PNG Gas Agreements

Creating value through a long term gas supply strategy

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Agenda

- Overview of PNG Agreements and Key Deliverables
- PNG Gas Agreements - Details
- PNG Gas Agreements - Financial Impacts
- Conclusion
- Appendices
  - PNG Pipeline - Update
  - Eastern Australia Supply/Demand Dynamics
  - Integrated Energy Company Strategy

Overview of PNG Agreements & Key Deliverables

Overview of PNG Gas Agreements

AGL has today taken a significant step in executing against its strategy of being a leading integrated energy company:

- Executed a gas supply agreement (GSA) with the PNG Gas producers for the supply of approximately 1500 PJ of gas over 20 years commencing from 2009
  - Value of contract approximately AUS$4.5 billion
- Executed an upstream investment agreement (UIA) with Oil Search to acquire a 10% interest in PNG Gas Project through stakes in the Kutubu (PDL2) and Gobe (PDL4) licences
  - Value of investment approximately US$300m (~AUS$400m at current exchange rates)

Both transactions are conditional on the PNG Project reaching financial close currently expected to occur second half 2006

Key Deliverables

- Consistent with AGL’s strategy of strengthening its position as a leading Australian integrated energy company
- Positions AGL to deliver long term value for shareholders by:
  - securing long term, competitive gas supplies to support AGL’s portfolio requirements for NSW, ACT, South Australia and Queensland, Australia’s fastest growing energy market
  - acquiring an equity investment in the upstream PNG Gas Project at an attractive entry price
  - providing greater certainty around AGL’s proposed investment in the PNG pipeline which now includes a proposed extension to Gove in the Northern Territory

PNG Gas Agreements - Details

Gas Supply Agreement - Details

- Supply: approximately 1,500 PJ
- Term: 2009-2028
- Value: approximately AUS$4.5 billion
- Competitively priced below AGL's existing current average portfolio cost
- Contract flexibility: load factors, take-or-pay levels, delivery points and annual volume ramp-up
- Pricing: subject to market review clauses to ensure gas price remains competitive throughout term of GSA
- Volumes being contracted can be accommodated within profile AGL's existing wholesale gas portfolio
- Brings total AGL contracted gas supplies to almost 4,000PJ

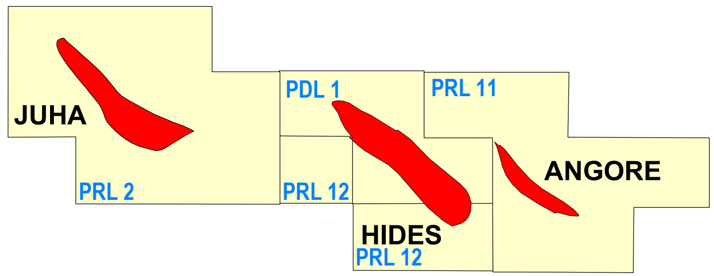
Upstream Investment Agreement - Details

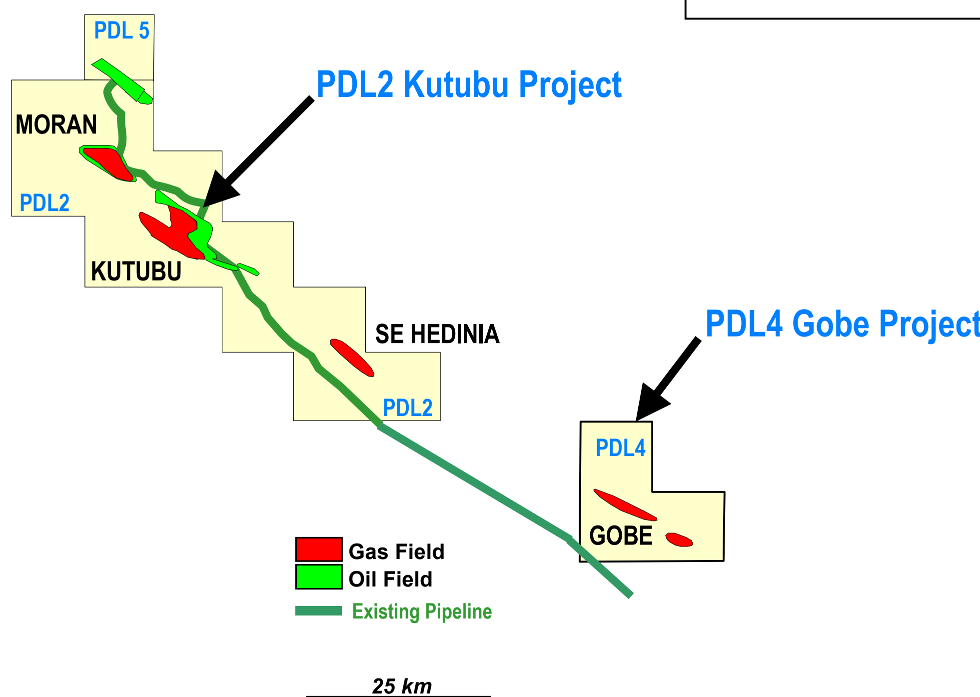
- Executed a UIA with Oil Search comprising two core elements:
  - 10% stake in the PNG Gas Project currently giving AGL the third largest interest in the project after gas project operator Exxon Mobil and oil projects operator Oil Search
  - This stake in the PNG Gas Project acquired via 11.9% stake in Kutubu (PDL2) and 66.7% stake in Gobe (PDL4) licences
- Oil Search to retain operatorship of all oil projects
- Binding sale & purchase agreement to be completed later this year

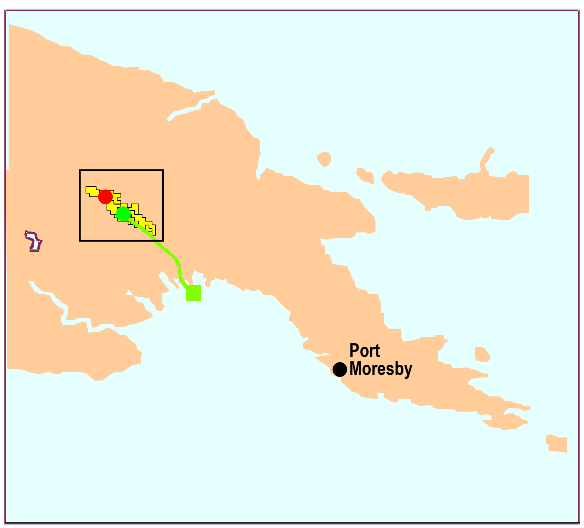
Upstream Investment Agreement - Details (cont)

- Indicative acquisition cost of US$300m (~AUS$400m at current exchange rates)
  - AGL's share of total oil, gas and condensate reserves approximately 110 million barrels of oil equivalent (boe)
  - Final acquisition price of AGL's upstream PNG interests determined at financial close
  - Key transaction valuation parameters include:
    - Oil production profile based on independent proved and probable reserves
    - Oil asset value based on prevailing oil futures prices over agreed period followed by agreed long term price
    - Gas asset value based on agreed sales profile and gas price
- Now undertaking comprehensive technical, legal, tax, accounting and documentation due diligence

PNG Upstream Investment Overview







2P Gas Resources

	3rd Party Certified *
Hides	4,520 PJ
Juha	1,240 PJ
Angore	1,370 PJ
Kutubu	1,540 PJ
Moran	280 PJ
SE Hedinia	200 PJ
Gobe	240 PJ
Total	9,390 PJ

* Converted to PJ at 1.19 PJ/BCF

PNG Gas Agreements - Financial Impacts

Financial Impacts[1]

- EPS accretive from day one: ~ 5cps on an annualised basis first year
- Positive cashflow after interest, tax and capex from day one
- Acquisition expected to be 100% debt funded:
  - approximately US$300m (~AUS$400m at current exchange rates)
  - drawn from existing facilities
  - appropriate foreign exchange hedging to be undertaken
  - following draw down gearing increases by ~5.5%
- Appropriate hedging of liquids for first 3 - 5 years and then on a rolling basis to protect value of AGL's investment and manage volatility

[1] **Forecasts based on current market conditions and prevailing oil prices**

Financial Impacts[1]

- Gas project capex requirements being defined by upstream FEED process
- AGL capex requirement for gas project: ~US$30-40m pa for initial 4 years from financial close, minimal thereafter
- Tax:
  - Oil reserves: 50% tax rate - applicable from financial close
  - Gas project reserves: 30% tax rate - applicable from first gas
  - PNG holding company structure
  - No dividend withholding tax
- Indicative acquisition cost of reserves
  - ~ US$3 per boe
  - ~ US$4.5 per boe post gas project capex

[1] Forecasts based on current market conditions and prevailing oil prices

Conclusions

- PNG Gas agreements are consistent with AGL's integrated energy company strategy by delivering:
  - competitively priced, flexible wholesale gas supplies
  - equity investment in upstream PNG project at attractive entry price
  - greater certainty around PNG pipeline proceeding

Further Information / Contacts

A full range of information on AGL including annual reports, presentations and financial results is available from our website www.agl.com.au

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Appendices

PNG Pipeline - Update

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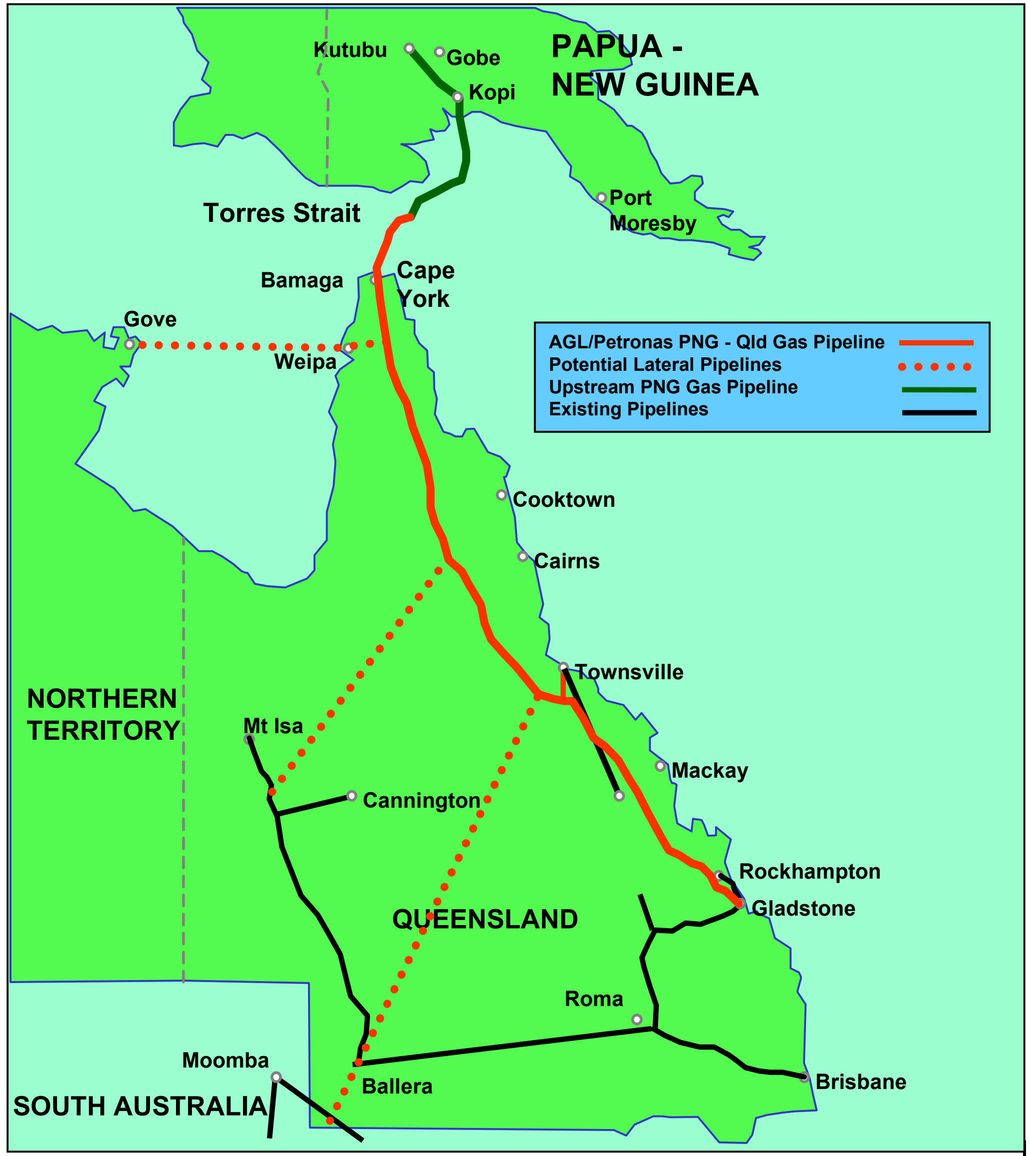
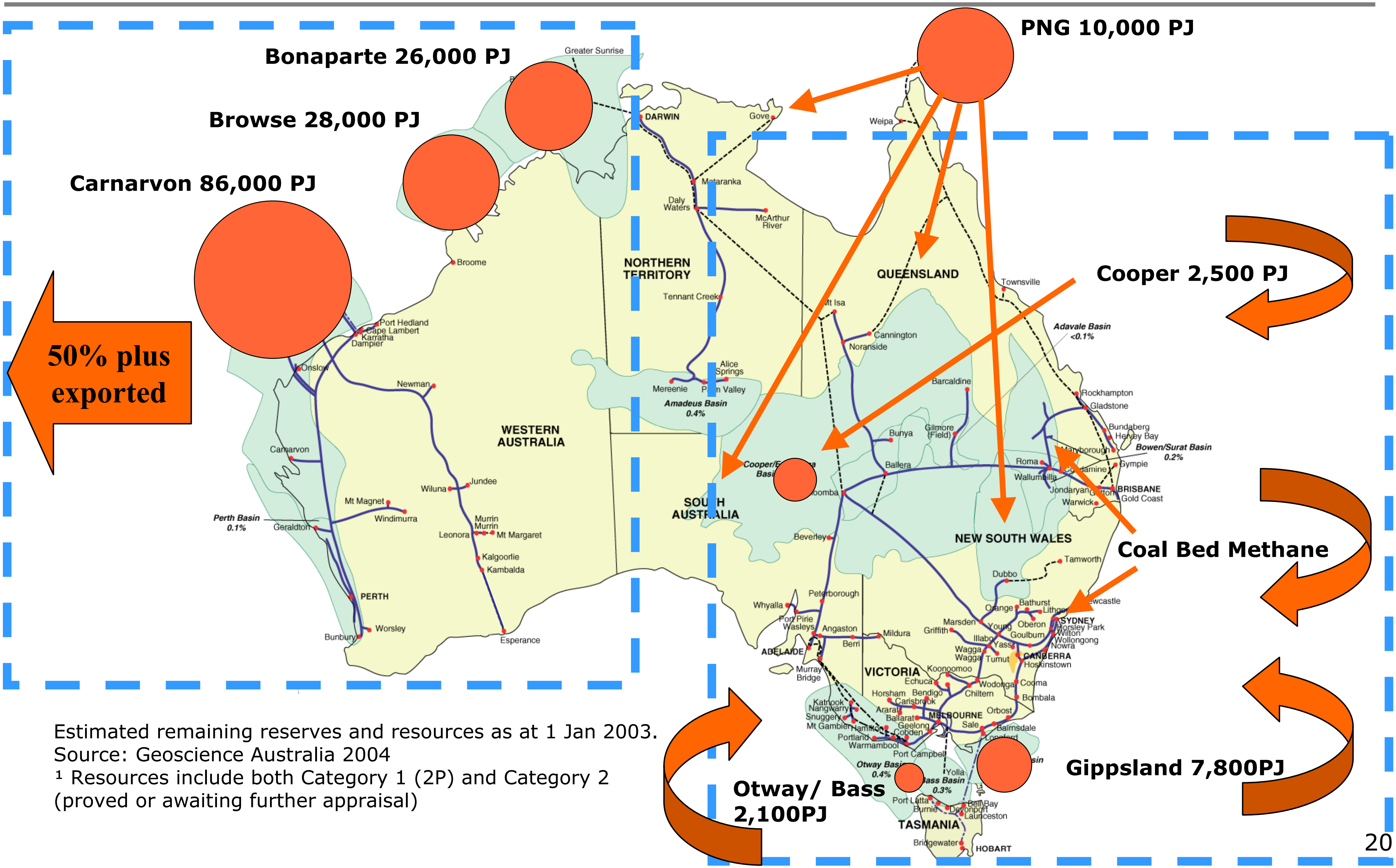
- FEED: engineering, environmental and land access processes underway on east coast route to Gladstone (1890km)
- Commercial and technical evaluation underway on potential lateral pipelines to Mt Isa and Ballera
- Engineering assessment underway on potential Gove lateral
- Financial close scheduled to occur second half 2006
- APC estimated development/ investment cost of ~ $2.5bn



Eastern Australia Supply/Demand Dynamics

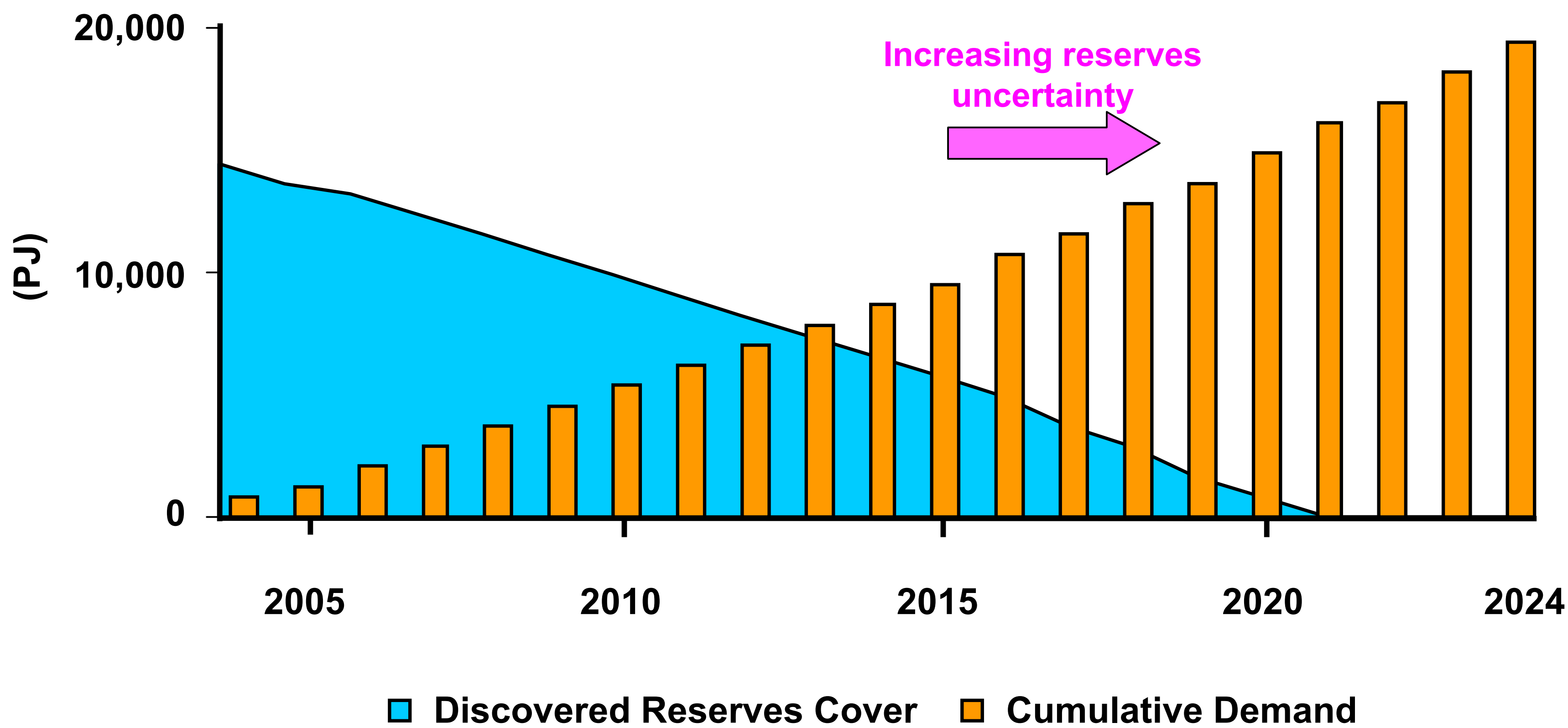
Gas Resources[1] - West v East - Independent Markets



Estimated remaining reserves and resources as at 1 Jan 2003.
Source: Geoscience Australia 2004
[1] Resources include both Category 1 (2P) and Category 2 (proved or awaiting further appraisal)

Eastern Australia - Divergent Supply Demand Dynamics

- Increasing reserves uncertainty from 2012 onward

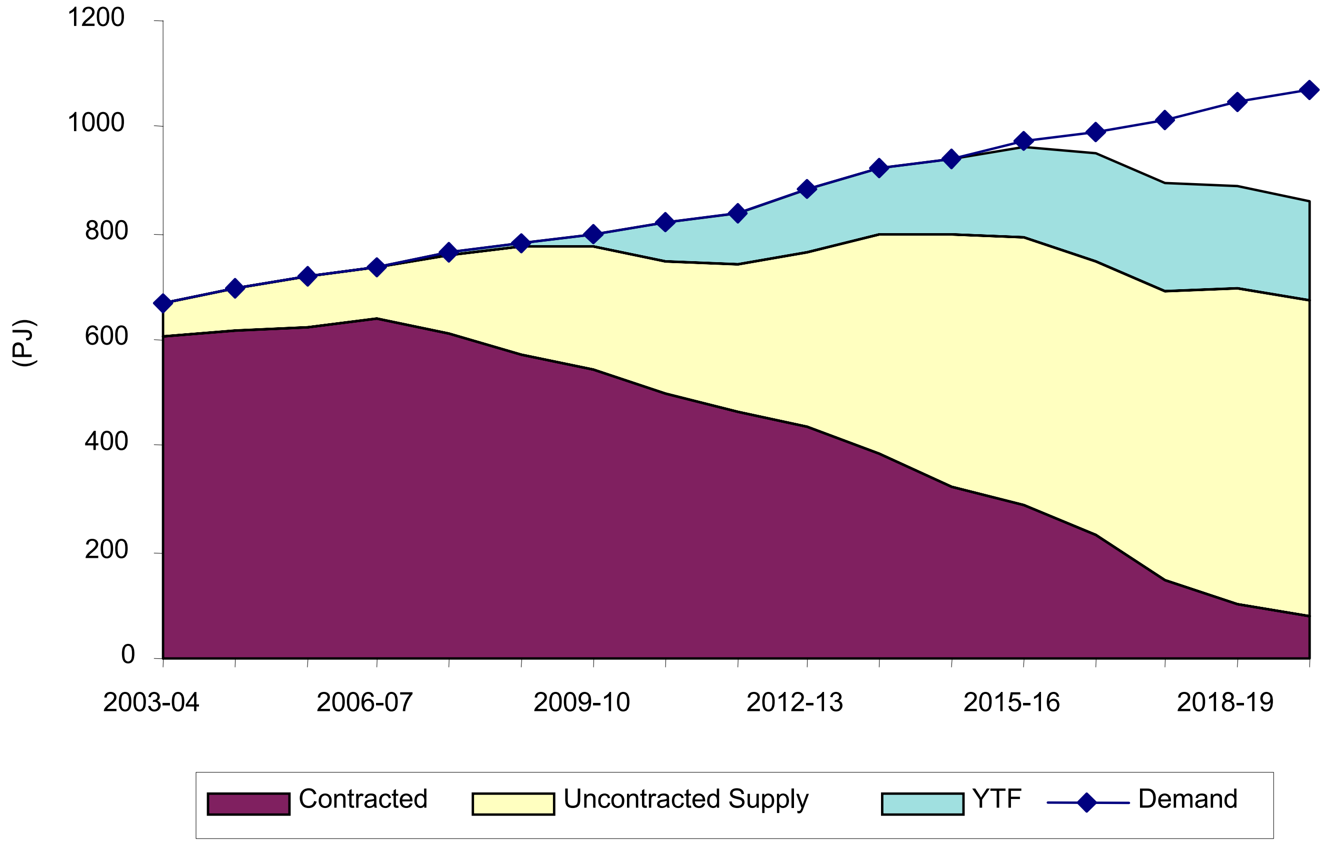


Source: Wood Mackenzie

Eastern Australia - Supply Demand Implications

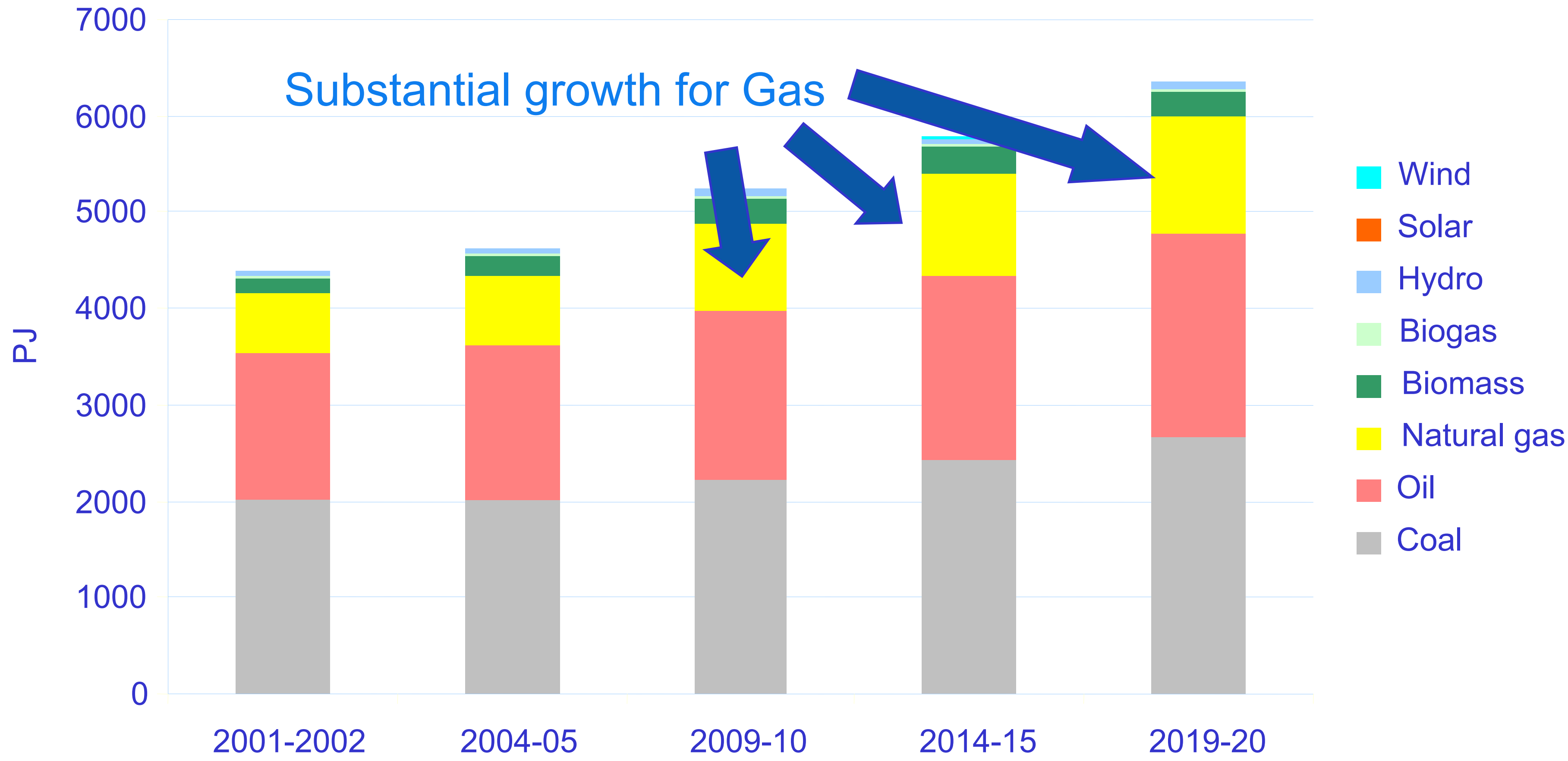
- Wood Mackenzie analysis suggests even with PNG, CBM & Yet-To-Find (YTF) gas a clear need for new sources of gas supply to meet demand arises from 2015

Eastern Australia - Supply & Demand Base Case



Source: Wood Mackenzie 2004

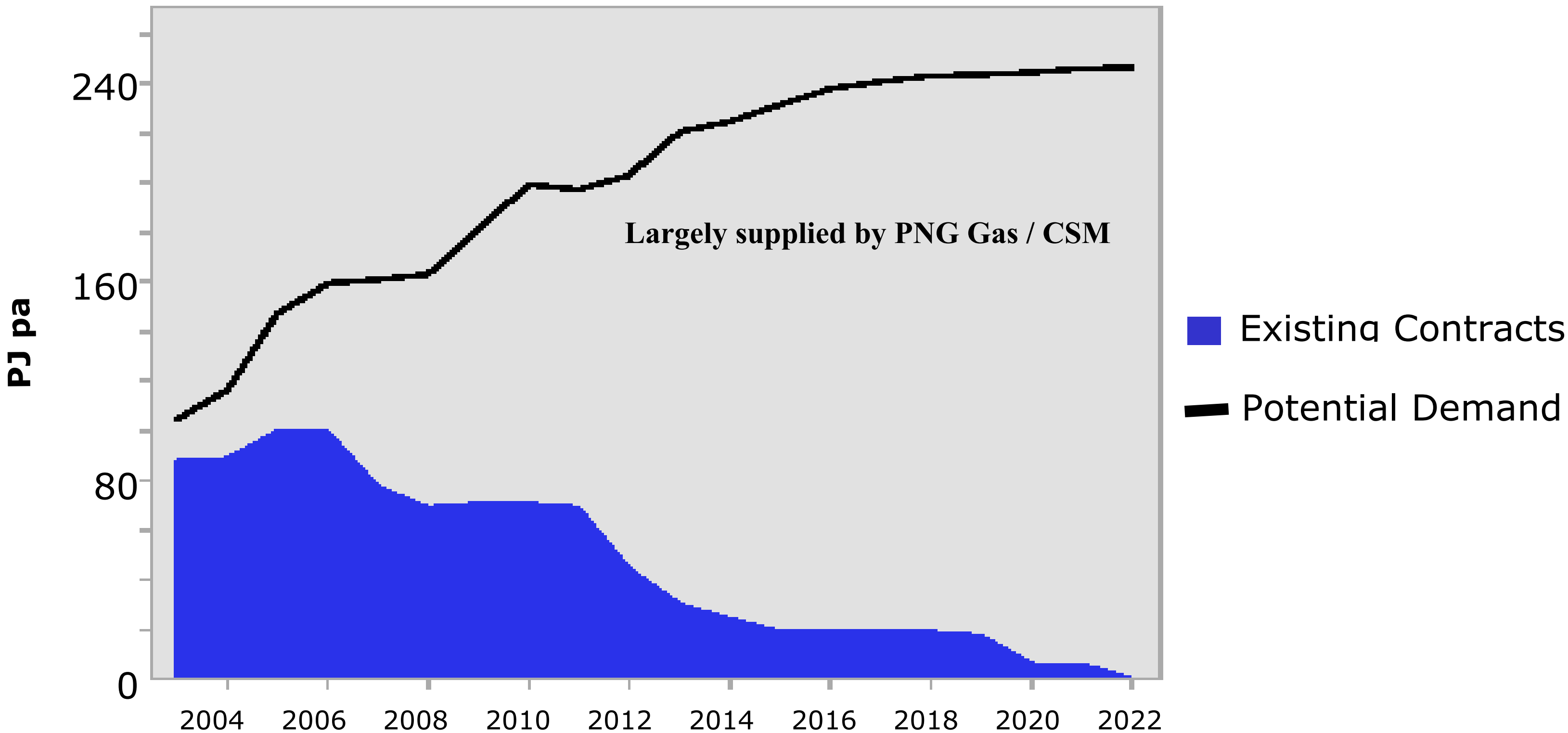
Eastern Australia Energy Consumption



Source: ABARE 2004 – " Australian Energy: National and State Projections to 2019-20"

Queensland Gas Demand Forecast

- Queensland a key market for PNG Gas / AGL
- ACIL Tasman forecast Queensland demand will continue climbing on the back of existing rapid growth
- Estimated growth of approximately 5% p.a. over next 20 years



Source: ACIL Tasman 2004

Integrated Energy Company Strategy

Integrated Energy Company Strategy

OBJECTIVE:

Pursue targeted upstream gas and power generation opportunities to strengthen our position as a leading Australian energy company and develop a integrated energy business

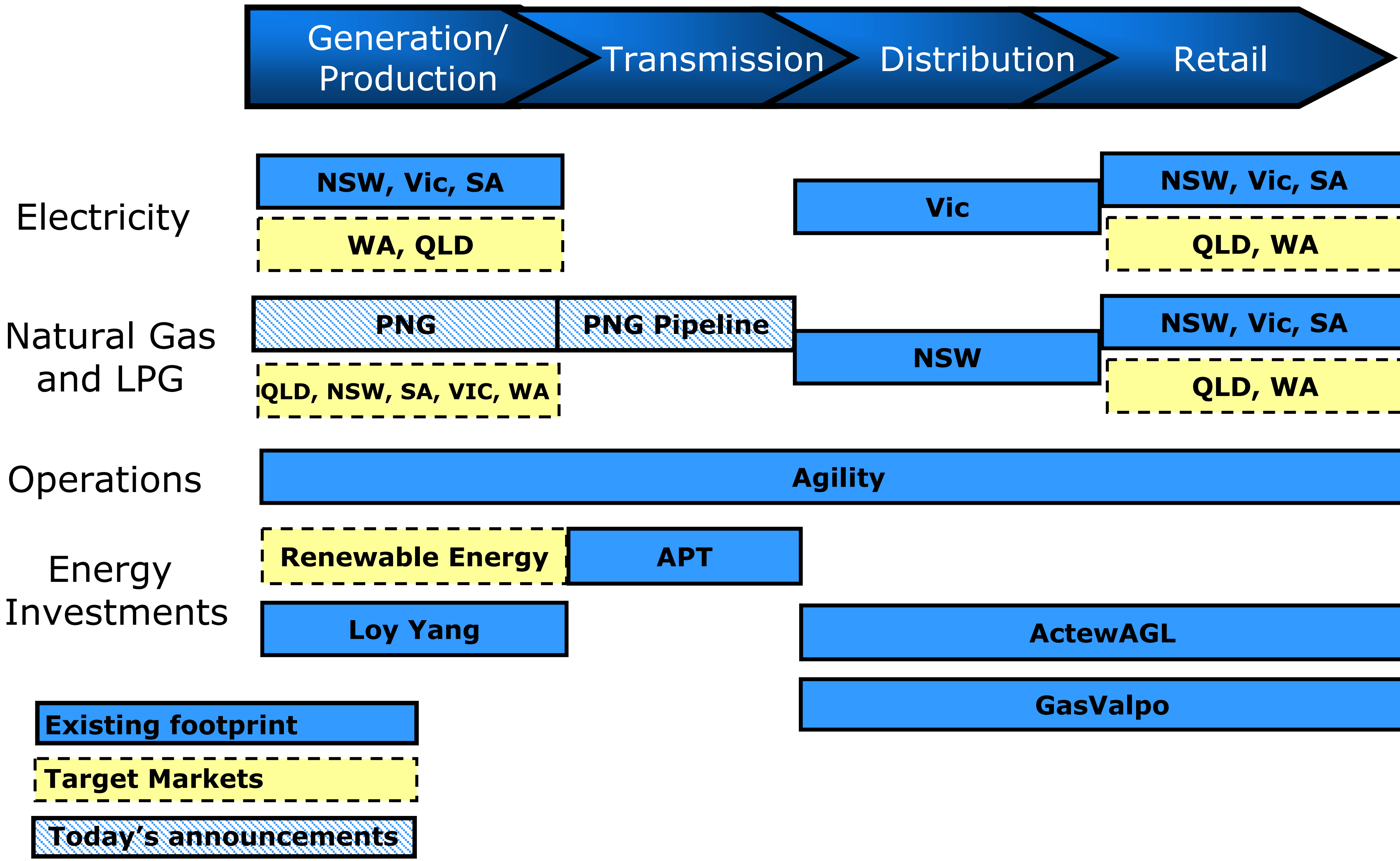
OUTCOME:

- Build a long term, competitive and highly complementary gas portfolio with a focus on production capable of being contracted
- Increase ownership of power generation assets

IMPACT:

- Complements existing business portfolio
- Provides cost effective and secure supply of energy for customers
- Strengthens business competitiveness
- Generates additional benefits integrating across energy value chain

Integrating Across the Energy Value Chain



Integrated Energy Company Strategy - Upstream Gas

Objectives	Outcome
1 Source competitively priced gas to meet needs of current and future customers	✓ Reduced average price of wholesale gas portfolio ✓ Provides additional security of supply (particularly for large load customers)
2 Reduce portfolio volatility/mitigate risk	✓ Establishes natural hedges (ie. retail vs wholesale markets) ✓ PNG GSA flexibility - volume/swing factors/take-or-pay levels
3 Position AGL in dynamic, rapidly growing energy markets	✓ Northern/PNG Gas enables effective positioning of AGL in fastest growing energy market in Australia - Qld/North Eastern Australia
4 Opportunities to create value from integrating across the energy value chain	✓ PNG Pipeline delivers additional infrastructure optionality - AGL/APT/Agility ✓ Upstream equity interest provides opportunity of sharing in future gas development opportunities