

Attention ASX Company Announcements Platform Lodgement of Open Briefing[®]



The Australian Gas Light Company
ABN 95 052 167 405
AGL Centre, 111 Pacific Highway
North Sydney, NSW 2059

Date of lodgement: 25-Aug-2005

Title: Open Briefing[®]. AGL. MD on FY 05 Results

Record of interview:

corporatefile.com.au

AGL today reported net profit of \$848.3 million for the year ended June 2005, compared with \$379.5 million in the previous year. Excluding significant items, EBIT was \$684.7 million, down 4.1 percent, with milder weather and competitive pressure eroding the contribution from the core Energy Sales and Marketing business and the loss of earnings from NGC following its sale in December 2004. In the absence of NGC and given the competitive environment, can AGL's continuing businesses deliver earnings stability, let alone growth, in the near term?

MD Greg Martin

First, it's important to recognise that 2005 was part of a transitional period for AGL as we move to implement our integrated energy company strategy. In December 2004, for reasons articulated at the time, we sold our 66 percent interest in NGC Holdings Limited in New Zealand for an attractive price. As often occurs when divesting a business, it's not always possible to immediately re-invest the proceeds.

It was not until early in our current 2006 financial year were we able to announce our upstream PNG investment strategy, the benefits of which are expected to flow into our results from the 2007 financial year.

That said, in a year of very competitive retail market conditions with substantial ongoing customer churn levels and milder weather conditions than the previous year, we delivered a 6.5 percent increase in EPS.

In the current 2006 financial year, and after adjusting for the impact of the \$365 million of capital returned to shareholders, we're forecasting EPS growth in the range of zero to 2 percent. This is, of course, subject to there being no unforeseen circumstances arising in what we expect will remain a highly competitive retail market. In the following financial year we expect positive earnings growth that will be further enhanced by our PNG gas investment.

corporatefile.com.au

EPS excluding significant items was 84.7 cents in 2005, up from 79.5 cents in the previous year. What assumptions do you base your zero to 2 percent growth forecast on?

MD Greg Martin

We expect ongoing double-digit earnings growth from our Agility business and for the Retail and Merchant Energy business units to deliver growth above the 2005 result for the former Energy Sales and Marketing business unit. We also expect modest growth from our investment in the Loy Yang power station.

These gains will be offset by a full financial year's impact of the New South Wales gas network reset, six months of the Victorian electricity network tariff reset as well as the full-year after-tax interest impact of the 80 cent per share cash component of the \$515 million capital management program. That was paid to shareholders during the second half of the 2005 financial year.

corporatefile.com.au

AGL announced a fully franked final dividend of 32 cents per share for 2005, bringing the full-year payment to 93 cents, including an ordinary dividend of 63 cents, 95 percent franked, and a special dividend of 30 cents, 90 percent franked. Is the level of ordinary dividend sustainable if the core Retail and Merchant Energy businesses continue to perform at current levels?

MD Greg Martin

Subject to no unforeseen circumstances, we expect to at least maintain the 2005 63 cent per share dividend in 2006 with franking moving to 100 percent. We also expect our retail and merchant energy businesses to deliver growth in 2006 from their 2005 result. We remain committed to achieving ongoing cost reductions and extracting greater efficiencies from our retail business and recognise that we must achieve greater economies of scale from this business moving forward.

corporatefile.com.au

AGL's significant items included a write-down of \$193.0 million after-tax of the Victorian electricity network, reflecting a tighter regulatory environment in the state and recent realised values of comparable distribution assets. Do you foresee similar write-downs of your other distribution assets given they face similar regulatory and market forces?

MD Greg Martin

The write-down in Victoria was a product of the particular circumstances surrounding our electricity distribution asset and its treatment by the Victorian

regulator. As such we don't foresee any write-down of our other major distribution asset, the New South Wales gas distribution network.

corporatefile.com.au

Does the written down value of AGL's Victorian electricity network reflect the terms of the recent Essential Services Commission (ESC) draft determination on distribution prices for the period 2006 to 2010 or have you assumed a better outcome in the final determination?

MD Greg Martin

We considered recent distribution asset transaction multiples, most of which relate to assets covered under the Victorian regulatory regime, the ESC's draft decision, and a range of potential final outcomes before arriving at our valuation. While we expect the ESC's final decision to improve on the draft position, we don't anticipate this impacting our revised valuation of this asset.

corporatefile.com.au

AGL's portfolio includes retail, distribution and other energy related assets, in contrast to the growing number of infrastructure trusts that hold regulated distribution assets and are structured to maximise distributions to security holders. Is AGL's structure a competitive disadvantage either operationally or in the capital markets?

MD Greg Martin

Operationally we don't see any disadvantage. Our assets are managed on terms and conditions negotiated on an arm's length basis with our network asset management business, Agility, which is a market leader in the field.

In terms of our corporate structure, it's very transparent in reporting the performance of each of the businesses and enables a clear assessment by the market. We consider it's an appropriate structure for our integrated energy company strategy. We have substantial financial capacity coupled with strong cash flow to fund further attractive acquisitions should they arise. That said, we continually review our structure against the competitive landscape in which we operate.

corporatefile.com.au

The Energy Sales and Marketing business booked EBIT before significant items of \$206.2 million, down 5.8 percent on revenue of \$3,487.3 million, up 1.5 percent. You've indicated the business increased its investment in marketing to defend market share. Can you comment on the success of this campaign and whether you can hope to retain the new customers without further significant spending?

MD Greg Martin

The campaign had significant success in a highly competitive market, with a net increase in customer acquisitions of 16,000 achieved. We invested sensibly to maintain our market leadership position while at the same time targeting cost reductions in the business. We'll continue this strategy moving forward. Our focus is on 'contracted' accounts, and during the year we achieved a 149 percent increase in accounts under contract to approximately 777,000. Of this total, in

excess of 85 percent are fixed-term contracts with most contracts having a three year duration.

Our retail energy business is a central component of our integrated energy company strategy. It's Australia's largest retail energy business representing approximately 20 percent of the Australian retail energy market. It provides a channel to market as we further integrate the business into power generation and upstream gas reserve investments. Retaining and growing this position is key to the business's long-term value and place within our integrated strategy.

corporatefile.com.au

EBIT margin in Energy Sales and Marketing fell to 5.9 percent from 6.3 percent in the previous year. Given the need for ongoing spending on marketing, what initiatives do you have in place to reduce costs in this business? What are your cost reduction and margin targets?

MD Greg Martin

It's very difficult talking retail margins now we're operating under the new International Financial Reporting Standards (IFRS). This is primarily a result of the volatility that may arise surrounding adoption of the derivative instrument standard, AASB 139. On this point, I'd refer you to the slides in our results presentation today that help explain the impact of the introduction of IFRS as they relate to our derivative energy instruments.

What I can say though is that to remain competitive, it's essential we maximise the economies of scale inherent in a business of our size. A range of initiatives are under way to achieve this. For example, we continue to re-engineer our debtor management processes to achieve greater effectiveness in working capital management. We also continue to invest in our systems and processes to lower operating costs and gain greater control over our wholesale energy costs through our strategy of integrating across the energy chain. This is a continuing project and I'd expect to update you with further details of our progress in this key area when we announce our 2006 interim results in February next year.

corporatefile.com.au

Energy Sales and Marketing increased its dual fuel customer accounts by 36 percent to 1.03 million. What's the economic value of dual fuel accounts to the company?

MD Greg Martin

In simple terms we can 'clip the ticket' twice for the same cost. The most significant initial cost in retailing isn't billing costs but the acquisition and establishment costs of new customers. These costs were high during our 2005 financial year reflecting our success increasing net dual fuel accounts. If we can generate two streams of revenue from the same sunk cost of a single fuel customer our margins improve accordingly. Typically, our dual fuel customers are also on a market contract, enabling us to lock in the dual revenue stream for the duration of the contract term.

corporatefile.com.au

AGL's Energy Networks booked an underlying EBIT of \$239.5 million before significant items, up 2.3 percent, with gas networks' EBIT down 0.1 percent to \$163.9 million and electricity networks' EBIT up 7.8 percent to \$75.6 million. Can you comment on the outlook for earnings in 2006 given recent regulatory determinations in New South Wales and Victoria?

MD Greg Martin

For our New South Wales gas network, we expect a \$5 million to \$10 million reduction in EBITDA for the current financial year following the initial-year price cuts determined by IPART. In terms of the Victorian electricity network, until the current regulatory processes are complete, we're unable to provide definitive guidance on the EBITDA impact of the tariff reset. We lodged a comprehensive response to the draft determination on Friday 19 August 2005, setting out a number of areas we believe to be incorrect. There's a well established process that now follows, and we'll have to await the regulator's final determination. We wouldn't rule out the possibility of an appeal if our concerns are not satisfactorily addressed in the final determination.

corporatefile.com.au

The Agility energy infrastructure construction, servicing and management business booked EBIT of \$63.4 million, up 14.2 percent on revenue of \$428.7 million. To what extent is the recent revenue growth and efficiency improvement within Agility sustainable?

MD Greg Martin

We continue to expect double-digit earnings growth for Agility. The business is now well established and is one of Australia's leading energy infrastructure asset managers and service providers. Agility successfully secured additional third-party clients in 2005. This was reflected in its third-party order book which increased by approximately 40 percent to \$72 million.

Agility now serves clients in every state and territory of Australia. During the year it acquired Oakland Constructions in Queensland, a well established underground electricity cable installer and contractor to major electricity utilities in that state. The acquisition positions Agility as a leading energy infrastructure service provider in Queensland, Australia's fastest growing energy market.

With the growing energy infrastructure spend around the east coast we remain confident Agility can compete effectively, win new work and continue to expand its earnings base.

corporatefile.com.au

AGL's Power Generation assets booked EBIT of \$31.2 million, up 78.3 percent, primarily reflecting a full-year contribution from 32.5 percent-owned Loy Yang Power, which was acquired in April 2004. The Loy Yang contribution comprised loan note interest of \$10.6 million and an equity accounted loss of \$1.1 million. What confidence can you have that Loy Yang's performance will improve given an increase in competition with the opening of Basslink next year?

MD Greg Martin

We're forecasting a slight increase in Loy Yang's contribution in the current financial year. Soft pool prices continue to constrain its performance, and as a result of essential plant repairs there'll be a negative impact of approximately \$4 million to \$5 million on AGL's share of Loy Yang's 2006 earnings. These repairs are to nozzles within the generator which require replacement following a worldwide alert by the manufacturer Siemens.

Loy Yang is also undertaking a refinancing exercise which, when complete, will provide a better match between its debt profile and the life of the generator and adjacent mine. It's important to understand that when AGL and our partners acquired the asset in 2004, the transaction enabled only a debt restructuring, not a refinancing as is currently underway. We're seeing considerable appetite and depth in debt markets and are confident that Loy Yang will be able to refinance on more favourable terms.

We remain comfortable with our investment in Loy Yang and its longer-term outlook. The plant is an important component of Victoria's base load power generation infrastructure and we expect it to benefit as both Victoria and Australia's energy needs continue to grow.

corporatefile.com.au

Energy Investments booked EBIT of \$96.0 million, up 10.7 percent from the previous year's result before significant items. Can you comment on the sustainability of this level of growth?

MD Greg Martin

When looking at Energy Investments' EBIT contribution you need to look at the dynamics surrounding the individual investments in that portfolio - ActewAGL, Australian Pipeline Trust, Elgas, HC Extractions and Gas Valpo. We actively manage these investments to ensure they both continue to deliver acceptable returns commensurate with our investment criteria and fit within our ongoing integrated energy portfolio. While we're not in a position to give specific growth forecasts for these investments, we don't anticipate growth in 2006 to the same extent as in the 2005, predominantly due to the positive impact in 2005 of contributions from APT acquisitions and ActewAGL facing its first full year of regulatory resets in 2006.

corporatefile.com.au

Following your decision to take a 10 percent stake in the PNG Gas Project, are you actively seeking further upstream investments? What are your acquisition criteria?

MD Greg Martin

We're reviewing a range of investment opportunities consistent with our strategy. These include opportunities to build and/or acquire power generation assets, renewable energy assets and upstream gas investments. Our acquisition criteria are asset specific; we set specific discount rates for each asset type and adopt a disciplined approach to assessing the value of the opportunity to our shareholders. We'll only invest if the assets complement our integrated energy portfolio and can generate sufficient returns above their cost of capital.

corporatefile.com.au

Given the relatively low earnings growth profile of your distribution and retail assets, what are the growth opportunities for AGL going forward? To what extent will growth depend upon gaining a greater exposure to upstream assets?

MD Greg Martin

AGL's investment proposition is to provide fully franked dividends to shareholders with moderate, yet sustainable earnings growth. It's against this proposition that we then look at our existing portfolio. Agility is forecast to deliver ongoing earnings growth. Our gas and electricity distribution networks, following finalisation of the Victorian electricity price reset, will have locked-in returns for their respective five-year regulatory periods and deliver solid cash flow and modest growth typical of this class of asset. The Retail and Merchant Energy business units are both set to deliver growth from their 2005-year results. And as we've already noted, we'll see the first positive contribution from our PNG upstream investment in the 2007 financial year.

Other growth prospects, over and above organic growth from our existing portfolio, are in power generation, renewable energy generation, the PNG pipeline - which provides a number of growth opportunities for us - and of course further upstream gas reserve investments.

As we further integrate across the energy value chain from energy source to customer, we're confident the end result will be greater predictability in our cash flows, our earnings growth and our returns to shareholders.

corporatefile.com.au

Thank you Greg.

For more information about AGL, visit www.agl.com.au or call Graeme Thompson, Head of Investor Relations, on +61 2 9921 2789

To receive future Open Briefings by e-mail, visit www.corporatefile.com.au

DISCLAIMER: Corporate File Pty Ltd has taken reasonable care in publishing the information contained in this Open Briefing®. It is information given in a summary form and does not purport to be complete. The information contained is not intended to be used as the basis for making any investment decision and you are solely responsible for any use you choose to make of the information. We strongly advise that you seek independent professional advice before making any investment decisions. Corporate File Pty Ltd is not responsible for any consequences of the use you make of the information, including any loss or damage you or a third party might suffer as a result of that use.