



2008 Earnings Guidance Revision

15 October 2007

AGL Energy Limited (AGL) announced today a revision to its 2008 earnings outlook. AGL's previous guidance to the market anticipated underlying net profit after tax for 2008 in the region of \$380 to \$400 million. Recent market conditions, including reduced retail energy margins, the strengthening of the Australian dollar against the US dollar and increased wholesale gas costs mean that AGL now anticipates its earnings outlook will be in the region of \$330 to \$360 million.

Existing FY2008 Earnings Guidance

AGL has previously advised that:

- its underlying net profit after tax on a business as usual basis would be in the range of \$380 - \$400 million¹. This equated to an EPS of 88 – 92 cents; and
- FY2008 dividends would be approximately 60 per cent of underlying EPS and would be fully franked. This equated to a dividend of 52 – 55 cents.

Revised FY2008 Earnings Guidance

AGL now anticipates that:

- its underlying net profit after tax for FY2008 will be in the range \$330 – \$360 million. This equates to an EPS of 76 – 83 cents based on weighted average shares on issue of 433.6 million. AGL expects there to be an equal probability of the outcome being at the upper or lower end of this range; and
- FY2008 dividends will not be affected and will remain in the range of 52 – 55 cents and will be fully franked.

Key Drivers of Revision

The main components of the reduced earnings outlook are as follows:

	Reduction in EBIT (\$m)	Reduction in NPAT (\$m)
Reduced Retail Energy margins	50	35
Lower Papua New Guinea (PNG) oil profits	12	6
Higher Torrens Island Power Station (TIPS) depreciation	7	5
Higher wholesale gas costs	7	5

¹ Underlying net profit after tax excludes adjustments totalling \$35 million relating to significant items and customer amortisation costs relating to the Powerdirect purchase. It also excludes fair value adjustments.

Reduced Retail Energy margins: AGL's previous earnings estimate assumed that its retail business would achieve certain gross margin levels. Based on trading results for the first quarter of FY2008, AGL has reviewed expected margin outcomes for the remainder of FY2008. That review indicates that the margin assumptions used for part of the retail business were unachievable. It is now apparent that average margins over FY2008 will be lower than anticipated. In particular, revenue from AGL's small/medium enterprise (SME) and large commercial and industrial (C&I) customers has been lower than expected. The reduction in expected EBIT in relation to the SME and C&I segments of the business is \$30 million.

Lower than expected margins from mass market residential customers accounts for \$12 million of the reduction in FY2008 EBIT.

Furthermore, AGL's results have been affected by a mild winter (EBIT impact \$4 million) and a decision to increase marketing expenditure (EBIT impact \$4 million).

Lower PNG oil profits: AGL's previous guidance was based on an assumed average exchange rate of 80 cents. The Company now anticipates that the average rate for FY2008 will be 88 cents. In addition, current worldwide demand for West Texas crude oil has reduced the TAPIS premium from more than US\$4 per barrel to less than US\$1 per barrel. AGL expects this situation to continue throughout the remainder of FY2008.

The combined EBIT effect of these two items is \$12 million.

Higher TIPS depreciation charge: AGL acquired TIPS for a net purchase consideration of \$300 million and is now finalising the allocation of the purchase price amongst the assets and liabilities acquired. Between the date of finalising the purchase agreement and assuming economic ownership on 2 July 2007 the acquired derivatives liability increased by approximately \$100 million. This liability will be amortised to the fair value movements in the income statement. As a result of this increased liability and other minor purchase allocation adjustments, the depreciable asset value for TIPS is also expected to increase by approximately \$100 million thereby requiring the depreciation charge to increase by \$7 million per annum.

Higher Wholesale Gas Costs: In recent months the gas market has seen significant volatility in the spot prices and increases in certain gas transmission charges. These market conditions have arisen as a result of increased peak demand for gas, partly due to higher demand for gas fired generation as a result of continuing drought conditions. AGL believes these market conditions will continue throughout FY2008 and expects net additional costs of \$10 million to secure further gas and gas transportation capacity. This will be partly offset by additional margin of \$3 million from new contracts including winning the Alinta Unaccounted For Gas contract.

Outlook

AGL has previously stated its aim was to deliver an average EPS growth of 15% per annum over the medium term, calculated on FY2007 underlying EPS of 79.8 cents. Based on the revised FY2008 earnings outlook, EPS growth for FY2008 is expected to be between -4% and +4%.

A number of the circumstances affecting FY2008 earnings will affect AGL's future EPS. In light of the announced revisions to FY2008 earnings, AGL will undertake a comprehensive review of its business assumptions and operations, including a review of earnings outlook for future years. AGL will provide an update on the progress of that review to shareholders at its Annual General Meeting to be held on 8 November 2007.

Notwithstanding the revision to FY2008 earnings guidance, AGL remains focussed on its four corners strategy to deliver long term value for shareholders.

Further enquiries:

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Conference Calls

Please note the following arrangements today to discuss the contents of this release;

Media Conference Call

10am AEST

Dial-in numbers

Freecall Australia: 1800 064 352

International: +61 3 8660 4949

Analyst Conference Call

(Analyst questions only to be taken during this call)

11am AEST

Dial-in numbers

Freecall Australia: 1800 657 814

International: +61 3 8660 4950