121 PJ	Movement %
Consumer customer sales	**31.2**	30.7	1.6%
Large Business customer sales	**8.7**	9.3	(6.5%)
Wholesale customer sales and internal generation usage volumes	**41.6**	42.5	(2.1%)
Total customer sales volume	**81.5**	82.5	(1.2%)
Energy losses	**2.0**	1.5	33.3%
Gas purchase volume	**83.5**	84.0	(0.6%)

Refer to Section 1.1.2 for commentary on customer energy demand.

	Portfolio Margin		Per Unit		Volume Denominator (PJ)	
Revenue	H122 $m	H121 $m	H122 ($/GJ)	H121 ($/GJ)	H122 PJ	H121 PJ
Consumer customer	**805**	807	**25.8**	26.3	**31.2**	30.7
Large Business customer	**69**	76	**7.9**	8.2	**8.7**	9.3
Wholesale customer	**427**	358	**10.3**	8.4	**41.6**	42.5
Total revenue	**1,301**	1,241	**16.0**	15.0	**81.5**	82.5

- Consumer customer revenue was $805 million, down 0.2%, driven by lower volumes sold as a result of a milder winter, partly offset by growth in average services and the inclusion of Click Energy revenue in the year.
- Large Business customer revenue was $69 million, down 9.2% due to loss of customers partly offset by higher Perth Energy revenue as a result of increased customer acquisitions.
- Wholesale customer revenue was $427 million, up 19.3%, largely driven by an increase in revenue rates in line with higher market prices.

Network and other cost of sales	Portfolio Margin H122 $m	Portfolio Margin H121 $m	Per Unit H122 ($/GJ)	Per Unit H121 ($/GJ)	Volume Denominator (PJ) H122 PJ	Volume Denominator (PJ) H121 PJ
Consumer customer network costs	**(254)**	(254)	**(8.1)**	(8.3)	**31.2**	30.7
Consumer customer other cost of sales	**(29)**	(33)	**(0.9)**	(1.1)	**31.2**	30.7
Large Business customer network costs	**(11)**	(7)	**(1.3)**	(0.8)	**8.7**	9.3
Large Business customer other cost of sales	**(1)**	-	**(0.1)**	-	**8.7**	9.3
Total network and other cost of sales	**(295)**	(294)	**(7.4)**	(7.4)	**39.9**	40.0

Total network costs and other cost of sales were $295 million, flat on the prior corresponding period.

Wholesale costs						
Gas purchases	**(565)**	(467)	**(6.9)**	(5.7)	**81.5**	82.5
Haulage, storage and other	**(178)**	(170)	**(2.2)**	(2.1)	**81.5**	82.5
Total wholesale costs	**(743)**	(637)	**(9.1)**	(7.7)	**81.5**	82.5

See Section 1.1.5 for commentary on wholesale gas costs.

Total costs	**(1,038)**	(931)	**(12.7)**	(11.3)	**81.5**	82.5
Gas Portfolio Margin	**263**	310	**3.2**	3.8	**81.5**	82.5
Natural Gas and Moranbah	**2**	(21)				
Gas Portfolio Margin (including Natural Gas and Moranbah)	**265**	**289**				
Consumer customer	**127**	133				
Large Business customer	**4**	4				
Gas[1]	**132**	171				
Perth Energy	**–**	2				
Natural Gas and Moranbah	**2**	(21)				

1. includes Wholesale and Trading and Origination Portfolio Gas Margin

Natural Gas and Moranbah was $2 million, up $23 million, driven by lower depreciation and amortisation due to the impact of the impairment recognised in the prior corresponding period, lower well workover activities at Moranbah, and higher net oil sales at Silver Springs.

In addition to the commentary above, Gas portfolio margin is discussed in Section 3.

5.4 Portfolio Review Reconciliation

H122 $m	Electricity Portfolio	Gas Portfolio	Other AGL (a)	Adjustments (b)	Total Group
Revenue	3,344	1,301	200	868	5,713
Cost of sales	(2,181)	(1,038)	(149)	(868)	(4,236)
Other income	–	–	7	–	7
Gross margin	**1,163**	**263**	**58**	**–**	**1,484**
Operating costs (excluding depreciation and amortisation)	(292)	–	(469)	–	(761)
Depreciation and amortisation	(222)	–	(123)	–	(345)
Portfolio Margin/Underlying EBIT	**649**	**263**	**(534)**	**–**	**378**

H122 $m	Electricity	Gas	Pool revenue	Other	Total Group
Portfolio Margin Reporting	3,344	1,301	1,327	–	5,972
Revenue reclass	(310)	–	(81)	–	(391)
Intragroup	–	(92)	–	–	(92)
Other	(134)	9	9	340	224
Note 2 - Revenue	**2,900**	**1,218**	**1,255**	**340**	**5,713**

H121 $m	Electricity Portfolio	Gas Portfolio	Other AGL (a)	Adjustments (b)	Total Group
Revenue	3,536	1,241	107	530	5,414
Cost of sales	(2,261)	(931)	(61)	(530)	(3,783)
Other income	101	–	6	–	107
Gross margin	**1,376**	**310**	**52**	**–**	**1,738**
Operating costs (excluding depreciation and amortisation)	(318)	–	(500)	–	(818)
Depreciation and amortisation	(250)	–	(118)	–	(368)
Portfolio Margin / Underlying EBIT	**808**	**310**	**(566)**	**–**	**552**

H121 $m	Electricity	Gas	Pool revenue	Other	Total Group
Portfolio Margin Reporting	3536	1241	1038	–	5815
Revenue reclass	(356)	–	(48)	–	(404)
Intragroup	(1)	(120)	–	–	(121)
Other	(136)	10	7	243	124
Note 2 - Revenue	**3,043**	**1,131**	**997**	**243**	**5,414**

Notes

(a) Other AGL includes Natural Gas Underlying EBIT.

(b) Key adjustments include:

- Electricity pool sales in the statutory accounts has been reallocated to cost of sales (net portfolio management) in the Portfolio Review where it is combined with pool purchase costs and derivatives to reflect AGL's net position.
- Other revenue in the statutory accounts has been reallocated to cost of sales (generation running costs) in the Portfolio Review including ancillary services revenue, brown coal sales and wind farm asset management fees.
- Derivatives from certain wholesale contracts are recognised within cost of sales in the statutory accounts.

Half-Year Financial Report

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Condensed Consolidated Statement of Profit or Loss

for the half-year ended 31 December 2021

	Note	31 Dec 2021 $m	31 Dec 2020 $m Restated[1]
Continuing operations			
Revenue	3	**5,713**	5,414
Other income	4	**-**	102
Expenses	5	**(4,481)**	(8,043)
Share of profits of associates and joint ventures	10	**7**	5
Profit/(Loss) before net financing costs, depreciation and amortisation		**1,239**	(2,522)
Depreciation and amortisation		**(345)**	(368)
Profit/(Loss) before net financing costs		**894**	(2,890)
Finance costs	6	**(112)**	(94)
Net financing costs		**(112)**	(94)
Profit/(Loss) before tax		**782**	(2,984)
Income tax (expense)/benefit	7	**(231)**	708
Profit/(Loss) for the period		**551**	(2,276)
Loss attributed to non-controlling interest		**4**	-
Profit/(Loss) for the period attributable to the Shareholders of AGL Energy Limited		**555**	(2,276)
Earnings per share			
Basic earnings per share	16	**86.6 cents**	(365.3 cents)
Diluted earnings per share	16	**86.5 cents**	(365.3 cents)

1. The period ended 31 December 2020 has been restated as a result of a change in accounting policy detailed in Note 1(e).

The Condensed Consolidated Statement of Profit or Loss should be read in conjunction with the notes to the financial statements.

Condensed Consolidated Statement of Comprehensive Income

for the half-year ended 31 December 2021

	Note	31 Dec 2021 $m	31 Dec 2020 $m Restated[1]
Profit/(Loss) for the period		**551**	(2,276)
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss			
Remeasurement gain/(loss) on defined benefit plans		**24**	(6)
Fair value gain on the revaluation of equity instrument financial assets		**18**	16
Income tax relating to items that will not be reclassified subsequently to profit or loss	7	**(13)**	(3)
		29	7
Items that may be reclassified subsequently to profit or loss			
Cash flow hedges			
Gain/(Loss) in fair value of cash flow hedges		**30**	(18)
Reclassification adjustments transferred to profit or loss		**19**	51
Cost of Hedging			
Gain/(Loss) in fair value cost of hedging		**6**	(4)
Reclassification adjustments transferred to profit or loss		**(1)**	(3)
Income tax relating to items that may be reclassified subsequently to profit or loss	7	**(16)**	(8)
		38	18
Other comprehensive income for the year, net of income tax		**67**	25
Total comprehensive income/(loss) for the period		**618**	(2,251)

1. The period ended 31 December 2020 has been restated as a result of a change in accounting policy detailed in Note 1(e).

The Condensed Consolidated Statement of Comprehensive Income should be read in conjunction with the notes to the financial statements.

Condensed Consolidated Statement of Financial Position

As at 31 December 2021

	Note	31 Dec 2021 $m	30 Jun 2021 $m
Current assets			
Cash and cash equivalents		**104**	88
Trade and other receivables	9	**1,655**	1,889
Inventories		**381**	418
Current tax assets		**235**	165
Other financial assets		**952**	539
Other assets		**353**	353
Assets classified as held for sale		**223**	223
Total current assets		**3,903**	3,675
Non-current assets			
Trade and other receivables	9	**80**	81
Inventories		**48**	46
Other financial assets		**748**	950
Investments in associates and joint ventures	10	**475**	117
Property, plant and equipment	11	**6,241**	6,283
Intangible assets	12	**3,276**	3,302
Deferred tax assets		**641**	971
Other assets		**38**	25
Total non-current assets		**11,547**	11,775
Total assets		**15,450**	15,450
Current liabilities			
Trade and other payables		**1,550**	1,838
Borrowings	13	**596**	305
Provisions	14	**389**	413
Current tax liabilities		**62**	71
Other financial liabilities		**595**	327
Other liabilities		**39**	21
Total current liabilities		**3,231**	2,975
Non-current liabilities			
Borrowings	13	**2,431**	2,880
Provisions	14	**2,857**	3,301
Deferred tax liabilities		**285**	330
Other financial liabilities		**313**	253
Other liabilities		**207**	205
Total non-current liabilities		**6,093**	6,969
Total liabilities		**9,324**	9,944
Net assets		**6,126**	5,506
Equity			
Issued capital	15	**5,813**	5,601
Reserves		**66**	15
Retained earnings/(Accumulated losses)		**245**	(115)
Non-controlling interest		**2**	5
Total equity		**6,126**	5,506

The Condensed Consolidated Statement of Financial Position should be read in conjunction with the notes to the financial statements.

Condensed Consolidated Statement of Changes in Equity

for the half-year ended 31 December 2021

	Attributable to owners of AGL Energy Limited								
	Issued capital $m	Investment revaluation reserve $m	Employee equity benefits reserve $m	Hedge reserve $m	Other reserve $m	Retained earnings / (Accumulated losses) $m	Equity $m	Non-controlling Interests $m	Total Equity $m
Balance at 1 July 2021	**5,601**	**40**	**(1)**	**(24)**	**-**	**(115)**	**5,501**	**5**	**5,506**
Profit/(Loss) for the period	-	-	-	-	-	555	555	(4)	551
Other comprehensive income/(loss) for the period, net of income tax	-	12	-	34	4	17	67	-	67
Total comprehensive (loss)/ income for the period	-	12	-	34	4	572	622	(4)	618
Transactions with owners in their capacity as owners:									
Issue of shares to satisfy the dividend reinvestment plan	212	-	-	-	-	-	212		212
Payment of dividends	-	-	-	-	-	(212)	(212)	-	(212)
Share-based payments	-	-	1	-	-	-	1	-	1
Capital contributed by non-controlling interests	-	-	-	-	-	-	-	1	1
Balance at 31 December 2021	**5,813**	**52**	**-**	**10**	**4**	**245**	**6,124**	**2**	**6,126**

	Issued capital $m	Investment revaluation reserve $m	Employee equity benefits reserve $m	Hedge reserve $m	Other reserve $m	Retained earnings / (Accumulated losses) $m	Equity $m	Non-controlling Interests $m	Total Equity $m
Balance at 1 July 2020	5,603	(6)	-	(75)	1	2,552	8,075	-	8,075
Change in accounting policy	-	-	-	-	-	(103)	(103)	-	(103)
Restated balance at the beginning of the financial year	5,603	(6)	-	(75)	1	2,449	7,972	-	7,972
(Loss)/Profit for the period	-	-	-	-	-	(2,059)	(2,059)	(1)	(2,058)
Other comprehensive income for the year, net of income tax	-	46	-	51	(1)	68	164	-	164
Total comprehensive income/ (loss) for the year	-	46	-	51	(1)	(1,991)	(1,895)	(1)	(1,896)
Transactions with owners in their capacity as owners:							-		-
On-market share buy-back	(2)	-	-	-	-	-	(2)	-	(2)
Payment of dividends	-	-	-	-	-	(573)	(573)	-	(573)
Share-based payments	-	-	(1)	-	-	-	(1)	-	(1)
Capital contributed by non-controlling interests	-	-	-	-	-	-	-	4	4
Balance at 30 June 2021	5,601	40	(1)	(24)	-	(115)	5,501	5	5,506

The Condensed Consolidated Statement of Changes in Equity should be read in conjunction with the notes to the financial statements.

Condensed Consolidated Statement of Cash Flows

for the half-year ended 31 December 2021

	Note	31 Dec 2021 $m	31 Dec 2020 $m Restated[1]
Cash flows from operating activities			
Receipts from customers		**6,472**	5,954
Payments to suppliers and employees		**(5,720)**	(5,212)
Dividends received		**4**	4
Finance costs paid		**(42)**	(63)
Income taxes (paid)		**(53)**	(75)
Net cash provided by operating activities		**661**	608
Cash flows from investing activities			
Payments for property, plant and equipment and other assets		**(289)**	(293)
Payments for investments in associates and joint ventures		**(358)**	-
Proceeds from the sale of investments in joint ventures		**-**	5
Payments for equity instrument financial assets		**-**	(11)
Payments for subsidiaries and businesses, net of cash acquired		**-**	(104)
Proceeds from disposal of equity instrument financial assets		**95**	-
Payments of deferred consideration		**-**	(2)
Net cash used in investing activities		**(552)**	(405)
Cash flows from financing activities			
Payments for buy-back of shares		**-**	(2)
Proceeds from issue of shares		**212**	-
Purchase of shares on-market for equity based remuneration		**(1)**	(2)
Proceeds from borrowings		**1,125**	1,270
Repayment of borrowings		**(1,217)**	(1,191)
Dividends paid	8	**(212)**	(318)
Net cash used in financing activities		**(93)**	(243)
Net increase in cash and cash equivalents		**16**	(40)
Cash and cash equivalents at the beginning of the financial period		**88**	141
Cash and cash equivalents at the end of the financial period		**104**	101

1. The period ended 31 December 2020 has been restated as a result of a change in accounting policy detailed in Note 1(e).

The Condensed Consolidated Statement of Cash Flows should be read in conjunction with the notes to the financial statements.

Notes to the Financial Statements

for the half-year ended 31 December 2021

1. Summary of significant accounting policies

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

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

(a) Statement of compliance

The 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 notes of the type normally included in an annual financial report and should be read in conjunction with the most recent annual financial report.

(b) Basis of preparation

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

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

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in AGL's 2021 annual financial report for the year ended 30 June 2021. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

(c) Adoption of new and revised Standards and Interpretations

AGL has applied the required amendments to Standards and Interpretations that are relevant to its operations and effective for the current reporting period for the first time for the financial year commencing 1 July 2021. These did not have any material impact on the disclosures or on the amounts recognised in AGL's consolidated financial statements.

(d) Standards and Interpretations in issue not yet adopted

The following accounting standards, accounting standard amendments and interpretations are due for adoption for the year ending 30 June 2023:

- AASB 2020-3 *Amendments to Australian Accounting Standards - Annual Improvements 2018-2020 and Other Amendments*

The standards and interpretations listed above will not have a material impact on AGL's financial results or financial position on adoption.

(e) Change in accounting policy

Software as a Service

As disclosed in AGL's 2021 annual financial report for the year ended 30 June 2021, AGL adopted a change in accounting policy in relation to the treatment of configuration and customisation costs related to cloud computing arrangements, commonly referred to as Software as a Service (SaaS). Under the revised accounting policy, costs that would have been previously capitalised are treated as operating expenditure where the entity cannot demonstrate the ability to control the relevant software. In accordance with Australian Accounting Standards the change in accounting policy has been adopted retrospectively and prior comparative periods have been restated. The tables below show the impact of the change in accounting policy on previously reported financial results:

Impact on Condensed Consolidated Statement of Consolidated Profit or Loss

	31 December 2020 $m	SaaS Restatement $m	**Restated 31 December 2020 $m**
Expenses	(8,037)	(6)	**(8,043)**
Depreciation and amortisation	(390)	22	**(368)**
(Loss) before tax	(3,000)	16	**(2,984)**
Income tax expense	713	(5)	**708**
(Loss) attributable to the shareholders of AGL Energy Limited	(2,287)	11	**(2,276)**

Impact on Condensed Consolidated Statement of Cash Flows

	31 December 2020 $m	SaaS Restatement $m	**Restated 31 December 2020 $m**
Payments to suppliers and employees	(5,206)	(6)	**(5,212)**
Net cash generated from operating activities	614	(6)	**608**
Payments for property, plant and equipment and other assets	(299)	6	**(293)**
Net cash used in investing activities	(411)	6	**(405)**

Impact on Basic and Diluted Earnings per share

Statutory earnings per share	31 December 2020 $m	SaaS Restatement $m	**Restated 31 December 2020 $m**
Basic EPS	(367.1 cents)	1.8 cents	**(365.3 cents)**
Diluted EPS	(367.1 cents)	1.8 cents	**(365.3 cents)**

2. Segment information

Operating segments

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

On 30 June 2021, AGL confirmed its intention to undertake a demerger to create two energy businesses with separate listings on the Australian Stock Exchange, Accel Energy and AGL Australia. Effective 1 July 2021, the internal reporting structure of AGL has been updated to align to the two new businesses.

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

- **Accel - Operations:** comprises the power generation portfolio and other assets of Accel Energy. The segment includes the costs associated with the operation and maintenance of Accel's generation fleet and other assets.
- **Accel - Trading and Origination:** comprises the wholesale electricity and C&I customer portfolio of Accel. This segment includes the revenues for the sale of energy to the AGL Australia Customer segment and wholesale and C&I customers, along with costs of generation, and the outcomes of the trading and hedging strategies employed.
- **AGL Australia - Customer:** comprises the consumer and large business customer portfolios responsible for the retailing of electricity, gas, solar and energy efficiency products and services to residential, small and large business customers and the retailing of telecommunications. This segment includes revenue from the sale of energy, telecommunications and other products to customers, the cost of supply and operating costs to support AGL Australia's 4.2 million customer services.
- **AGL Australia - Supply and Trading:** comprises the wholesale electricity, gas and eco markets trading and operating activities of AGL Australia. This segment sources the electricity and gas required to serve AGL Australia's customers. It also operates and maintains the flexible generation assets owned by AGL Australia. This segment earns inter-segment revenues through sales to the AGL Australia Customer segment.
- **AGL Australia - Investments:** comprises AGL Australia's interests in the ActewAGL Retail Partnership, Tilt Renewables, Energy Impact Partners Europe, Activate Capital Partners, and other investments.

In the segment financial results, the 'Other' category consists of the various Corporate activities which includes head office and central support functions. These are not considered to be reportable segments.

Segment financial results

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

AASB 8 Operating Segments requires AGL to report segment information on the same basis as the internal management structure. As a result, the AGL Australia Customer segment reports the revenue and margin associated with satisfying the gas, electricity and telecommunication requirements of AGL's consumer and business customer portfolio, whilst Accel Energy Operations, Accel Energy Trading and Origination and AGL Australia Supply and Trading segment reports the revenue, expenses and margin related to AGL's operating sites and AGL's wholesale energy portfolio.

2. Segment information (cont.)

	Accel Energy		AGL Australia				
	Operations $m	Trading and Origination $m	Customer $m	Supply and Trading $m	Investments $m	Other $m	Total $m
Period ended 31 December 2021							
Revenue							
Total segment revenue	69	2,365	3,746	1,157	4	-	7,341
Inter-segment revenue	(18)	(863)	(16)	(731)	-	-	(1,628)
External revenue	51	1,502	3,730	426	4	-	5,713
Underlying earnings before interest, tax, depreciation and amortisation (Underlying EBITDA)	(246)	816	145	151	(1)	(142)	723
Depreciation and amortisation	(197)	-	(71)	(40)	-	(37)	(345)
Underlying EBIT	(443)	816	74	111	(1)	(179)	378
Net financing costs							(112)
Underlying profit before tax							266
Underlying income tax expense							(76)
Underlying profit after tax							190
Non-controlling interests							4
Underlying profit after tax (attributable to AGL shareholders)							194
Segment assets	5,316	558	2,634	3,490	611	286	12,895
Segment liabilities	1,794	1,633	669	797	2	152	5,047
Other segment information							
Share of profits of associates and joint ventures	-	-	-	-	7	-	7
Investments in associates and joint ventures	-	-	-	-	475	-	475
Additions to non-current assets	179	-	39	48	-	17	283
Other non-cash expenses	-	-	(41)	-	-	(4)	(45)

2. Segment information (cont.)

	Accel Energy		AGL Australia				
	Operations $m	Trading and Origination $m	Customer $m	Supply and Trading $m	Investments $m	Other $m	Total $m
Period ended 31 December 2020 Restated[1]							
Revenue							
Total segment revenue	**62**	**2,264**	**3,812**	**1,057**	-	-	**7,195**
Inter-segment revenue	**(17)**	**(1,006)**	**(26)**	**(732)**	-	-	**(1,781)**
External revenue	**45**	**1,258**	**3,786**	**325**	-	-	**5,414**
Underlying earnings before interest, tax, depreciation and amortisation (Underlying EBITDA)	**(262)**	**990**	**174**	**184**	**5**	**(171)**	**920**
Depreciation and amortisation	**(239)**	**(1)**	**(64)**	**(34)**	-	**(30)**	**(368)**
Underlying EBIT	**(501)**	**989**	**110**	**150**	**5**	**(201)**	**552**
Net financing costs							**(94)**
Underlying profit before tax							**458**
Underlying income tax expense							**(130)**
Underlying profit after tax							**328**
Non-controlling interests							-
Underlying profit after tax (attributable to AGL shareholders)							**328**

	Operations $m	Trading and Origination $m	Customer $m	Supply and Trading $m	Investments $m	Other $m	Total $m
At 30 June 2021 Restated							
Segment assets	**5,350**	**820**	**2,766**	**3,455**	**326**	**309**	**13,026**
Segment liabilities	**1,882**	**2,271**	**656**	**800**	**2**	**167**	**5,778**

	Operations $m	Trading and Origination $m	Customer $m	Supply and Trading $m	Investments $m	Other $m	Total $m
Period ended 31 December 2020 Restated							
Other segment information							
Share of profits of associates and joint ventures	-	-	-	-	**5**	-	**5**
Investments in associates and joint ventures	-	-	-	-	**160**	-	**160**
Additions to non-current assets[2]	**1,260**	-	**43**	**72**	-	**23**	**1,398**
Other non-cash expenses	-	-	**(53)**	-	-	**(5)**	**(58)**

1. The period ended 31 December 2020 has been restated as a result of a change in accounting policy detailed in Note 1(e).
2. Additions to non-current assets has been restated by $6m for the impact of change in accounting policy in relation to the treatment of configuration and customisation costs related to cloud computing arrangements, refer to note 1(e).

Segment Underlying EBIT reconciliation to the Condensed Consolidated Statement of Profit or Loss

Reconciliation of segment Underlying EBIT to profit before tax is as follows:

	31 Dec 2021 $m	31 Dec 2020 $m Restated[1]
Underlying EBIT for reportable segments	**557**	752
Other	**(179)**	(201)
	378	551
Amounts excluded from underlying results:		
- gain/(loss) in fair value of financial instruments	**122**	133
- significant items[2]	**394**	(3,575)
Finance costs	**(112)**	(94)
(Loss)/profit before tax	**782**	(2,985)

1. The period ended 31 December 2020 has been restated as a result of a change in accounting policies detailed in Note 1(e).
2. Further details are contained in the Operating Financial Review attached to and forming part of the Directors' Report.

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Notes to the Financial Statements
for the half-year ended 31 December 2021

3. Revenue

Revenue by product and customer type is disaggregated below:

Period ended 31 December 2021	Consumer $m	Business $m	Wholesale $m	Other $m	Total $m
Electricity	2,152	623	125	-	2,900
Generation sales to pool	-	-	1,255	-	1,255
Gas	818	48	336	16	1,218
Rendering of services	21	19	41	146	227
Other revenue	1	-	69	43	113
Total revenue	2,992	690	1,826	205	5,713

Period ended 31 December 2020	Consumer $m	Business $m	Wholesale $m	Other $m	Total $m
Electricity	2,202	703	138	-	3,043
Generation sales to pool	-	-	997	-	997
Gas	817	59	243	12	1,131
Rendering of services	19	21	33	54	127
Other revenue	1	-	74	41	116
Total revenue	3,039	783	1,485	107	5,414

4. Other income

	31 Dec 2021 $m	31 Dec 2020 $m
Insurance proceeds	-	101
Gain on disposal of investment in joint ventures	-	1
Total other income	-	102

5. Expenses

	31 Dec 2021 $m	31 Dec 2020 $m Restated[1]
Cost of sales	4,230	3,775
Administrative expenses	106	116
Employee benefits expenses	342	340
Other expenses		
Movement in onerous contract provision[2]	(451)	1,920
Impairment losses on property plant & equipment	6	1,644
Gain on fair value of financial instruments	(116)	(125)
Contracts and materials	131	144
Impairment loss on trade receivables (net of bad debts recovered)	41	53
Marketing expenses	20	17
Short term lease and outgoings expenses	11	14
Restructuring and integration costs	17	11
Seperation costs	34	-
Other	110	134
Total expenses	4,481	8,043

1. The period ended 31 December 2020 has been restated as a result of a change in accounting policy detailed in Note 1(e).
2. Refer to Note 14

6. Net financing costs

	31 Dec 2021 $m	31 Dec 2020 $m
Finance costs		
Interest expense[1]	**38**	57
Lease interest expense	**4**	5
Unwinding of discounts on provisions and other liabilities	**58**	18
Unwinding of discount on deferred consideration	**9**	10
Other finance costs	**3**	4
Net financing costs	**112**	94

1. Interest expense for the half-year ended 31 December 2021 is presented net of capitalised interest of $1 million (31 December 2020: $1 million).

7. Income tax

Numerical reconciliation between tax expense and pre-tax accounting profit

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

	31 Dec 2021 $m	31 Dec 2020 $m Restated[1]
Profit/(loss) before tax	**782**	(2,984)
Income tax expense/(benefit) calculated at the Australian tax rate of 30% (31 December 2020: 30%)	**235**	(895)
Non-deductible expenses	**-**	3
Recognition of previously derecognised capital losses	**-**	(2)
Impairment loss on non-current assets	**-**	191
Adjustments in relation to current tax of prior years	**(4)**	(5)
Total income tax expense/(benefit)	**231**	(708)

1. The period ended 31 December 2020 has been restated as a result of a change in accounting policy detailed in Note 1(e).

Income tax recognised in other comprehensive income

	31 Dec 2021 $m	31 Dec 2020 $m
Deferred tax		
Cash flow hedges	**16**	8
Equity instruments measured at fair value	**6**	5
Remeasurement gain/(loss) on defined benefit plans	**7**	(2)
Total income tax recognised in other comprehensive income	**29**	11

8. Dividends

Recognised amounts

	31 Dec 2021 $m	31 Dec 2020 $m
Final dividend		
Final dividend for 2021 of 34.0 cents per share, unfranked, paid 29 September 2021 (2020: Final dividend for 2020 51.0 cents per share, franked to 80%, paid 25 September 2020).	**212**	318
Dividends paid as per the Consolidated Statement of Cash Flows	**212**	318

Unrecognised amounts

Since the end of the financial year, the Directors have declared an interim dividend for 2022 of 16.0 cents per share, unfranked, payable 30 March 2022 (2021: 41.0 cents per share, unfranked, paid 26 March 2021).	**105**	255

Dividend reinvestment plan

The AGL Dividend Reinvestment Plan (DRP) will operate in respect of the 2022 interim dividend. AGL will issue shares and allot them to DRP participants at no discount to the simple average of the daily weighted average price at which AGL's ordinary shares trade during each of the 20 trading days commencing 28 February 2022. The last date for shareholders to elect to participate in the DRP for the 2022 interim dividend is 25 February 2022.

9. Trade and other receivables

	31 Dec 2021 $m	30 Jun 2021 $m
Current		
Trade receivables	**1,142**	1,357
Unbilled revenue	**615**	726
Allowance for expected credit loss	**(211)**	(209)
	1,546	1,874
Other receivables	**109**	15
Amounts owing by joint ventures	**17**	9
Other receivables	**92**	6
Total current trade and other receivables	**1,655**	1,889

Non-current		
Other	**80**	81
Total non-current trade and other receivables	**80**	81

Expected credit loss assessment

The following table provides information about the exposure to credit risk and expected credit losses for trade receivables and unbilled revenue:

	31 Dec 2021		30 Jun 2021	
	Total $m	Allowance $m	Total $m	Allowance $m
Unbilled revenue	**615**	**(35)**	726	(48)
Not past due	**752**	**(16)**	1,013	(21)
Past due 0 – 30 days	**81**	**(10)**	78	(12)
Past due 31 – 60 days	**52**	**(12)**	38	(9)
Past due 61 – 90 days	**26**	**(10)**	24	(7)
Past 90 days	**231**	**(128)**	204	(112)
Total	**1,757**	**(211)**	2,083	(209)

10. Investments in associates and joint ventures

	31 Dec 2021 $m	30 Jun 2021 $m
Investments in joint ventures - unlisted[1]	475	117
Total investments in associates and joint ventures	**475**	**117**

1. On 3 August 2021, AGL made a $358 million capital contribution into Powering Australian Renewables (PowAR) to fund AGLs 20% interest in PowAR's acquisition of Tilt Renewables Limited's Australian business. Subsequent to acquisition, PowAR has changed its name to Tilt Renewables.

		Ownership interest		Contribution to profit	
	Principal activities	31 Dec 2021 %	30 Jun 2021 %	31 Dec 2021 $m	31 Dec 2020 $m
Associates					
Solar Analytics Pty Ltd	Solar PV monitoring	31.2	31.2	-	-
Joint ventures					
ActewAGL Retail Partnership	Gas and electricity retailer	50	50	7	5
Central Queensland Pipeline Pty Ltd	Gas pipeline development	50	50	-	-
Tilt Renewables	Development and owner of renewable energy generation projects	20	20	-	-
Total contribution to profit				**7**	**5**

11. Property, plant and equipment

31 December 2021	Plant and equipment $m	Right-of-use plant and equipment $m	Other $m	Right-of-use assets $m	Total $m
Balance at 1 July 2021, net of accumulated depreciation and impairment	**6,013**	**5**	**86**	**179**	**6,283**
Additions	**229**	**-**	**-**	**4**	**233**
Reclassified to intangible assets	**(32)**	**-**	**-**	**-**	**(32)**
Depreciation expense	**(228)**	**-**	**-**	**(9)**	**(237)**
Impairment expense	**-**	**-**	**-**	**(6)**	**(6)**
Balance at 31 December 2021 net of accumulated depreciation and impairment	**5,982**	**5**	**86**	**168**	**6,241**
Balance at 1 July 2021					
Cost (gross carrying amount)	**10,311**	**12**	**109**	**297**	**10,729**
Accumulated depreciation and impairment	**(4,298)**	**(7)**	**(23)**	**(118)**	**(4,446)**
Net carrying amount	**6,013**	**5**	**86**	**179**	**6,283**
Balance at 31 December 2021					
Cost (gross carrying amount)	**10,506**	**12**	**109**	**301**	**10,928**
Accumulated depreciation and impairment	**(4,524)**	**(7)**	**(23)**	**(133)**	**(4,687)**
Net carrying amount	**5,982**	**5**	**86**	**168**	**6,241**

30 June 2021	Plant and equipment $m	Right-of-use plant and equipment $m	Other $m	Right-of-use assets $m	Total $m
Balance at 1 July 2020, net of accumulated depreciation and impairment	6,349	5	89	197	6,640
Reclassified to intangible assets	(96)	-	-	-	(96)
Change in estimate related to provision for environmental rehabilitation	1,112	-	-	-	1,112
Additions	545	-	-	3	548
Disposals	(9)	-	-	-	(9)
Depreciation expense	(492)	-	(3)	(21)	(516)
Reclassified as held for sale	(223)	-	-	-	(223)
Impairment loss recognised in profit or loss	(1,173)	-	-	-	(1,173)
Balance at 30 June 2021, net of accumulated depreciation and impairment	6,013	5	86	179	6,283
Balance at 1 July 2020					
Cost (gross carrying amount)	9,260	12	109	294	9,675
Accumulated depreciation and impairment	(2,911)	(7)	(20)	(97)	(3,035)
Net carrying amount	6,349	5	89	197	6,640
Balance at 30 June 2021					
Cost (gross carrying amount)	10,311	12	109	297	10,729
Accumulated depreciation and impairment	(4,298)	(7)	(23)	(118)	(4,446)
Net carrying amount	6,013	5	86	179	6,283

12. Intangible assets

31 December 2021	Goodwill $m	Software $m	Licences $m	Other $m	Total $m
Balance at 1 July 2021, net of accumulated amortisation and impairment	**2,440**	**482**	**285**	**95**	**3,302**
Reclassified from property, plant and equipment	**-**	**32**	**-**	**-**	**32**
Additions	**-**	**50**	**-**	**-**	**50**
Amortisation expense	**-**	**(92)**	**(4)**	**(12)**	**(108)**
Balance at 31 December 2021, net of accumulated amortisation and impairment	**2,440**	**472**	**281**	**83**	**3,276**

Balance at 1 July 2021, net of accumulated amortisation and impairment					
Cost (gross carrying amount)	**3,067**	**1,333**	**311**	**319**	**5,030**
Accumulated amortisation and impairment	**(627)**	**(851)**	**(26)**	**(224)**	**(1,728)**
Net carrying amount	**2,440**	**482**	**285**	**95**	**3,302**

Balance at 31 December 2021					
Cost (gross carrying amount)	**3,067**	**1,415**	**311**	**319**	**5,112**
Accumulated amortisation and impairment	**(627)**	**(943)**	**(30)**	**(236)**	**(1,836)**
Net carrying amount	**2,440**	**472**	**281**	**83**	**3,276**

30 June 2021	Goodwill $m	Software $m	Licences $m	Other $m	Total $m
Balance at 1 July 2020, net of accumulated amortisation and impairment	2,879	392	296	71	3,638
Reclassified from property, plant and equipment	-	96	-	-	96
Additions	187	165	-	41	393
Disposals	-	-	-	-	-
Amortisation expense	-	(171)	(11)	(17)	(199)
Impairment loss recognised in profit or loss	(626)	-	-	-	(626)
Balance at 30 June 2021, net of accumulated amortisation and impairment	2,440	482	285	95	3,302

Balance at 1 July 2020					
Cost (gross carrying amount)	2,880	1,072	311	278	4,541
Accumulated amortisation and impairment	(1)	(680)	(15)	(207)	(903)
Net carrying amount	2,879	392	296	71	3,638

Balance at 30 June 2021					
Cost (gross carrying amount)	3,067	1,333	311	319	5,030
Accumulated amortisation and impairment	(627)	(851)	(26)	(224)	(1,728)
Net carrying amount	2,440	482	285	95	3,302

12. Intangible assets (cont.)

CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

Impairment testing for period ended 31 December 2021

Changes to cash generation units

Effective 1 July 2021, the internal reporting structure of AGL has been updated to align to the proposed two demerged businesses, resulting in the formation of new operating segments. Following review of the associated CGUs it was determined that there were changes to the CGUs that impacted AGLs impairment assessment. The major CGUs for the purpose of impairment assessment at 31 December 2021 are:

- Customer Markets
- Generation Fleet
- Flexible Generation
- Wholesale Gas

Impairment testing for the half year ended 31 December 2021

AGL is subject to a number of external forces that will impact the performance of its business over the life of its assets. This includes external regulatory and social factors that may impact the life of assets, competitor behaviour and new entrants, technology change, and market prices. To respond to the range of potential outcomes that can result from these factors, AGL has adopted a scenario analysis approach to determining the recoverable amount of its assets and cash generating units. Each of the scenarios were assigned a probability weighting to estimate the value in use of each CGU. The methodology of analysing several possible outcomes is consistent with AGL's external reporting disclosures such as the TCFD reports.

Management has modelled eight differing scenarios that have been used in determining the recoverable value of the CGUs. The eight scenarios modelled represent a range of possible outcomes including differing wholesale market prices, asset lives, and impacts of increased competition.

The recoverable amounts for Customer Markets, Generation Fleet, Flexible Generation and Wholesale Gas have been determined using value-in-use models including an appropriate terminal value, where applicable. The key assumptions in the calculation of value in use include:

- Pool prices;
- Plant closure date;
- Discount rate;
- Terminal growth rate;
- Customer numbers and churn;
- Energy procurement costs and volumes, and generation volumes;
- Gross margin including assumptions around regulatory outcomes, constraints that impact pricing of market contracts, customer product swaps and customer discounts; and
- Probability weighting applied to each scenario.

The estimate of regulatory outcomes is based on actual regulatory decisions for the current operating period, which are publicly available, together with AGL's expectations of regulated network prices and regulated pricing (VDO/DMO) beyond the current reset period and market prices in unregulated markets. The assumed future gross margin in unregulated markets is determined with reference to historic achieved revenue rates along with AGL's expectations of future price changes, and the impact of expected customer discounts. Customer numbers and consumption volumes are estimated based on historical experience in various segments, together with marketing strategies for the retention and winning of customers and the expected competition from new entrants. Energy procurement costs are estimated based on the actual hedge portfolio, together with an estimate of future hedging prices and volumes beyond the period of the actual hedge portfolio.

In the case of AGL's generation and flexible generation finite life assets, cash flow forecasts are based on discrete and long-term cash flow forecasts that reflect the life of the assets. The long-term modelling reflects AGL's view of the cash flows anticipated from operations, factoring in known events and expectations, and allows for quantification of sensitivities and scenarios.

Where applicable, a terminal value for certain CGUs is estimated. The terminal value is based on final year free cash flow, with normalised operating and capital expenditure, extrapolated into perpetuity with a growth rate of 2.0% (June 2021: 2.0%). Discount rates used are the post-tax weighted average cost of capital of 6.7% (June 2021: 6.7%).

If the recoverable amount of a cash generating unit is estimated to be less than the carrying amount, the carrying amount of the cash generating unit is reduced to its recoverable amount with any impairment recognised immediately in the statement of financial performance.

Impact of possible changes in key assumptions

Generation Fleet CGU

Following a detailed impairment review of future cash flow projections and the probability weight of various scenarios, the assets are considered recoverable at 31 December 2021.

The recoverable amount is sensitive to reasonably possible changes in pool prices and regulatory or social changes that may reduce asset lives. It is reasonably possible that a change in these assumptions could lead to a further reduction in recoverable value. The interrelationship of changes in these and other assumptions is complex. Changes in the external operating environment, such as closure of aluminium smelters that consume significant volumes of electricity from the market;

CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

changes to the scheduled closure date of other non-AGL owned power stations; or changes to government policies could result in the decrease in pool prices or may reduce the operating lives of our assets which could give rise to a further impairment.

No other reasonably possible changes in key assumptions have been identified which may cause the carrying amount to exceed its recoverable amount.

Wholesale Gas CGU

Following a detailed impairment review of future cash flow projections, the assets are considered recoverable at 31 December 2021.

Reasonably possible changes in circumstances will affect assumptions and the estimated recoverable amount of the Wholesale Gas CGU. The recoverable amount of the CGU would equal its carrying amount if:

- The volumes sold to retail customers is reduced by 4% per annum in isolation; or
- The gas margin forecast is reduced by $0.24/GJ in isolation.

No other reasonably possible changes in key assumptions have been identified which may cause the carrying amount to exceed its recoverable amount.

Customer Markets CGU and Flexible Generation CGU

Management do not believe that any reasonably possible change in the key assumptions would result in an impairment.

Impact of climate change related risk

Management recognises that there is an increased pace of change in the energy industry and associated political landscape and will continue to work towards incorporating quantification of the financial impact of climate change and related policies within our annual financial filings in accordance with Australian Securities and Investments Commission (ASIC), Australian Prudential Regulation Authority (APRA), and Australian Accounting Standards Board (AASB) recommendations.

Notwithstanding the above, any change to the planned closure dates of AGL's coal-fired/thermal generation plants as a result of climate change may have a material impact on the National Electricity Market and may result in a material change to AGL's estimated cash inflows. Similarly, any change to policy in relation to climate change may have a material impact on the National Electricity Market and may result in a material change to AGL's estimated cash inflows.

Impairment of goodwill and other intangibles with indefinite useful lives

AGL determines whether goodwill and other intangibles with indefinite useful lives are impaired at least on an annual basis. This requires an assessment of impairment indications, and an estimation of the recoverable amount of the cash-generating units, using a value in use discounted methodology, to which the goodwill and intangibles with indefinite useful lives are allocated.

13. Borrowings

	31 Dec 2021 $m	30 Jun 2021 $m
Current		
Bank loans - unsecured	**340**	275
USD senior notes - unsecured	**232**	-
CPI bonds - unsecured	**10**	10
Lease liabilities	**14**	20
Total current borrowings	**596**	305
Non-current		
Bank loans - unsecured	**1,445**	1,675
USD senior notes - unsecured	**803**	1,019
CPI bonds - unsecured	**52**	57
Lease liabilities	**139**	139
Deferred transaction costs	**(8)**	(10)
Total non-current borrowings	**2,431**	2,880

14. Provisions

	31 Dec 2021 $m	30 Jun 2021 $m
Current		
Employee benefits	**216**	212
Environmental rehabilitation	**59**	52
Onerous contracts	**104**	147
Restructuring	**10**	2
Total current provisions	**389**	413
Non-current		
Employee benefits	**14**	14
Environmental rehabilitation	**1,395**	1,400
Onerous contracts	**1,448**	1,887
Total non-current provisions	**2,857**	3,301

The movements in the Environmental rehabilitation provision, Restructuring Provision and Onerous contract provision is set out below:

	Environmental rehabilitation $m	Restructuring $m	Onerous Contracts $m	Total $m
Balance at 1 July 2021	**1,452**	**2**	**2,034**	**3,488**
Provisions recognised	**-**	**10**	**(451)**	**(441)**
Provisions utilised and derecognised	**(19)**	**(2)**	**(67)**	**(88)**
Unwinding of discount	**21**	**-**	**36**	**57**
Balance at 31 December 2021	**1,454**	**10**	**1,552**	**3,016**

CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

Provision for environmental rehabilitation

AGL estimates the future removal and rehabilitation costs of electricity generation assets, oil and gas production facilities, wells, pipelines, mine and related assets at the time of installation of the assets. In most instances, removal of these assets will occur many years into the future. The requirement for rehabilitation is also subject to community and regulatory expectations which may evolve over time and in practice negotiation is required to arrive at a practical rehabilitation strategy. The calculation of this provision requires management to make assumptions regarding the removal date, application of environmental legislation, the extent of rehabilitation activities required and available technologies. The assumptions are highly judgemental and represents management's best estimate of the present value of the expenditure required to settle the obligation, given known facts and circumstances at a point in time.

In line with AGL's accounting policy, the Provisions for Environmental Rehabiliation are reviewed on a regular basis. The provision for environmental rehabilitation amounts to $1,454 million as at 31 December 2021.

Provision for onerous contracts

AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* defines an onerous contract as a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it. A provision for onerous contracts is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract.

AGL recognised a number of legacy power purchase agreements as onerous for the year ended 30 June 2021. Under these legacy power purchase agreements, AGL makes periodic payments for the electricity and green certificates generated by these assets. The agreements were primarily entered between 2006 and 2012 to support the development of the renewables sector at that time. These offtake agreements were entered at prices significantly higher than current and forecast prices for electricity and renewable energy certificates today.

The onerous contract provision amounts to $1,552 million as at 31 December 2021, a reduction of $482 million from 30 June 2021. The reduction is predominantly driven by the uplift in the forward prices on both electricity and renewable energy certificates since 30 June 2021. The forward electricity price is a key assumption in the valuation of onerous contract provision.

15. Issued capital

	31 Dec 2021 Total $m	31 Dec 2021 Number of shares	30 Jun 2021 Total $m	30 Jun 2021 Number of shares
Balance at beginning of reporting period	**5,601**	**623,033,791**	5,603	623,138,096
On-market share buy-back	**-**	**-**	(2)	(104,305)
Issue of shares to satisfy the dividend reinvestment plan	**212**	**35,345,363**	-	-
Balance at reporting date	**5,813**	**658,379,154**	5,601	623,033,791

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding-up of the Parent Entity in proportion to the number of shares held. Every ordinary Shareholder present at a meeting of the Parent Entity, in person or by proxy, is entitled to one vote per share.

16. Earnings per share

	31 Dec 2021 $m	31 Dec 2020 $m Restated[1]
Statutory earnings per share		
Basic earnings per share	**86.6 cents**	(365.3 cents)
Diluted earnings per share	**86.5 cents**	(365.3 cents)
Underlying earnings per share		
Basic earnings per share	**30.3 cents**	52.6 cents
Diluted earnings per share	**30.2 cents**	52.6 cents

1. The period ended 31 December 2020 has been restated as a result of a change in accounting policy detailed in Note 1(e).

Earnings used in calculating basic and diluted earnings per share

	31 Dec 2021 $m	31 Dec 2020 $m Restated[1]
Statutory earnings used to calculate basic and diluted earnings per share attributable to owners of AGL	**555**	(2,276)
Significant expense/(income) items after income tax	**(276)**	2,697
(Gain) in fair value of financial instruments after income tax	**(85)**	(93)
Underlying earnings used to calculate basic and diluted earnings per share	**194**	328

1. The period ended 31 December 2020 has been restated as a result of a change in accounting policy detailed in Note 1(e).

Weighted average number of ordinary shares

	31 Dec 2021	31 Dec 2020
Number of ordinary shares used in the calculation of basic earnings per share	**641,090,661**	623,060,434
Effect of dilution - LTIP share performance rights	**907,714**	509,196
Number of ordinary shares used in the calculation of diluted earnings per share	**641,998,375**	623,569,630

17. Acquisition, incorporation and disposal of subsidiaries and businesses

31 December 2021

Disposal of Energy Impact Partners US

On 21 December 2021, AGL completed the disposal of its investment in Energy Impact Partners US for $95m.

Disposal of Ecobee

On 1 December 2021, AGL completed the disposal of its investment in Ecobee in return for a consideration of cash and shares valued at $12m at 31 December 2021.

Capital Contribution to Tilt Renewables (formerly PowAR)

On 3 August 2021, AGL made a $358 million capital contribution into Powering Australian Renewables (PowAR) to fund its 20% interest in PowAR's acquisition of Tilt Renewables Limited's Australian business. Subsequent to the acquisition, PowAR changed its name to Tilt Renewables.

30 June 2021

Acquisition of SEGH Pty Limited

On 31 March 2021, AGL completed the purchase of 100% of the outstanding share capital of SEGH Pty Limited. Solgen operates a large solar wholesale distribution, engineering, procurement and construction (EPC) business, delivering more than 15,000 projects in the past decade.

Acquisition of Epho Holding Pty Limited

On 31 March 2021, AGL completed the purchase of 100% of the outstanding share capital of Epho Holding Pty Limited. Epho specialises in the construction and maintenance of large-scale solar systems and has delivered more than 400 projects nationwide.

Acquisition of OVO Energy Pty Limited

On 29 March 2021, AGL completed the purchase of 51% of the outstanding share capital of OVO Energy Pty Ltd. As part of the agreement, OVO Energy Australia will work to adapt Kaluza, an AI-enabled platform, for Australia and serve a growing customer base with innovative products and services.

Acquisition of Click Energy Group Holdings Pty Ltd

On 30 September 2020, AGL completed the purchase of 100% of the outstanding share capital of Click Energy Group Holdings Pty Ltd, a wholly owned subsidiary of ASX-listed amaysim Australia Limited, for $109 million. The acquisition includes approximately 215,000 energy services to customers, increasing AGL's total services provided to almost 4.2 million services to homes and businesses across Australia.

18. Contingent liabilities

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

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.

19. Financial instruments

Fair value measurements

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

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

31 December 2021	Carrying Amount $m	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Financial assets					
Equity instruments at FVOCI					
Unlisted equity securities	8	-	-	8	8
Unlisted investment funds	115	-	-	115	115
Derivative financial instruments					
Cross currency swap contracts - cash flow and fair value hedges	120	-	120	-	120
Interest rate swap contracts - cash flow hedges	34	-	34	-	34
Energy derivatives - economic hedges	1,463	519	396	548	1,463
Other	5	-	-	5	5
Total financial assets	**1,745**	**519**	**550**	**676**	**1,745**
Financial liabilities					
Derivative financial instruments					
Interest rate swap contracts - cash flow hedges	(19)	-	(19)	-	(19)
Forward foreign exchange contracts - cash flow hedges	(1)	-	(1)	-	(1)
Energy derivatives - economic hedges	(625)	(271)	(147)	(207)	(625)
Total financial liabilities	**(645)**	**(271)**	**(167)**	**(207)**	**(645)**

19. Financial instruments (cont.)

30 June 2021	Carrying Amount $m	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Financial assets					
Equity instruments at FVOCI					
Unlisted equity securities	8	-	-	8	8
Unlisted investment funds	205	-	-	205	205
Derivative financial instruments					
Cross currency swap contracts - cash flow and fair value hedges	96	-	96	-	96
Interest rate swap contracts - cash flow hedges	13	-	13	-	13
Forward foreign exchange contracts - cash flow hedges	2	-	2	-	2
Energy derivatives - economic hedges	1,084	210	214	660	1,084
Other	5	-	-	5	5
Total financial assets	1,413	210	325	878	1,413
Financial liabilities					
Derivative financial instruments					
Interest rate swap contracts - cash flow hedges	(37)	-	(37)	-	(37)
Forward foreign exchange contracts - cash flow hedges	(2)	-	(2)	-	(2)
Energy derivatives - economic hedges	(373)	(135)	(101)	(137)	(373)
Total financial liabilities	(412)	(135)	(140)	(137)	(412)

Deferred consideration of $177m is recognised at amortised cost, which is below its fair value of $225m. The carrying value of other financial assets (excluding derivative financial assets) and financial liabilities (excluding derivative financial liabilities) have been assessed as comparable to fair value.

Estimation of fair values

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

- Receivables/payables with a remaining life of less than six months, the notional amount is deemed to reflect the fair value. All other receivables/payables are discounted to determine the fair value if the effect of discounting is material.
- The fair value of forward foreign exchange contracts and energy derivatives is calculated as the present value of expected future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates that reflect the credit risk of various counterparties. Interest rate and cross currency swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates that reflect the credit risk of various counterparties.
- The fair value of borrowings is determined as the present value of future contracted cash flows and credit adjustments. Cash flows are discounted using standard valuation techniques at applicable market yield having regard to timing of cash flows.
- The fair value of energy derivatives is determined as the present value of future contracted cash flows and credit adjustments. Cash flows are discounted using standard valuation techniques at applicable market yield having regard to timing of cash flows.
- The fair value of lease liabilities is estimated as the present value of future cash flows discounted where the effect of discounting is material.
- The fair value of deferred consideration is determined as the present value of future contracted cash flows and credit adjustments. Cash flows are discounted using standard valuation techniques at applicable market yield having regard to timing of cash flows.

19. Financial instruments (cont.)

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

	31 Dec 2021 $m	30 Jun 2021 $m
Opening balance	**741**	456
Total gains or losses recognised in profit or loss		
Settlements during the year	**(1)**	33
Changes in fair value	**(122)**	229
Acquisition	**-**	(7)
Premiums	**(41)**	5
Purchases	**-**	25
Disposals	**(108)**	-
Closing balance	**469**	741

Fair value gains or losses on energy derivatives are included in other expenses in the line item "Gain on fair value of financial instruments" in Note 5.

The sensitivity of Level 3 contracts with significant unobservable inputs, where the inputs are higher by 10 percent is ($182) million and lower by 10 percent is $182 million (profit after tax increase/(decrease)). Input changes were applied to forward prices with references to electricity market and emissions schemes, cost-based indexes, contract volumes and management's assumptions on long-term commodity curves.

20. Subsequent events

Apart from the matters identified in the financial statements or notes thereto, there has not been any matter or circumstance that has arisen since 31 December 2021 that has significantly affected or may significantly affect the operations of AGL, the results of those operations, or the state of affairs of AGL in the future.

Directors' Declaration

for the half-year ended 31 December 2021

The Directors of AGL Energy Limited declare that, in their opinion:

(a) there are reasonable grounds to believe that AGL Energy Limited will be able to pay its debts as and when they become due and payable;

(b) the attached financial statements and notes of AGL Energy Limited and its controlled entities for the half-year ended 31 December 2021 are in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the financial position and performance of AGL Energy Limited and its controlled entities for the half-year ended 31 December 2021; and

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

Signed in accordance with a resolution of the Directors

Peter Botten
Chairman

10 February 2022

Auditor's Independence Declaration

Deloitte.

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

10 February 2022

Dear Board Members

AGL Energy Limited

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of AGL Energy Limited.

As lead audit partner for the review of the financial statements of AGL Energy Limited for the half-year ended 31 December 2021, I declare that to the best of my knowledge and belief, there have been no contraventions of:

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

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

Yours sincerely

DELOITTE TOUCHE TOHMATSU

Jason Thorne
Partner
Chartered Accountants

Liability limited by a scheme approved under Professional Standards Legislation.

Member of Deloitte Asia Pacific Limited and the Deloitte organisation.

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

Conclusion

We have reviewed the half-year financial report of AGL Energy Limited, which comprises the Condensed Consolidated Statement of Financial Position as at 31 December 2021 and the Condensed Consolidated Statement of Profit or Loss, the Condensed Consolidated Statement of Comprehensive Income, the Condensed Consolidated Statement of Cash Flows and the Condensed Consolidated Statement of Changes in Equity for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the Directors' Declaration of the consolidated entity comprising the company and the entities it controlled at the end of the half-year or from time to time during the half-year as set out on pages 29-53.

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 2021 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*.

Basis for Conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Half-year Financial Report* section of our report. We are independent of AGL Energy Limited in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

Deloitte.

Directors' Responsibility for the Half-Year Financial Report

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

Auditor's Responsibilities for the Review of the Half-Year Financial report

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of AGL Energy Limited's financial position as at 31 December 2021 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.*

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

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Jason Thorne
Partner
Chartered Accountants
Sydney, 10 February 2022

Corporate Directory

Directory

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