



Market Update

18 July 2007

AGL Energy Limited (AGL) provides the following trading update for the financial year ended 30 June 2007 (FY2007) and an update of the earnings outlook for the current financial year ending 30 June 2008 (FY2008) which reaffirms its stated aim of delivering an average EPS growth of 15% per annum over the medium term.

2007 Financial Year

Profit & Earnings Per Share (EPS) Guidance: In the demerger Scheme and Supplementary Scheme booklets issued last year, AGL indicated that its pro-forma FY2007 profit would be \$321 million, resulting in an EPS of 79.8 cents based on weighted average shares on issue of 402.9 million.

AGL now confirms its pro-forma FY2007 profit of approximately \$321 million from existing Scheme Booklet businesses (excluding significant items). This forecast result excludes new investments and acquisitions during FY2007 including Queensland Gas Company (QGC), Sun Gas and Powerdirect. The results of these acquisitions will be detailed in AGL's FY2007 release scheduled for 22 August 2007.

As detailed in the demerger Supplementary Scheme booklet, a pro-forma FY2007 net profit from existing business (and excluding significant items) of approximately \$321 million would deliver EPS of 79.8¹ cents based on a weighted average shares on issue of 402.9 million (pre Powerdirect equity placement).

AGL's full year results will provide additional detail of FY2007 EPS to include the effect of the Powerdirect equity placement of 56.6 million shares in February 2007 and results from QGC, Sun Gas and Powerdirect.

Dividends: Subject to final board approval, AGL anticipates that the total dividend in respect of FY2007 will be consistent with the guidance of 35.4 cents per share indicated in the Supplementary Scheme booklet. The amount of 35.4 cents comprises the interim dividend of 9.5 cents per share paid on 22 March 2007 in respect of the period from 25 October 2006 to 31 December 2006, and a forecast FY2007 final dividend of 25.9 cents per share. It is anticipated that the final dividend will be fully franked. The FY2007 final dividend will, subject to final board confirmation, have a record date of 6 September 2007 and a payment date of 28 September 2007.

¹ Existing business weighted average shares on issue of 402.9m comprises old The Australian Gas Light Company shares on issue of 456.1m from 1 Jul 06 to demerger date of 25 Oct 06 and AGL Energy Limited shares on issue of 377m from 26 Oct 06 to 30 Jun 07.

2008 Financial Year

Profit & EPS Guidance: AGL confirms a forecast underlying profit on a business as usual basis for FY2008 of \$380 - \$400 million. This includes forecast full year results from the investment in QGC and the acquisition of Sun Gas, Powerdirect and Torrens Island Power Station. On an EPS basis this equates to a range of 88-92² cents.

AGL currently anticipates FY2008 underlying profit to be at the upper end of this range.

The transformation of the AGL business since demerger, and the successful deployment of the 'four-corners' integrated energy company strategy, has positioned AGL to deliver ongoing, competitive returns across all market cycles. The business restructuring program which commenced in October 2006 is now largely complete (~80%) with Full Time Equivalent staff numbers reduced from 2,150 to approximately 1,350 within the existing business. The Project Phoenix retail transformation program continues on time and to budget with a scheduled go live date in the fourth quarter of calendar year 2007.

AGL will continue to update the market against this forecast at appropriate points throughout the 2008 financial year.

Dividends: As previously stated, AGL maintains an indicative dividend payout ratio guide of approximately 60 per cent (on an underlying EPS basis). Dividends are anticipated to be fully franked. This guidance is subject to ongoing review against underlying strategic and business requirements.

Hedging: AGL adopts a prudent hedging policy to manage its exposure to wholesale electricity purchasing requirements and associated risks. This policy sets defined profit at risk limits, defined commodity and transaction limits, counter party credit limits and minimum rolling forecast load cover requirements. AGL has provided a degree of transparency of its electricity hedge policy in recent market presentations. AGL's electricity hedge book for FY2008 and FY2009 is currently positioned at higher levels than the minimum levels required under the hedging policy. As at 30 June 2007, the marked-to-market value of the AGL electricity hedge book was approximately \$3.9 billion positive.

Paul McWilliams
Company Secretary

² A 10% to 15% EPS accretion against (pre significant item) FY2007 Supplementary Scheme booklet business result of 79.8cps divided by shares on issue as at 1 Jul 07 of 433,555,467.