



AGL Offer to Merge With Alinta

Transforming Australia's leading energy and infrastructure businesses

13 March 2006

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- Overview
- AGL Offer to Merge With Alinta
- Transaction Mechanics
- AGL Performance
- Summary

Questions

- The AGL board of directors has rejected the Alinta Proposal
 - ◆ Effectively a takeover at substantially below fair value
- However, AGL agrees with Alinta that there is merit in combining the companies
- AGL is now proposing a true merger with Alinta by way of a formal takeover offer (“AGL Offer”)
 - ◆ Shared board representation
 - ◆ Appropriate allocation of management skills and experience
 - ◆ The same exchange ratio as proposed by Alinta
- The proposed merger with Alinta will be followed by a demerger of the combined businesses into an energy business (“Energy”) and an infrastructure business (“Infrastructure”)
- As the AGL Board considers that it represents a better alternative for AGL shareholders, it has withdrawn its recommendation of the current demerger and will seek Court approval to cancel the demerger meeting scheduled for 27 March

Analysis of Alinta Proposal

AGL has taken a disciplined approach to the assessment of the Alinta Proposal

In examining Alinta's Proposal:

- AGL has engaged advisers and conducted an extensive analysis of Alinta's Proposal
- The AGL Board has focussed on a number of threshold matters in assessing the Alinta Proposal:
 - ◆ Valuation – attractiveness of the value proposition for AGL shareholders
 - ◆ Governance – required skills to manage an energy business in a highly competitive environment and regulated/contracted infrastructure assets
 - ◆ Growth – focus on valuable and strategic organic growth opportunities

Alinta Proposal substantially undervalues AGL for a change of control
Board and management expertise in competitive energy markets is critical

➤ After due consideration, conclusions reached on the Alinta Proposal:

Value

- The value proposition offered by Alinta for AGL:
 - Substantially undervalues AGL for a change of control
 - Is a reasonable exchange ratio in a true merger of the companies

Energy skills and expertise

- Competitive Eastern Australian electricity and gas markets require specific skills. AGL has the superior experience in these markets
- AGL is best placed to drive value from Energy including the extraction of cost savings

Other issues considered

- AGL contributes the greater balance of cost savings and growth opportunities
- Key projects currently under consideration could be delayed



AGL Offer to Merge with Alinta

- AGL has announced an offer to merge with Alinta by way of an off-market offer to Alinta shareholders
- Alinta shareholders are offered 0.564 AGL shares for each Alinta share (identical to Alinta Proposal)
- Exchange ratio seen as appropriate in a true merger transaction
 - ◆ One which shares governance structures and influence in proportion to value and overall contribution to the combined entity
- Full set of conditions is contained in the Annexure to the AGL Media Release issued today. Conditions include but are not limited to:
 - ◆ Minimum 90% acceptance
 - ◆ Cancellation of the current Demerger scheme meeting
 - ◆ No sale of the AGL shares currently held by Alinta

Interim Governance

- Interim Board: Combined interim board of 10* non-executive directors
 - ◆ 6 AGL; 4 Alinta, with two additional directors acting as alternates for the interim period pre-demerger (currently 7 plus 5)
 - ◆ Chairman: Mark Johnson
- Interim co-CEOs
 - ◆ AGL: Paul Anthony
 - ◆ Alinta: Bob Browning

Post Demerger Governance

- Board following Demerger:
 - ◆ Energy:
 - To be determined. Expected around 7 plus CEO
 - ◆ Infrastructure:
 - To be determined. Expected around 5 plus CEO
- CEOs following demerger:
 - ◆ Energy: Paul Anthony
 - ◆ Infrastructure: invitation extended to Bob Browning

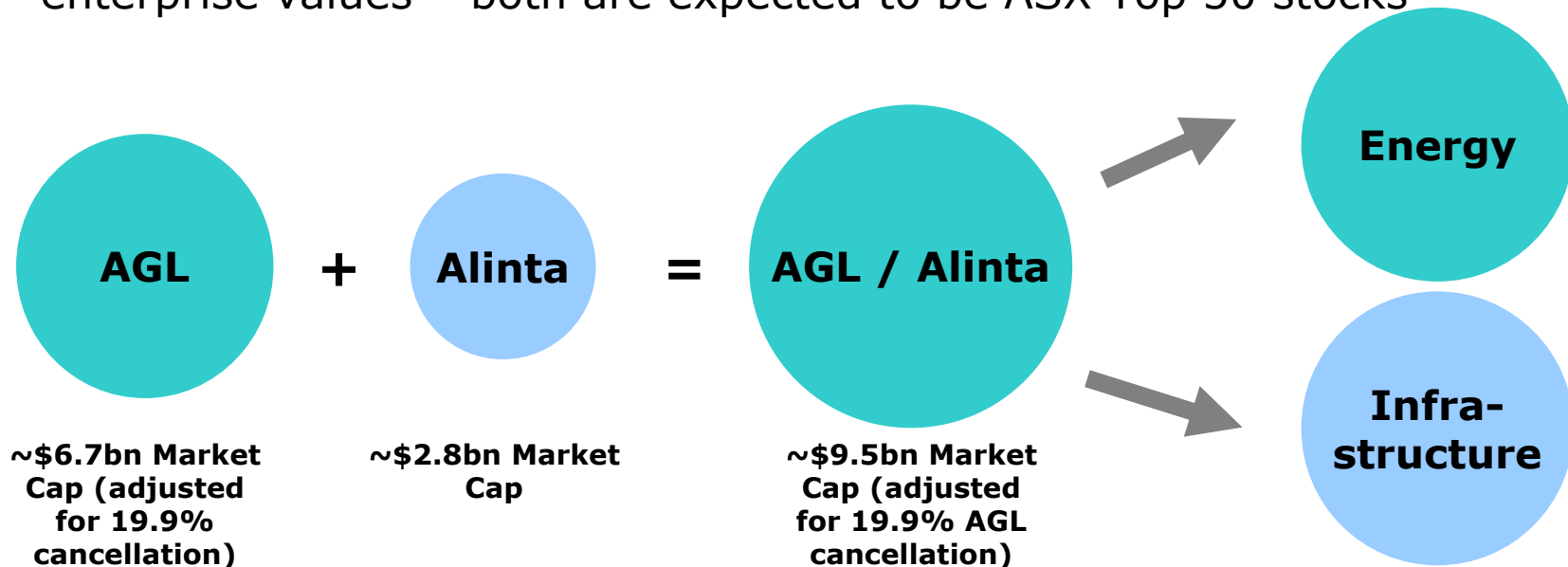
* AGL constitution limited to a maximum of 10 directors

Strategic rationale – Complementary businesses

- Transforming two of Australia's leading independent energy and infrastructure companies
- Value accretive transaction to both AGL and Alinta shareholders through demerging into focussed Energy and Infrastructure companies
- Strong cash flows and the ability to increase distributions to shareholders
- Strong infrastructure asset base
- Agility benefits from the addition of skills and a greater national footprint, as well as synergies when combined with Alinta Asset Management
- Retail energy business
 - ◆ Adds Western Australian retail franchise to Australia's #1 NEM-states retail business
 - ◆ AGL skills in contestable energy markets can be applied to the WA market
- Growth opportunities
 - ◆ PNG pipeline project and gas, hydro and wind power generation projects
 - ◆ DBNGP expansion, co-generation plants and organic growth

Combined Businesses

- Combined market capitalisation of \$9.5 bn (closing trading prices on 10 March), assuming the cancellation of Alinta's 19.9% in AGL
 - ◆ Combined 2005 EBITDA of over \$1bn
 - ◆ Combined enterprise value of around \$15bn
- AGL shareholders will have 70% of combined group: Alinta 30%
- Post-demerger, Energy and Infrastructure will be roughly similar in enterprise values – both are expected to be ASX Top 50 stocks



- Energy Model
 - ◆ Management focussed on core business activities of energy trading, supply, retailing
 - ◆ Facilitates valuation and performance transparency
 - ◆ No cross shareholding with infrastructure

- Infrastructure Model
 - ◆ Model will be flexible - capital structure options to enhance cash returns to shareholders will continue to be pursued
 - ◆ No cross shareholding with energy company
 - Retains ownership of operations and maintenance to help drive growth via developments, cost savings and synergies
 - Not reliant on highly competitive acquisition opportunities to grow
 - Obtains additional returns from 3rd party work and greenfield developments

- The infrastructure and asset management activities have been included in Infrastructure as no apparent business synergies exist with the Energy business, and results in fewer competition overlaps

Significant cost savings and synergies: \$120m+ targeted

- AGL expecting cost savings and synergies in Energy, Infrastructure and corporate functions
- AGL will exceed Alinta's retail saving estimate: \$50-60m being targeted
- The combination of the infrastructure businesses of AGL and Alinta will create significant synergies

Energy \$50-60m

Cost savings

- Retail
 - ◆ \$20 million per annum from 2008 onwards
 - ◆ No capital requirement
- Systems
 - ◆ \$30-\$40 million per annum from 2008 onwards
 - ◆ Less than \$100million capital required

Synergies

- No significant overlap or synergies with Alinta's operations in WA

Source

- Based on AGL Project Phoenix which commenced in 2005
- Supported by two global consultancy firms

Infrastructure \$45m

Cost savings and synergies

- Alinta's proposal projected \$45 million of cost savings and synergies per annum
- Preliminary review of the Alinta proposal indicates this is reasonable
- Property and site rationalisation, duplication, improved systems

Source

- Alinta Proposal
- Agility Management

Corporate \$25m

Cost savings

- AGL overhead
 - ◆ AGL expected net \$10 million from 2008 onwards as a result of IT efficiencies extracted once original AGL demerger bedded down

Synergies

- Three to two head offices
 - ◆ AGL assumes \$15 million

Source

- AGL Management

Forecast Distributions

Distributions

- AGL Offer will provide a proforma dividend from the combined businesses of at least 88.7 cents in 2007 financial year

Distribution Policy

- Consistent with the policy outlined in Demerger Scheme Booklet
- Energy payout ratio post demerger ~ 60% of earnings
- Infrastructure payout ratio post demerger ~ 100% of maintainable equity cashflows

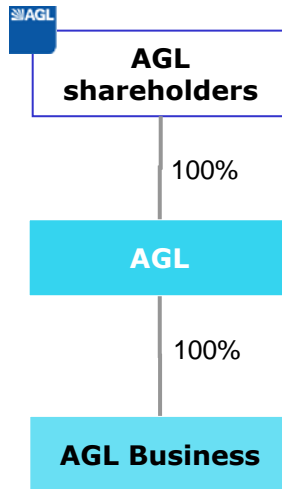


Transaction Mechanisms

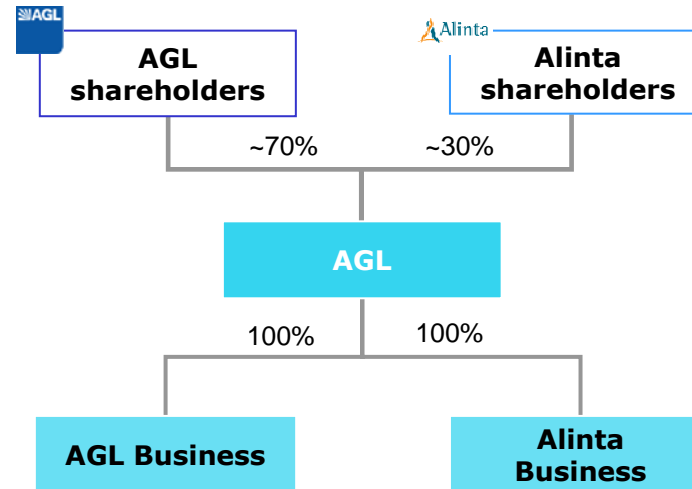
AGL Offer – Transaction Mechanics



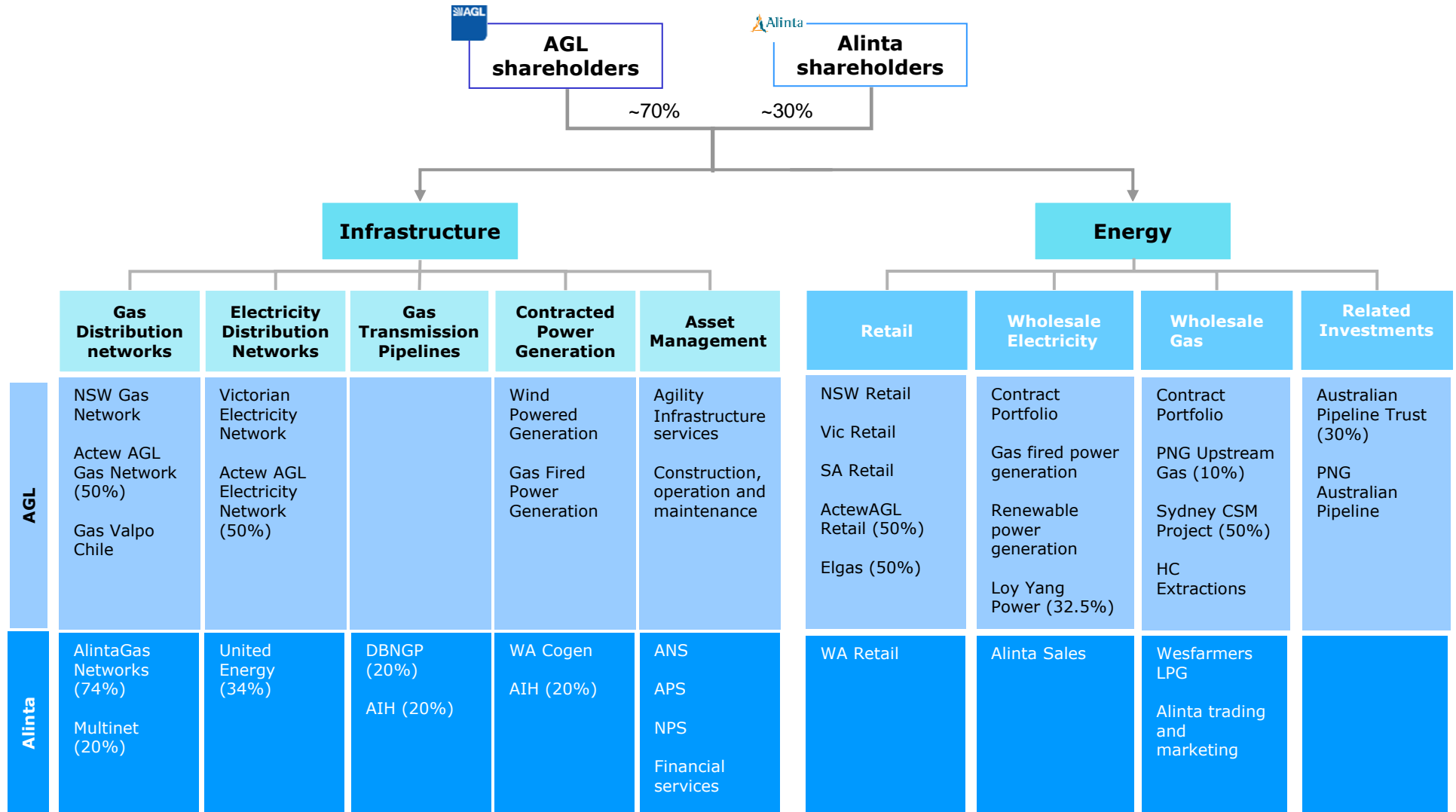
Pre merger



Post merger



Proposed Asset Allocation Post Demerger





AGL Performance

Power generation

- Loy Yang A (32.5% investment)
- Hallett Power Station expansion
- Townsville Power Station (proposed)
- NSW greenfield gas-fired site secured at Leafs Gully

Wholesale Gas

- Formed Sydney CSM Joint Venture
- Acquired 10% interest in PNG oil and gas project fields (Kutubu & Gobe)
- 1,500 PJ gas supply agreement for 20 years with PNG gas producers
- Renegotiated gas supply with Gippsland Producers

Retail

- Increase in dual fuel accounts to 1.1million
- Turnaround in retail margins following successful retention strategy
- Positioning for Queensland full retail contestability in July 2007

Renewable generation

- Southern Hydro acquisition
- Wattle Point Wind Farm
- Hallett Wind Farm(to be built)
- The Bluff, Dollar & Macarthur wind farms (proposed)
- Bogong Hydro (proposed)

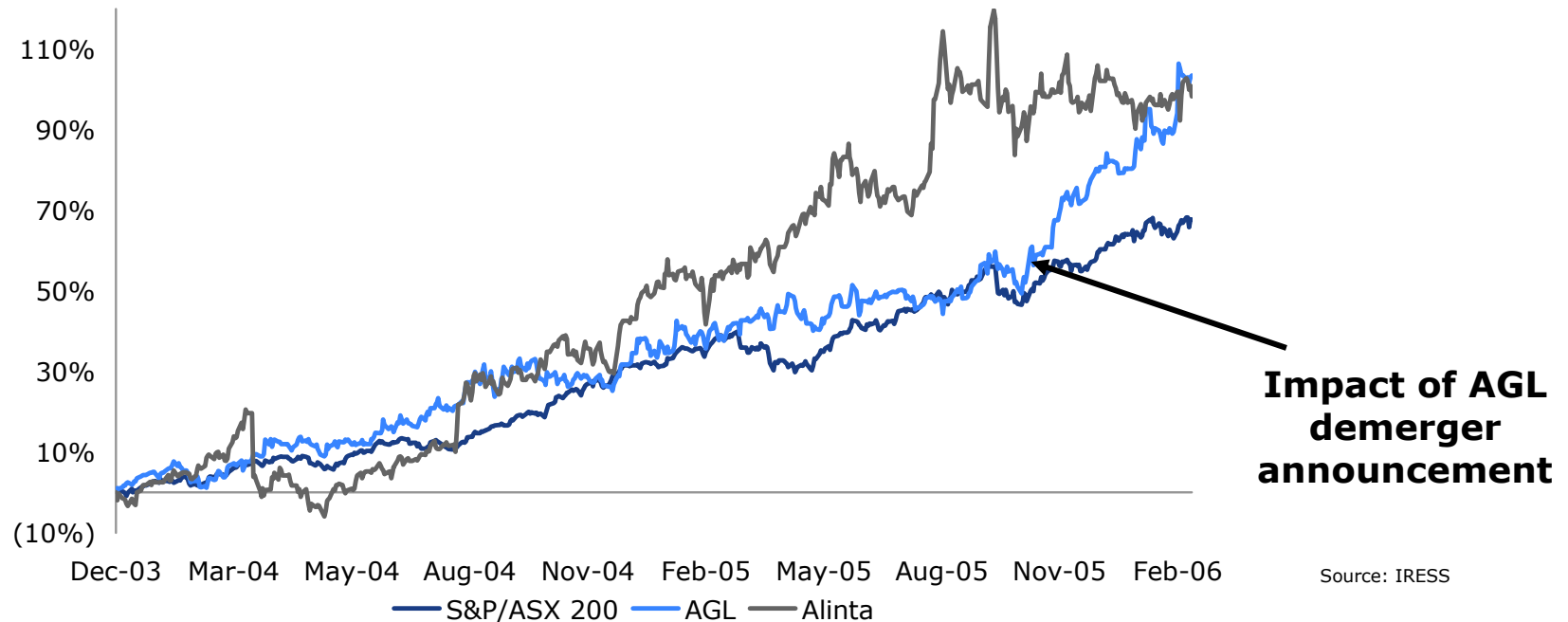
Portfolio Rationalisation

- Sale of NGC shareholding in December 2004 realising a profit on sale of A\$628.8 million

Capital management

- Capital return and special dividend in 2005
- Successful Loy Yang A refinance
- Launched demerger proposal to realise value of Infrastructure and Energy optimise capital structure

AGL Total Shareholder Returns



As AGL has progressively integrated its NEM operations, over the last two years AGL has delivered to shareholders:

- 104% total shareholder return
- A special dividend of 30 cents (\$137m) and a 50 cent capital return (\$228m) was paid to shareholders in 2005
- Performance ahead of the ASX 200 and comparable to Alinta

- #1 energy and dual fuel retailer in the National Electricity Market states
- Australia's largest downstream competitive energy business
- Largest listed power generator with net equity generation of 1,700MW
- Progressive integration of diverse generation portfolio to reduce supply costs and manage price risks
- Upstream gas integration for greater influence over sources of supply
- 20 year wholesale gas supply contract positions from multiple gas basins
- Over 2,000MW of identified power generation development and growth opportunities
- Positioning in important Queensland growth market with gas pipelines, gas contracts and power generation in Townsville

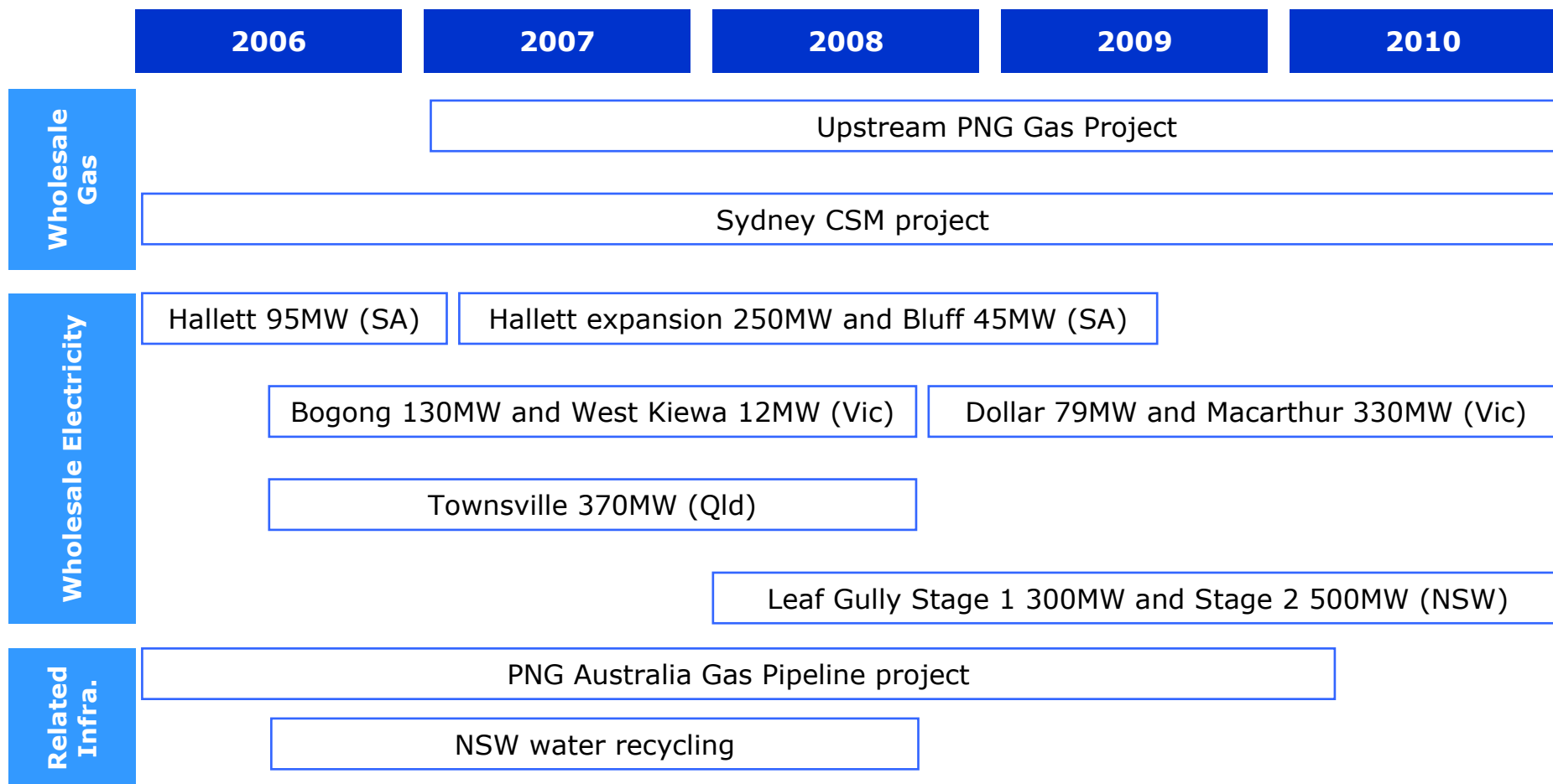
AGL has significant experience in managing risk and return in its energy portfolio

- Objective evidence shows AGL being amongst the most efficient in the industry. Agility is successfully winning third party business
- WorleyParsons independent review (September 2005) as part of Envestra’s SA gas network regulatory review
 - ◆ “Clearly no two distributors are the same – they will have differences in network size, physical operating environment, climate, customer density, geographic considerations etc. Many of these differences will impact on the requirements for expenditure so comparisons need to be approached with a great deal of caution.” (available on www.escosa.sa.gov.au)

Distributor	Efficiency ranking	Operator
➤ Envestra SA	1	Origin Energy Asset Management
➤ ActewAGL ACT	2	Agility (AGL)
➤ Allgas Queensland (Energex)	3	Energex
➤ AGL Gas Networks NSW	4	Agility (AGL)
➤ Envestra Victoria	5	Origin Energy Asset Management
➤ Multinet Victoria (Alinta)	6	Alinta Network Services
➤ SP Ausnet Victoria	7	T squaredalliance (Tenix and SP Ausnet)
➤ AlintaGas Networks WA	8	Alinta Network Services
➤ Envestra Queensland	9	Origin Energy Asset Management

- Other studies draw similar conclusions:
 - ◆ PA consulting (AlintaGas 2005 – www.offgar.wa.gov.au)
 - ◆ Meyrick & Associates (internal review in support of AGL electricity submissions in 2005)
 - ◆ Regulatory decisions – publicly available on regulator websites, eg ESC

AGL is delivering growth projects across its business



AGL believes that the growth opportunities it has identified will continue to deliver value to shareholders



Summary

- The Alinta Proposal has been rejected by the AGL Board
 - ◆ It is a takeover presented as a merger, at substantially below fair value
- AGL Offer to effect a true merger between the parties:
 - ◆ The proposal reflects the same relative valuations between AGL and Alinta as was proposed by Alinta
 - ◆ The Board will comprise directors from both Alinta and AGL
 - ◆ The requisite skills and experience of management will be suitably directed
- Following the merger with Alinta, it is proposed to demerge the combined businesses into an Energy business and an Infrastructure business
- As the AGL Board considers that the AGL Offer represents a better alternative for AGL shareholders, it has withdrawn its recommendation of the current demerger and will seek Court approval to cancel the demerger meeting scheduled for 27 March



Questions

A full range of information on AGL including the scheme booklet, prior AGL annual reports, presentations, announcements and financial results is available from www.agl.com.au

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