Demerger and Southern Hydro Acquisition

31 October 2005

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Agenda

➢ Overview	M Johnson
➢ Energy Business	M Johnson
➢ Infrastructure Business	G Reaney
➢ Southern Hydro	G Martin
➢ Demerger	G Hayes
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➢ Appendices	

Two New Major Australian Companies

- Demerger of AGL to create two new focused companies
  - Energy:
    - One of Australia's largest energy companies
    - Leading position in South Eastern Australia retail markets
    - A growing portfolio of generation and gas assets
    - Substantial funding capacity to execute growth opportunities
  - Infrastructure:
    - Quality gas and electricity distribution assets
    - Internal management expertise
    - Identified growth opportunities: PNG Pipeline & Agility business
    - Competitive capital structure supporting future growth opportunities
  - No cross shareholdings between companies

- Both companies to have clear and focused investment propositions
  - Energy: strong EPS accretion supporting future business growth with competitive fully franked dividends
  - Infrastructure: predictable, growing cash flows supporting fully franked dividends

Proposed Structure Post Demerger

AGL

	Energy Chairman elect – Mark Johnson		Infrastructure Chairman elect – Graham Reaney		
	FY05 Historical ProForma EBITDA: $342m*		FY05 Historical ProForma EBITDA: $439m*		
	Generation/Production	**Retail**	**Transmission**	**Distribution**	**Contracted Generation**
Electricity	Hallett (SA) & Somerton (Vic) Peakers	NSW, Vic, SA		Vic	Wattle Point Wind Farm
	Loy Yang A (32.5%)	ActewAGL (50%) (Retail)		ActewAGL (50%) (Distribution)	
	Southern Hydro Generation				
Gas	PNG Gas Project	NSW, Vic, SA	APT (30%)	NSW	
	Sydney Gas	ActewAGL (50%) (Retail)	PNG Pipeline	ActewAGL (50%) (Distribution)	
	HC Extractions - LPG	Elgas – LPG (50%)		Chile (GasValpo)	
Services			Agility (Electricity, Gas & Water)		

Existing Footprint | Recent Announcements | Today's Announcement

* Excludes Southern Hydro & PNG Gas Project

Rationale / Why Demerge

- Creates long-term shareholder value
  - Separate businesses provide greater transparency of business operations and financial performance
- Focus on core business activities and strategies
  - Strategic and operational decisions specifically focus on characteristics relevant to each business
- Clear investment choice
  - Energy focus on higher EPS/TSR growth with fully franked dividends
  - Infrastructure focus on cash flow growth to support fully franked dividends
- Improved growth opportunities
  - Allows both businesses to develop and acquire existing and new assets based on value drivers most relevant to each
  - PNG pipeline can be owned on Infrastructure balance sheet
- Capital structure
  - Energy will have substantial acquisition capacity at BBB+ credit rating
  - Infrastructure will have low cost of capital and strong cash flow to facilitate asset acquisition capacity at BBB credit rating

Southern Hydro – Another Step in the Strategy

- Acquisition of Southern Hydro for $1.425 billion
- Assets comprise 11 hydro and 1 wind generation power plants
  - ~645MW of 'fast start' hydro generation capacity across southern NEM
  - Total capacity of ~736MW
- Long life assets which can't be emulated in the Australian market
- Australia's largest hydro expansion opportunity - Bogong
  - ~130MW permit approved, immediate construction tender optionality

Energy

Mark Johnson

Chairman Elect

Energy - Strengths and Investment Proposition

Strengths

- Leading brand recognition in retail markets
- Australia's largest retail energy company with ~ 2.8m customer accounts
- Strong and diverse power generation portfolio – base, peaking and intermediate
- Established alliances: ActewAGL, BOC, TEPCO and Oil Search
- Growing upstream gas portfolio
- 50% of Australia's largest LPG business

Investment Proposition

- Pipeline of growth opportunities:
  - PNG Gas Project, Sydney Gas JV, Townsville Power Station, Hallett: windfarm & power expansion & Southern Hydro development projects
- Substantial funding capacity from date of demerger of ~$2 billion
- EPS growth focus with fully franked dividends

Energy – Indicative Growth Opportunities

	Energy			
	Generation/Production		Retail	
	Existing	**Growth Opportunities**	**Existing**	**Growth Opportunities**
Electricity	Hallett (SA) & Somerton (Vic) Peakers	Generation: Build and/or Acquire (SA, Vic, NSW & QLD)	NSW, Vic, SA	QLD & NSW
	Loy Yang A (32.5%)	Wind Farm Developments	ActewAGL (50%)	
	Southern Hydro Generation	Southern Hydro Developments		
Gas	PNG Gas Project	Further upstream Gas Opportunities	NSW, Vic, SA	QLD
	Sydney Gas		ActewAGL (50%)	
	HC Extractions - LPG		Elgas – LPG (50%)	

Existing Footprint | Recent Announcements | Today's Announcement | Future Opportunities

Infrastructure

Graham Reaney

Chairman Elect

Infrastructure - Strengths and Investment Proposition

Strengths

- Quality asset portfolio
  - Gas, electricity - distribution, transmission
- Geographic diversity
- Asset management capability
- Established alliances/JVs: ActewAGL/ Petronas
- Extensive internal management expertise
- Identified growth opportunities through Agility & PNG Pipeline

Investment Proposition

- Strong and stable cash flows
  - Certainty following regulatory resets
- Distribution growth potential
- Appropriate and competitive capital structure at BBB credit rating

Agility Servicing a Diverse National Client Base

- One of few companies with capabilities to construct, service and manage assets for the gas, electricity and water utility sectors across all States and Territories of Australia

Power and Water
APT

Ergon Energy
Santos
Energex
APT
APC

Apache
Hamersley Iron
Goldfields Gas Transmission
Western Power
AGL
APT

Transgrid
Sydney Water
Caltex
Integral Energy
Gorodok
Country Energy
AGL
APT

AGL

ActewAGL

Mainco
Pacific Airport
Telstra
AGL

Aurora
Powerco

Agility FY2005:

EBITDA: $67.2m

EBIT: $63.4m

Infrastructure – Indicative Growth Opportunities

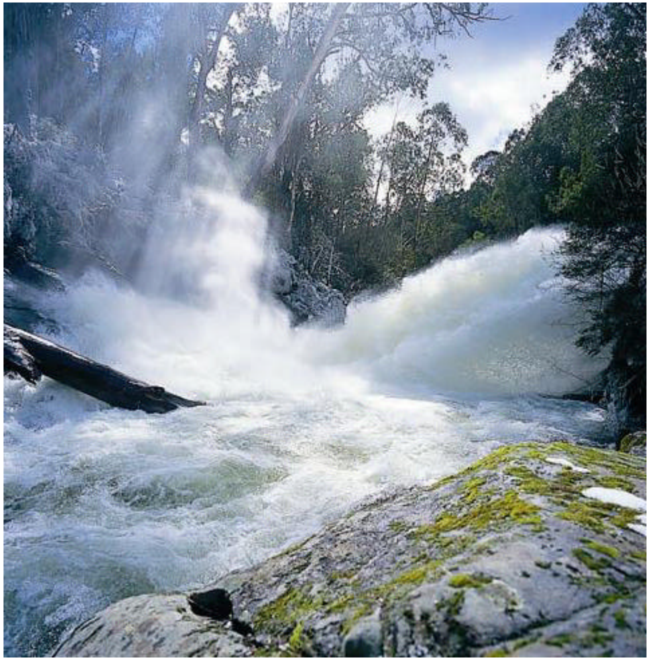
	Infrastructure					
	Transmission		Distribution		Contracted Generation	
	Existing	Growth Opportunities	Existing	Growth Opportunities	Existing	Growth Opportunities
Electricity			Vic ActewAGL (50%) (Distribution)	Organic	Wattle Point Wind Farm	Generation: Forced Disp. (PPA)
Gas	APT (30%)	PNG Pipeline	NSW ActewAGL (50%) (Distribution) Chile (GasValpo)	Organic		
Services	Agility (Electricity, Gas & Water) Agility: Organic (Core and Adjacent Markets)					

Existing Footprint | Recent Announcements | Today's Announcement | Future Opportunities

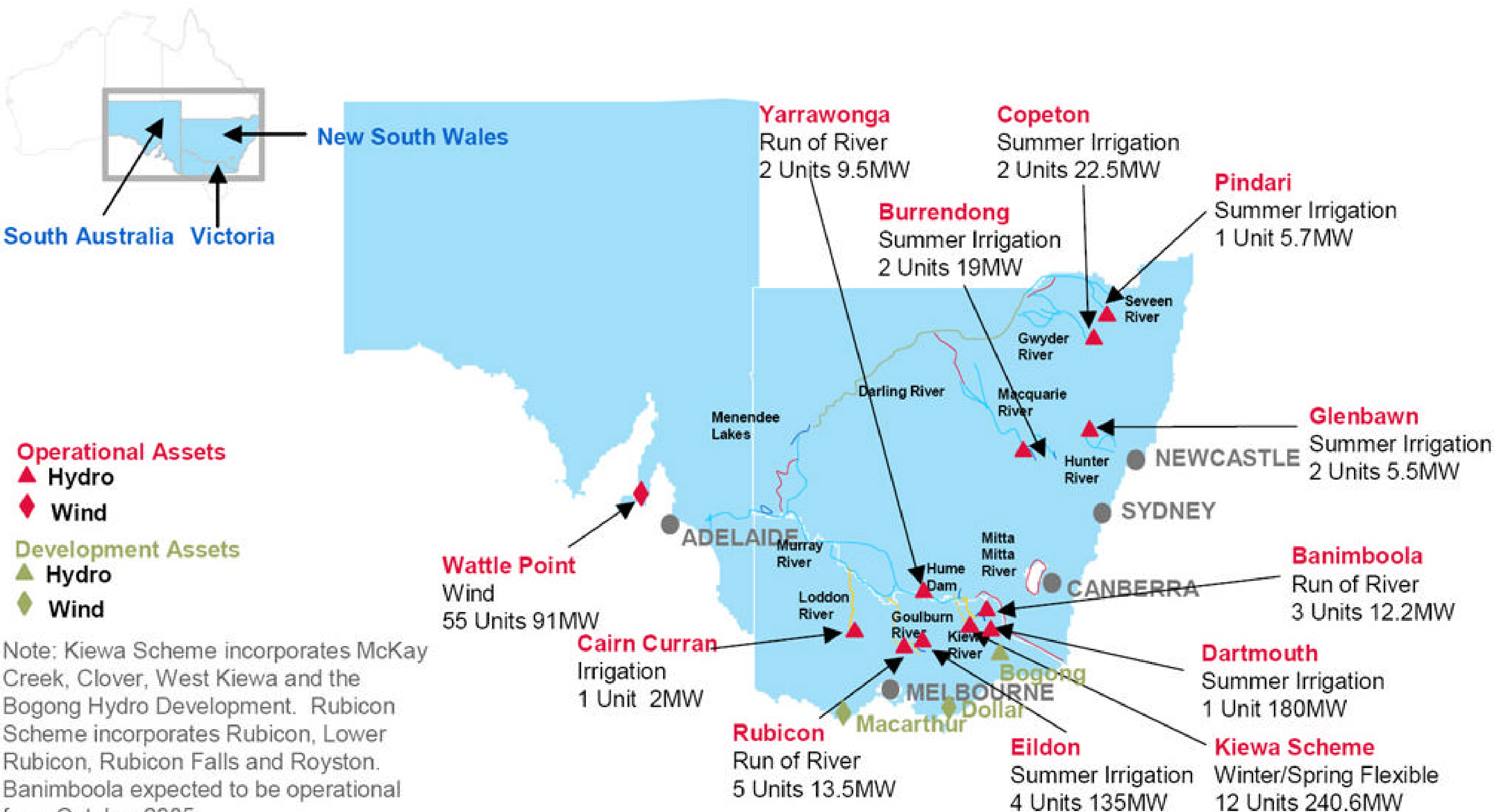
Southern Hydro

Greg Martin

Managing Director



Asset Overview

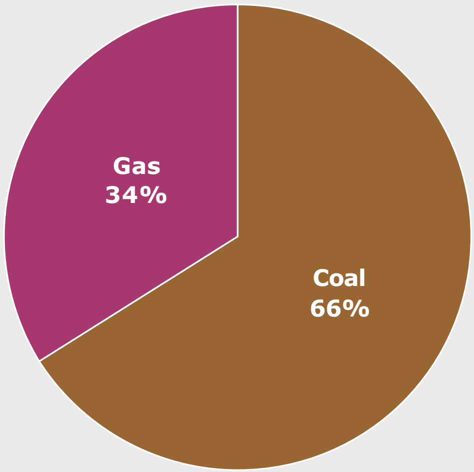


Note: Kiewa Scheme incorporates McKay Creek, Clover, West Kiewa and the Bogong Hydro Development. Rubicon Scheme incorporates Rubicon, Lower Rubicon, Rubicon Falls and Royston. Banimboola expected to be operational from October 2005.

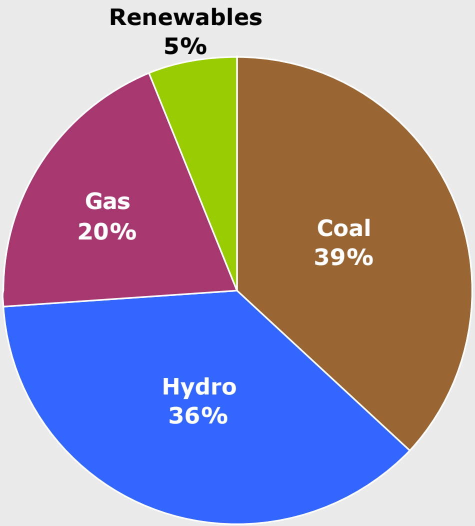
Generation Mix

➢ A more balanced generation portfolio with good development opportunities

Current Generation Mix
Total Equity MW = 1,007 MW



Post-Acquisition Generation Mix
Total Equity MW = 1,743 MW



Generation Mix

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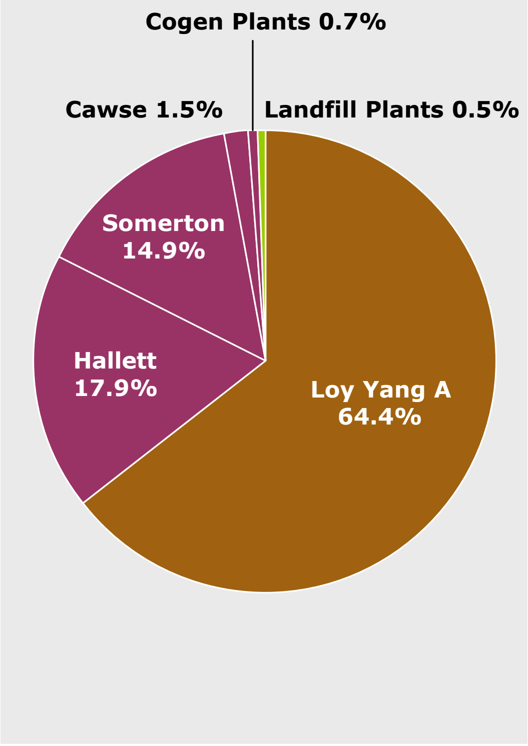
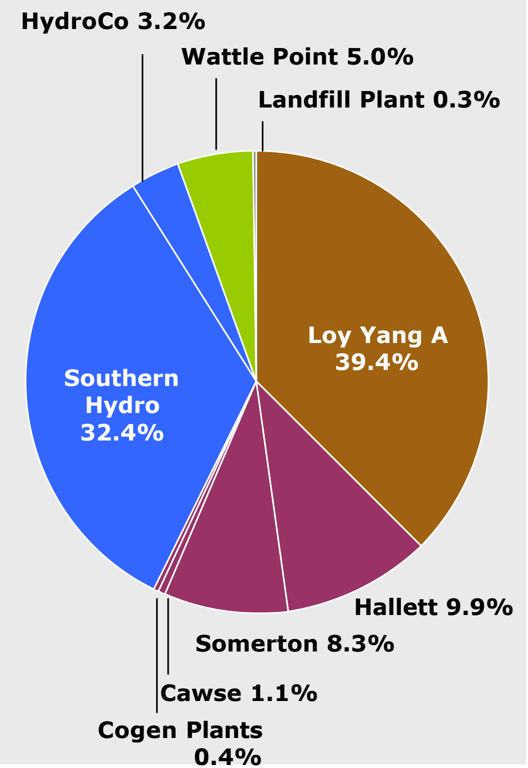


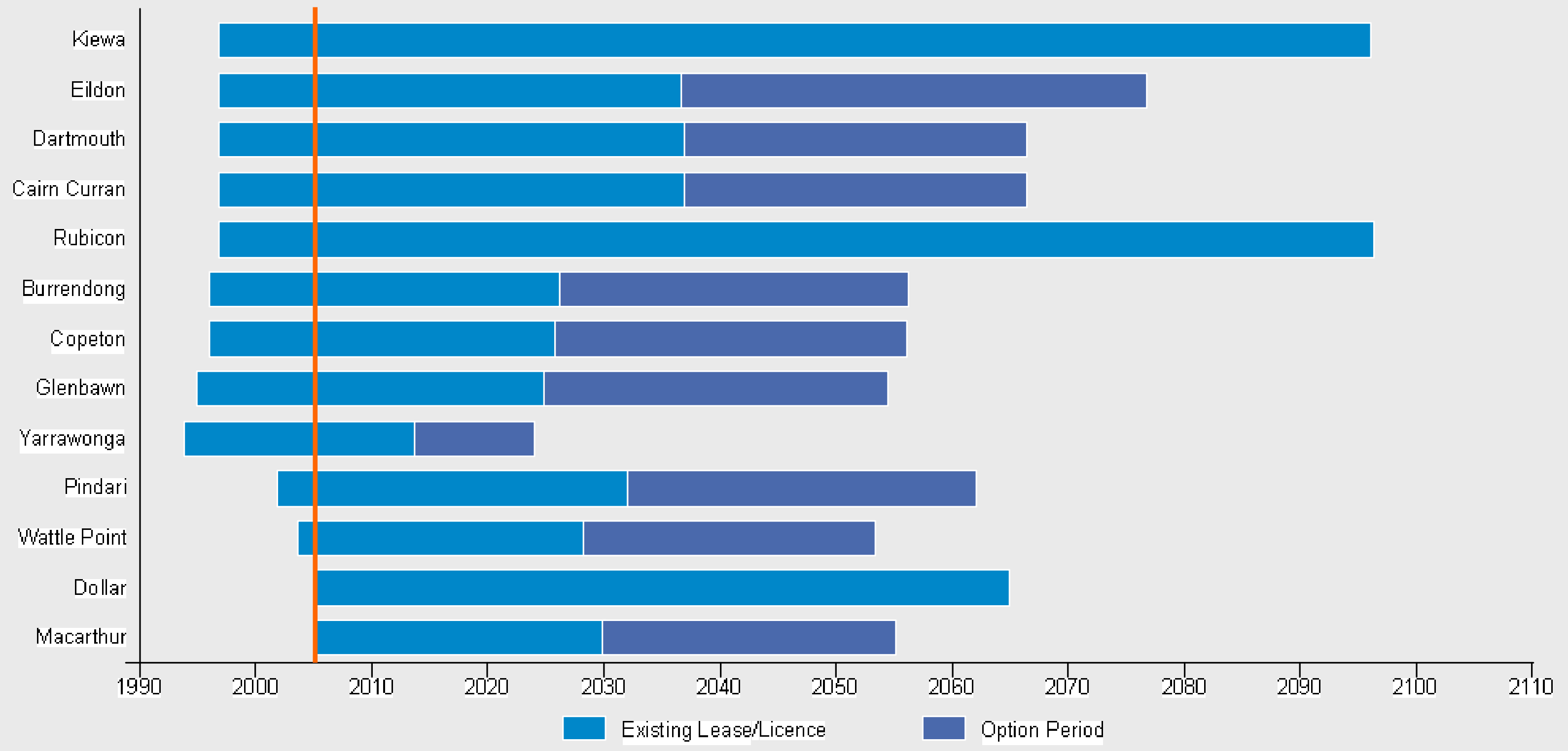
Post-Acquisition Generation Mix
Total Equity MW = 1,743 MW



Asset Lives

➢ Weighted average asset life of 72 years[1] provides portfolio flexibility

Asset Leases/Licences

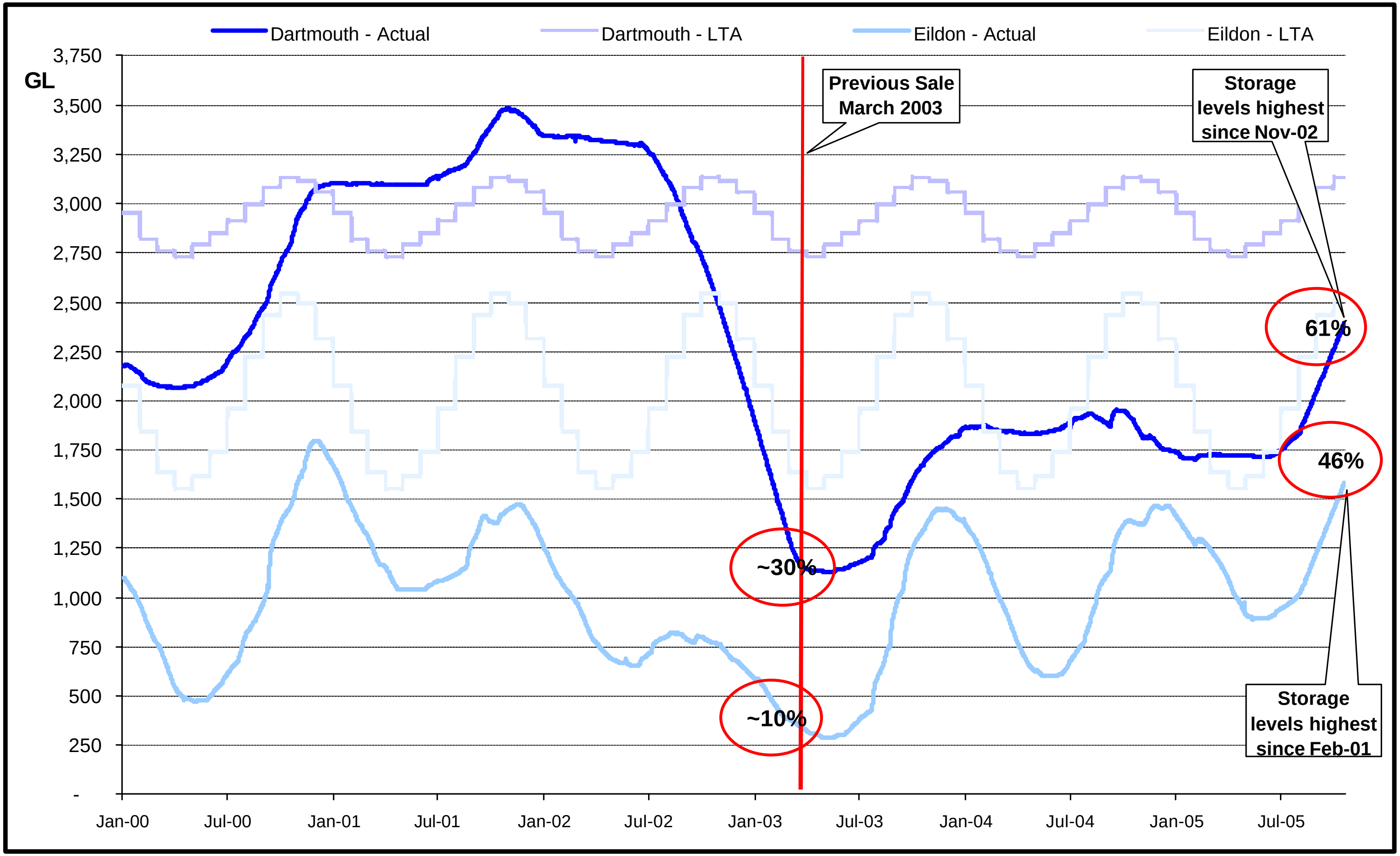


[1] Weighted by average MW capacity

Changes since 2003

- Vic hydro asset capacity increased by 42MW
- Wattle Point Wind Farm (91MW) constructed
- NSW hydro assets (62MW) added
- Development projects advanced (mainly Bogong - 130MW)
- Material increase in dam levels through recent rainfall

Dam Levels Recovering Strongly



Strategic Fit

Southern NEM Peaking Capacity	➢ Additional peaking/intermediate capacity of ~736MW to better manage AGL's peak customer load requirements, especially within Victoria
Fast Start Capability	➢ Provides virtually instantaneous start up capability to mitigate exposure to high price events
Dispatch Control	➢ Delivers dispatch flexibility for hydro assets that have semi and fully flexible dispatch capability
Environmental	➢ Southern Hydro's ~700MW of hydro and wind generation capacity will materially improve the carbon intensity of AGL's portfolio of generation assets

Portfolio Benefits

Reduced Electricity Purchase Costs

- Competitive wholesale costs allows more efficient customer targeting, acquisition and / or defence of market share thus improving / maintaining retail revenue
- Fuel diversity enables better revenue optimisation and risk mitigation
- REC creation to meet high proportion of AGL's requirements

Dispatch Control

- Fast start discretionary peak generation to match variable customer demand and benefit from market opportunities

Optimise Asset Utilisation

- The discretionary features of Southern Hydro's assets and AGL's gas fired peakers allows the value of stored water to be optimised
- Increased internal generation capacity allows higher contracting at Hallett and Somerton
- Substantial fast start generation enables variable wind generation to be made firm
- Multiple generation units provide redundancy flexibility
- Optionality of multiple units delays capex/opex requirements

Growing Peak Demand in the National Electricity Market

- Peak energy demand is growing at a much faster rate than the annual base load growth rate
  - Load requirements much higher during summer and winter
- 30% of AGL's load (peak) represents 45% of electricity COGS
- Southern Hydro adds significant peaking flexibility to the AGL portfolio

Energy Demand Growth – 2005 (MW)

	Summer Peak Demand			Winter Peak Demand			Base Load Demand		
State	**Total**	**Growth**	**% Inc.**	**Total**	**Growth**	**% Inc.**	**Total**	**Growth**	**% Inc.**
Queensland	8,176	407	5.0%	7,092	340	4.8%	3,827	122	3.2%
NSW	12,840	387	3.0%	13,032	299	2.3%	5,182	98	1.9%
Victoria	8,512	254	3.0%	7,436	177	2.4%	3,821	42	1.1%
South Australia	2,626	118	4.5%	2,208	62	2.8%	842	13	1.5%

Source: NEMMCO July 2005, AGL

Transaction Details

- Purchase of long life generation assets

- Short term factors:
  - Emergence from drought to long term average (LTA) hydrology
  - Time to fully capture portfolio integration benefits

- Purchase price of $1.425 billion equates to:
  - EBITDA multiple of around 11x in 2009 when LTA hydrology and capture of portfolio integration benefits expected to be fully realised
  - EBITDA multiple of around 17x based on estimated 2007 EBITDA

- Financial close expected by end November 2005

Demerger Details

Greg Hayes

Chief Financial Officer

Demerger Proposal

- Demerger to occur by way of Scheme of Arrangement
  - Shareholders to vote on Scheme in general meeting
  - Energy to be the demerged business
- Once approved, Shareholders will hold one share in each company for each AGL share held at the time of the demerger
- No Capital Gains Tax (CGT) or income tax arising from the demerger for resident Australian Shareholders – draft ATO ruling to this effect
- Indicative timetable:

Scheme documents sent to Shareholders	February 2006
Shareholder meeting to vote on Scheme	March 2006
Expected listing date of Energy* shares	April 2006

* As the continuing entity Infrastructure will remain listed on the ASX

Key Financials

		2005 Historical Pro Forma (A$m)	Acquisitions post June 2005 at Cost[2] (A$m)
Energy	Revenue	3,579	
	EBITDA[1,2]	342	
	EBIT	285	
	NPAT[3]	207	
	Working capital	200	
	Acquisitions post June 2005 at cost[4]		
	Southern Hydro		1,238
	PNG Gas 10% Stake		400
Infrastructure	Revenue	765	
	EBITDA[1]	439	
	Maintenance Capex	-48	
	Equity Distribution[5]	126	
	Cash DPS (cents)[6]	27.7	
	Gross DPS (grossed up 100% franking)	39.5	
	Net Debt	3,369	
	Wattle Point Wind Farm		187

[1] Excludes EBITDA from Southern Hydro and PNG Gas 10% stake
[2] Includes indicative stand alone corporate costs of $10.5m
[3] Includes interest on net cash of $200m
[4] Debt to fund acquisitions remains in AGL (Infrastructure)
[5] After including interest on pro forma debt
[6] Shares on issue of 456.6m

Capital Structure

- Pro forma post Southern Hydro & 10% PNG Gas Project stake
- Acquisitions funded by debt utilising existing capacity within AGL
- Infrastructure established with an appropriate capital structure and capacity to use further debt to fund growth at BBB credit rating
- Energy will have funding capacity of ~$2billion (up to target BBB+ credit rating) to undertake organic growth projects

Capital Structure – 2005 Pro forma	A$m
AGL Net Debt (@ 30June 2005)	1,249
Southern Hydro	1,425
PNG Gas Project	400
Other[1]	95
Total Debt post acquisitions	3,169
Infrastructure Debt	3,369
Energy Debt (working capital)	-200
Total Debt post acquisitions	3,169

[1] Estimate: costs of the demerger, Southern Hydro transaction costs & working capital, AGL share buy-back

Financial Outlook

EPS[1]

- Excluding impact of Southern Hydro and subject to no unforeseen circumstances, there is no change to FY2006 EPS outlook provided with FY2005 results in August
- EPS impact for AGL on fully debt funding the purchase of Southern Hydro:
  - 2006 (7 months) ~2 cps decretive
  - 2007[2] ~2-3 cps decretive
  - 2008[2] neutral

Dividend

- FY2006 interim dividend to be fully franked and maintained to at least the same level as 31cps FY2005 interim
- FY2006 final dividend to be considered in light of the demerger and announced as part of the Scheme Booklet

[1] AGL EPS has been estimated on a pre-demerger, A-IFRS business as usual basis
[2] This excludes any positive EPS impact from AGL's proposed 10% stake in the PNG Gas Project

Summary

Mark Johnson

Summary

- Creation of two leading Australian companies
  - Energy
    - Australia’s largest retail customer base
    - Growing and balanced portfolio of upstream assets
    - Substantial funding capacity
    - EPS growth focus with fully franked dividends
  - Infrastructure
    - Diverse portfolio of quality gas and electricity assets
    - Leading internal management expertise
    - Identified growth opportunities
    - Predictable, growing cash flows and fully franked distributions
- Demerger will focus on
  - Long term Shareholder value
  - A focus on core business activities
  - Clear investment choice
  - Ability to capitalise on growth opportunities
  - Capital structure targeted to each business
- Existing share buy-back cancelled

Questions & Answers

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

alternatively, contact

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Appendices

Demerger Proposal – Taxation Implications*

- No CGT or income tax arising from the demerger
- Existing CGT cost bases to be split.
  - AGL will work with the ATO to agree the basis of this split. The outcome will be available to Shareholders in time for completion of the current (2005/06) year income tax returns
- Any shares in the new, demerged Energy company received as a result of acquiring pre CGT AGL shares will also be deemed pre CGT shares

* Subject to ongoing discussions with the ATO

Key Statistics - Infrastructure

Networks

NSW Gas Distribution Network

- 23,541km mains
- 951,591 sites
- 95.8 PJ delivered

VIC Electricity Distribution Network

- 10,285km network
- 285, 693 sites
- 22,279 GWh delivered

Agility

Asset management and service of:

- >7,500 km transmission pipelines
- 27,400 km gas networks
- 10,285 km electricity networks
- Other services
  - Power generation
  - Water
  - Telecommunications
- EBIT contribution $63.4m (FY05)
- Operations – Australia wide

Investments

ActewAGL

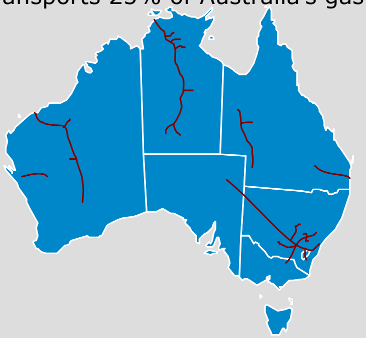
- AGL (50%) and ACT Government
- EBIT $53m (Network & Retail FY05 contribution to AGL)
- 3,800 km gas mains
- 4,700 km electricity network

GasValpo

- Chilean gas distributor and retailer
- EBIT contribution $4.1m (FY05)

Australian Pipeline Trust

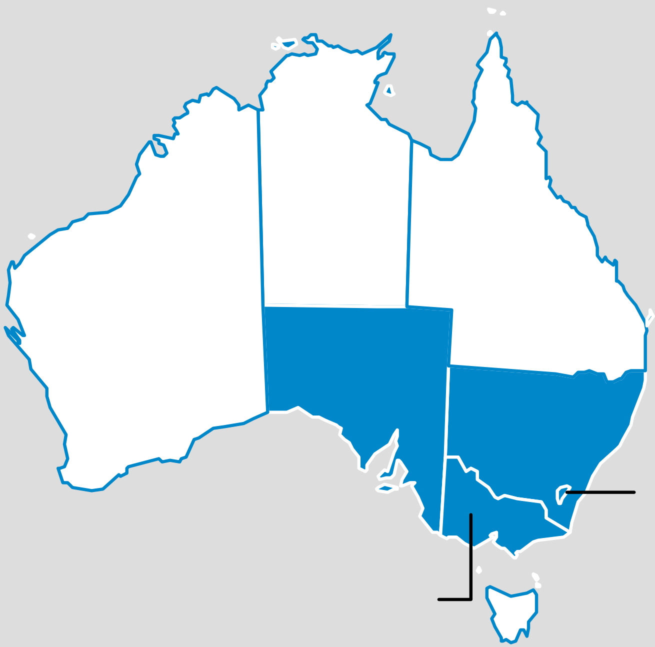
- AGL (30%) major shareholder
- EBIT contribution $19.4m (FY05)
- > 7,500 km transmission pipelines
- Transports 25% of Australia's gas



Key Statistics - Energy

Gas Sales (FY05)

- Gas: 172.9 PJ



Electricity Sales (FY05)

- Electricity sales: 22,279 GWh

Key Statistics - Energy

Investments

ActewAGL

- JV with ACT Government
- EBIT $53m (Network & Retail FY05 contribution to AGL)

Elgas

- AGL (50%) and BOC
- EBIT contribution $13.5m (FY05)

HCE (100%)

- \- 37,000 tonnes LPG
- EBIT contribution $6.0m (FY05)

Revenue (ES&M FY05)

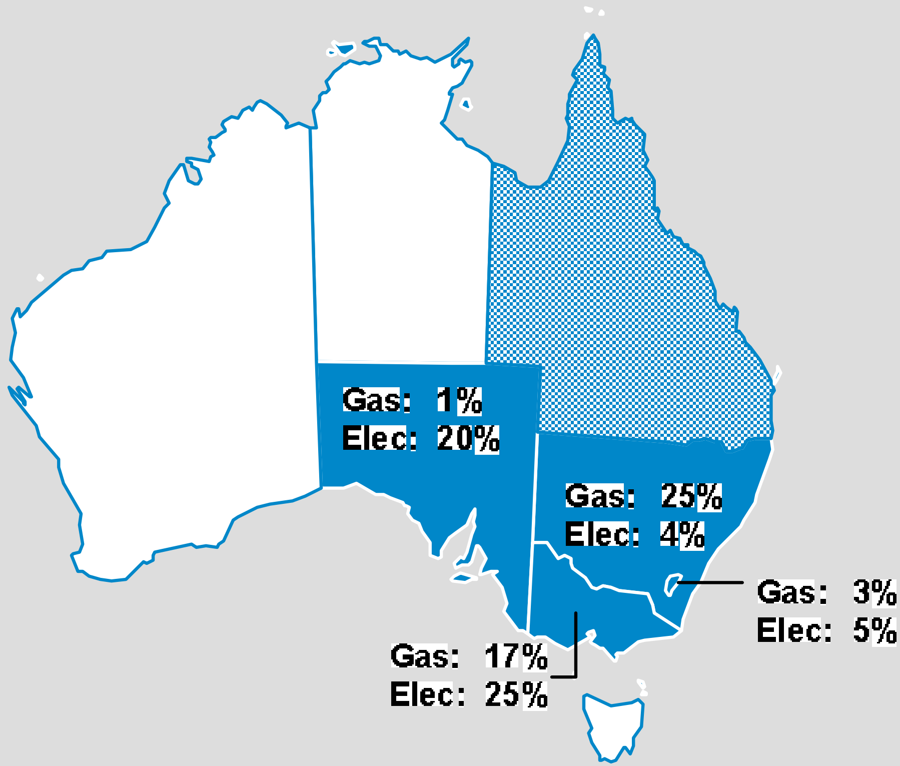
Revenue (ES&M FY05)

- Gas: $1,294 million
- Electricity: $2,134.8 million

Gross Margin

- Gas: $230.2m
- Electricity: $246.5m

Customer Spread



Southern Hydro Asset Description

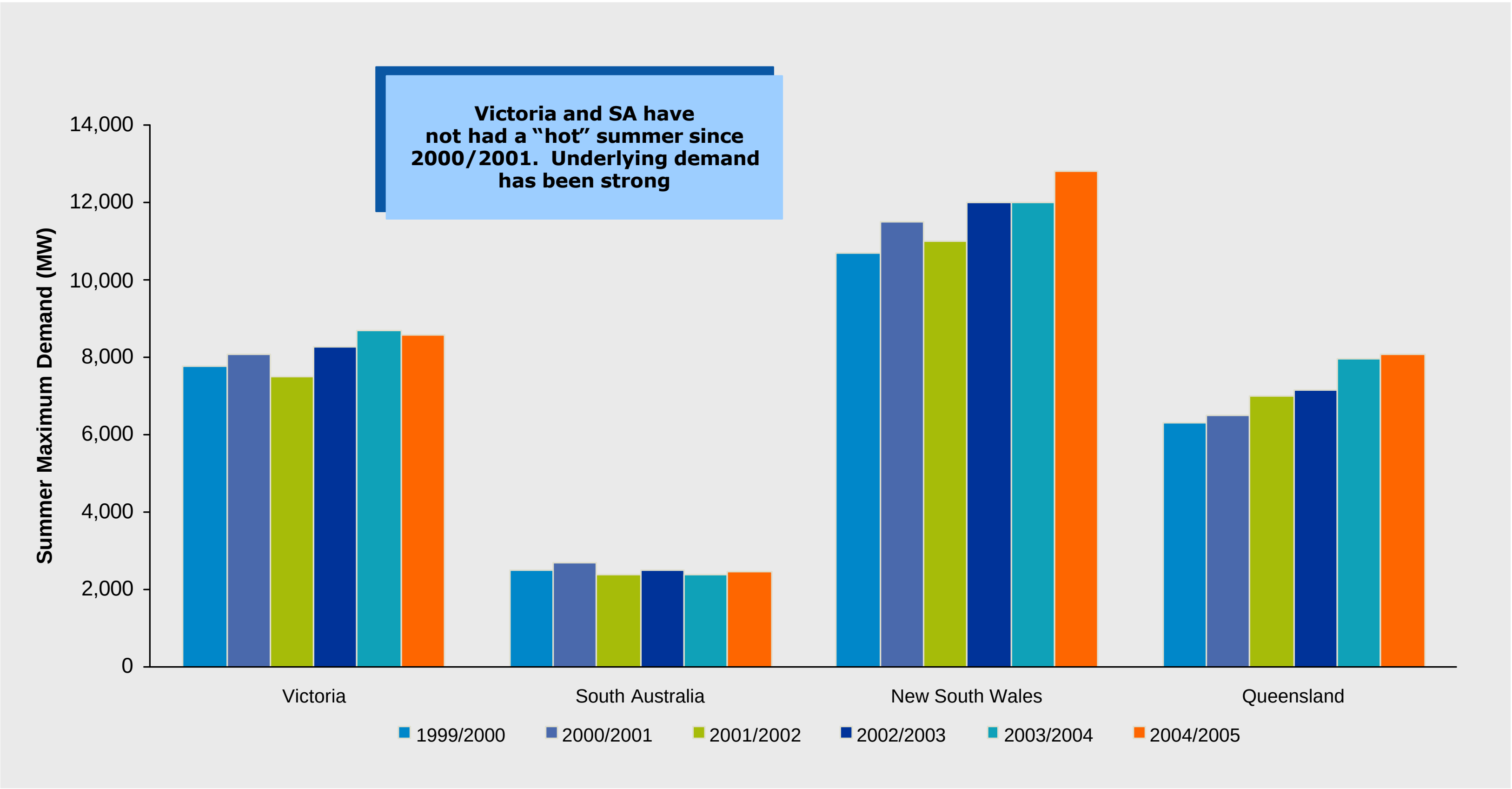
Operating Assets	Location	Capacity (MW)	Type	Comment
Kiewa	Vic	240.6	Hydro	Discretionary McKay Creek 30MW expansion completed in 2004
Dartmouth	Vic	180.0	Hydro	Summer Irrigation Regulating pond height raised in 2004, increasing capacity by 70% ($2m)
Eildon	Vic	135.0	Hydro	Summer Irrigation Dam and spillway upgrade
Rubicon	Vic	13.5	Hydro	Run-of-River
Banimboola	Vic	12.0	Hydro	Run-of-River (PPA) completion expected October 2005
Yarrawonga	Vic	9.5	Hydro	Run-of-River (PPA)
Cairn Curran	Vic	2.0	Hydro	Irrigation
Various	NSW	52.7	Hydro	Summer Irrigation (PPA)
Wattle Point	SA	90.8	Wind	Completed in 2005, off take with TRU Energy for 75% of black and green products
TOTAL		**736.3**		

Develop. Projects	Location	Capacity (MW)	Type	Comment
Bogong	Vic	130.0	Hydro	Addition of new station to Kiewa hyrdo scheme (130MW) Est completion 2008
West Kiewa	Vic	12.0	Hydro	Upgrade to existing station (12MW) Est completion 2006/07

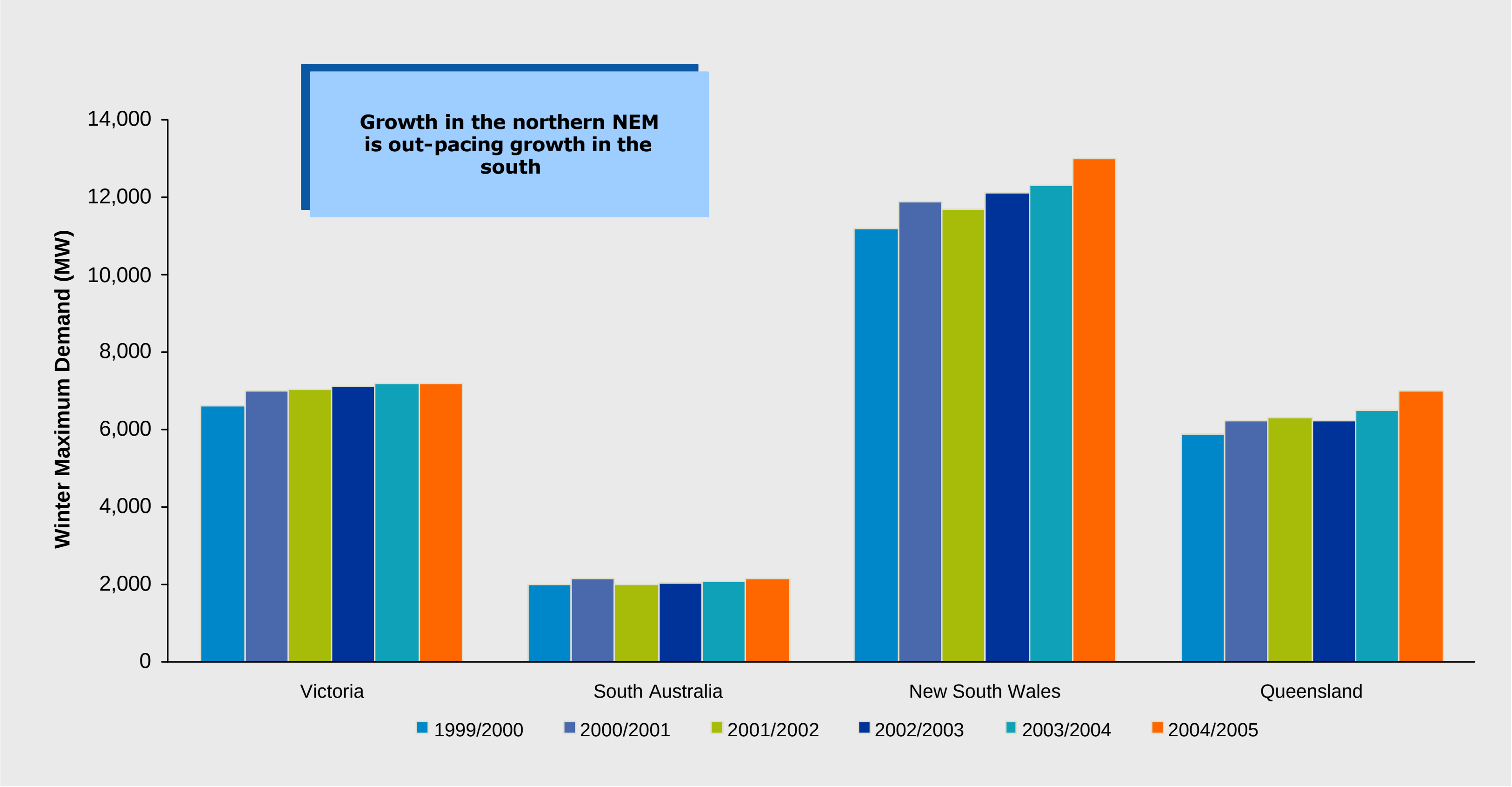
Hydro Asset Features

Generation Type	Description	Assets Covered	Dispatch Optimisation
Forced Generation	Run of river with no influence over water released for irrigation or environmental purposes	➢ NSW PPA Hydro ➢ Yarrawonga ➢ Banimboola ➢ Cairn Curran ➢ Rubicon	Water inflows equal outflows, plant dispatched at full capacity whenever flows occur
Semi Flexible Generation	Ability to manage environmental and irrigation flows through regulating ponds	➢ Eildon ➢ Dartmouth	Generation dispatched to maximise pool revenue via optimisation of water in the reg pond
Flexible Generation	Full discretion over timing of water releases and outflows	➢ Kiewa	Dispatched at maximum capacity during periods of high pool prices

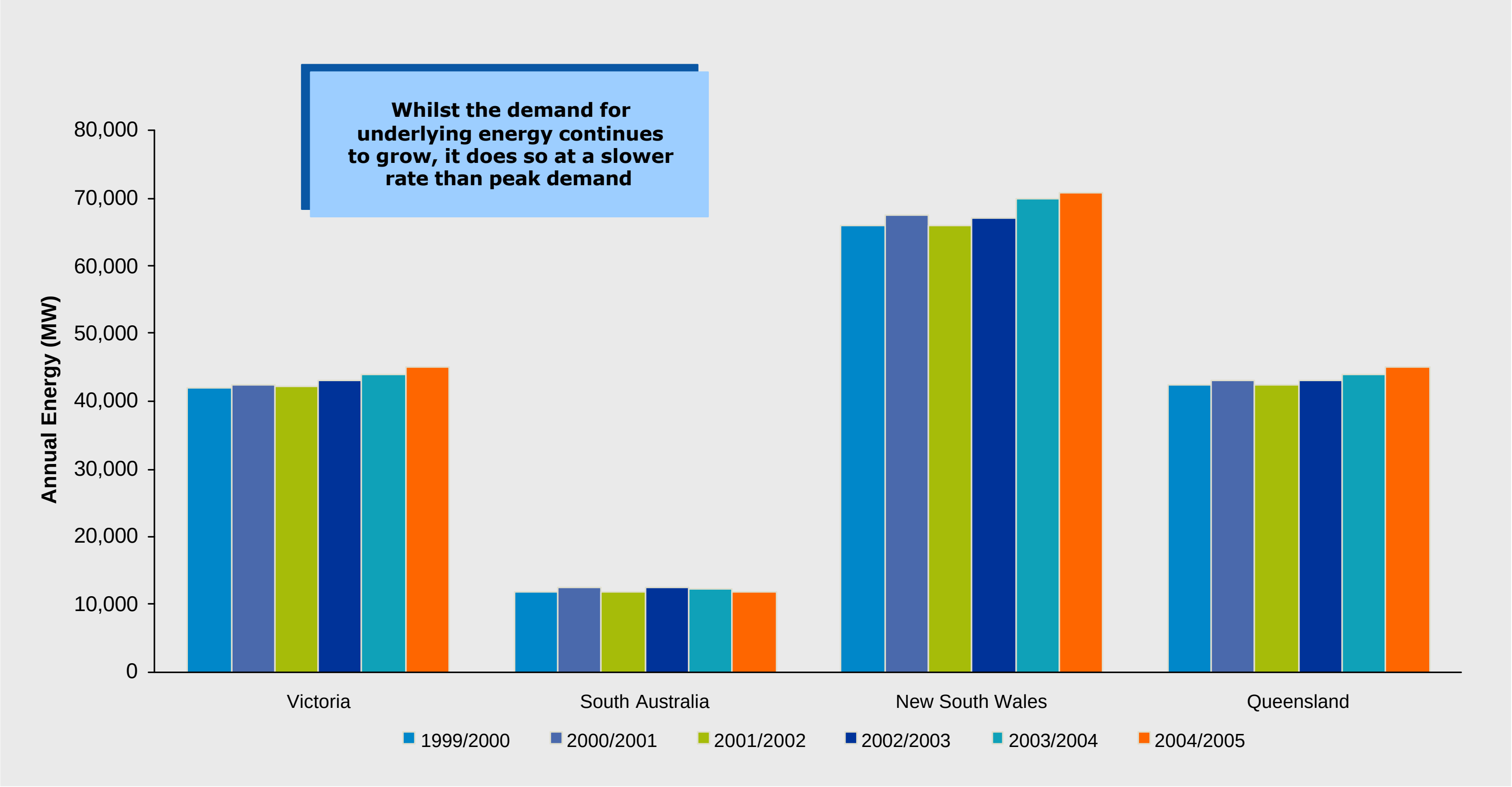
Electricity Demand & Supply - Summer



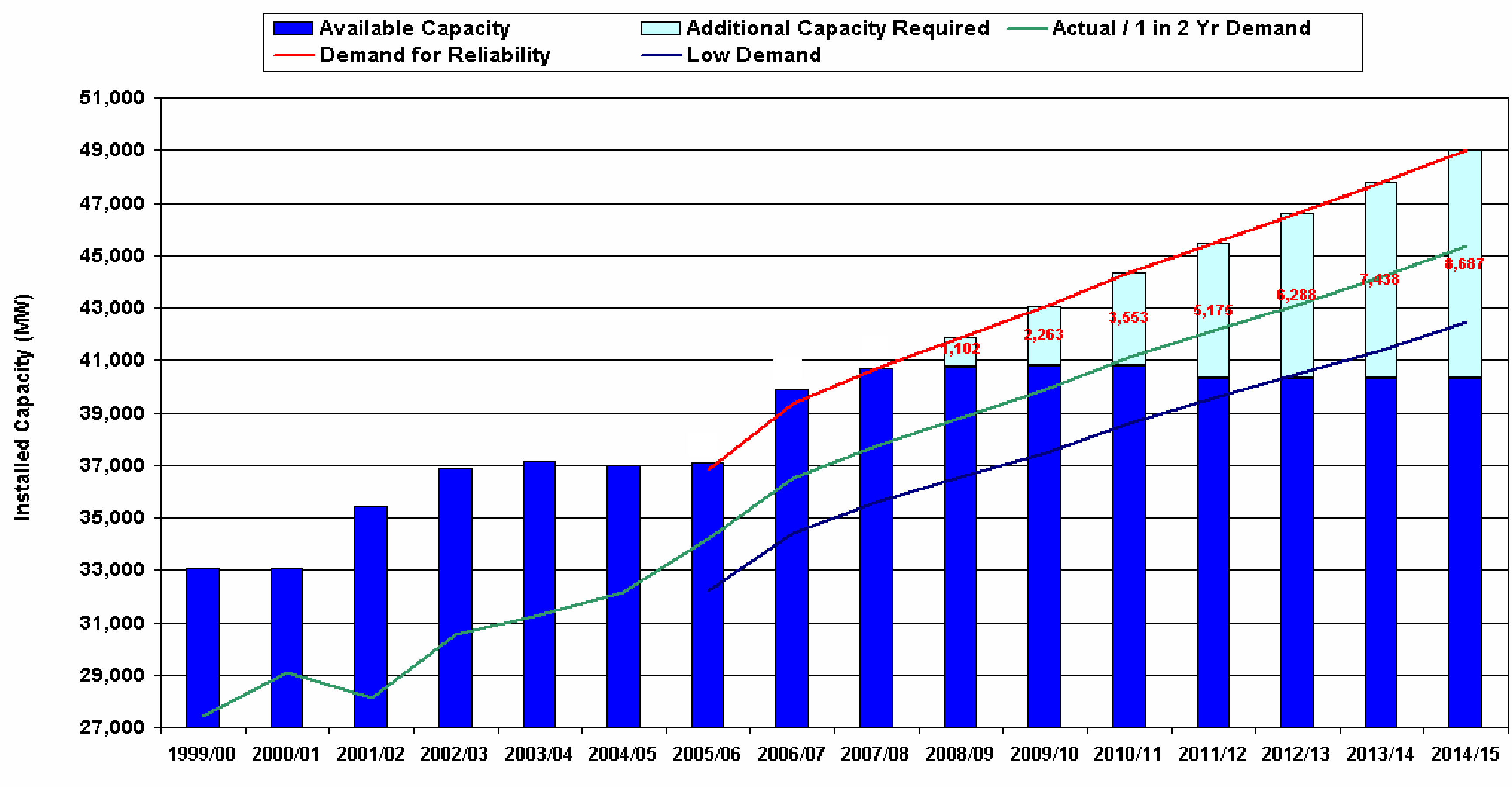
Electricity Demand & Supply - Winter



Electricity Demand & Supply – Annual Energy Demand



Demand & Supply - NEM



Source: NEMMCO July 2005