

# AGL Energy

## Moving Forward



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# Financial Outlook

## FY2008

- Re-confirm underlying NPAT forecast of \$330 to \$360 million
- EPS range 76 to 83 cents
- EBITDA \$830 to \$875 million
- Total annual dividend 52 to 55 cents per share, fully franked

## FY2009

- EBITDA \$870 to \$915 million
- Underlying NPAT \$360 to \$390 million
- Future annual (EBITDA & NPAT) guidance to be provided at Annual General Meetings

## Dividend Policy

- Indicative pay out policy of approximately 60% of underlying earnings
- Ultimately a function of AGL's capital requirements from time to time

# Financial Outlook

More relevant guidance metrics

## Delivering shareholder returns is the overriding financial focus

### Future guidance around NPAT & EBITDA

- EBITDA provides market with greater clarity around operational business performance / cash generation

### Cease practice of providing medium term earnings guidance

- Not seen as beneficial to shareholders

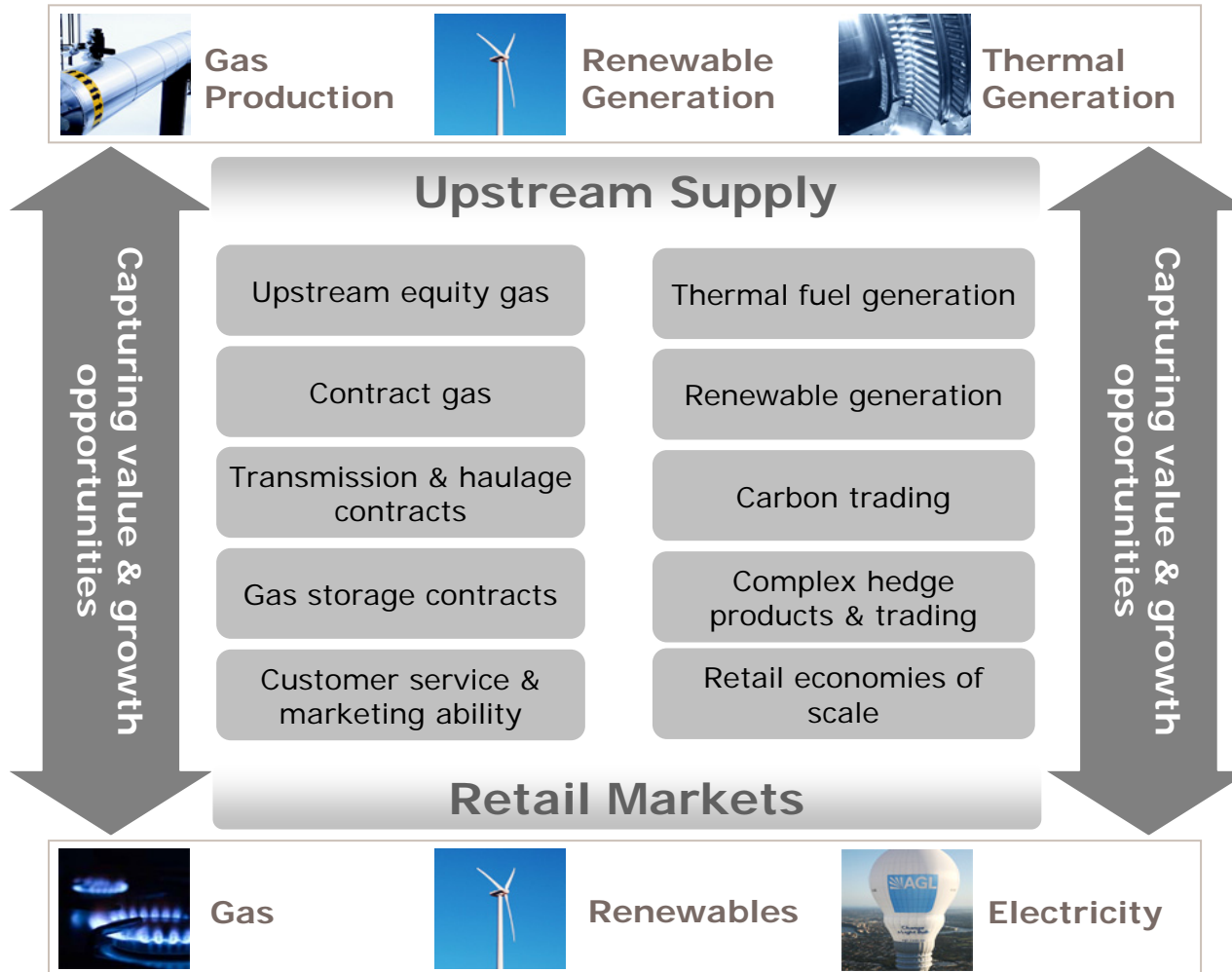
### Annual (EBITDA & NPAT) guidance to be provided at AGM

- Enables more robust guidance following winter months



# The Integrated Strategy

Building a world class customer focused energy company



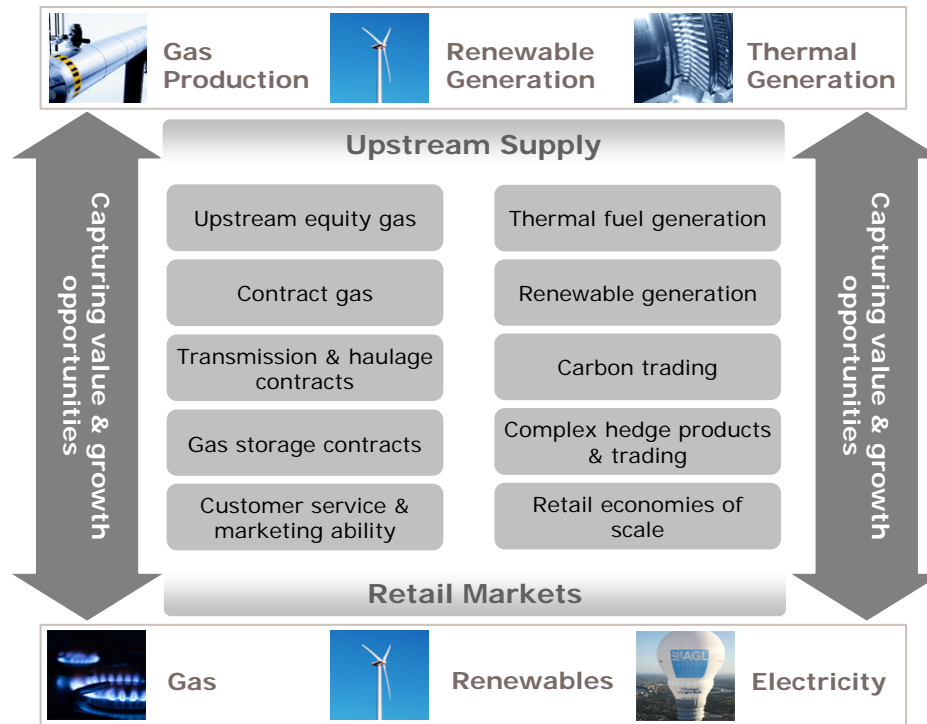
- Leverage leading retail position to capture value and growth opportunities
- Grow upstream gas and power generation portfolios
- Market leadership in renewables to benefit under a carbon constrained future
- Drive retail economies of scale and enhance customer service capability

# The Integrated Strategy

## Medium term goals

### Upstream Gas

- ~1500 to 2000PJ (2P) over medium term
- Made up from:
  - existing interests
  - organic growth
  - disciplined acquisitions
- Essentially CSM strategy although may include conventional gas
- Disciplined decision around trade-off between acquiring equity gas and EPS impact
- May contract if achieves better outcome



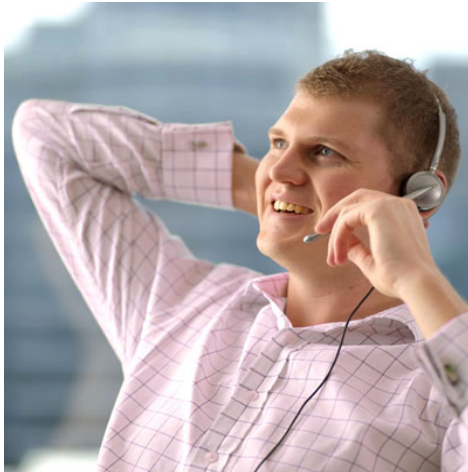
### Customer Base

- Indicative target 4 to 5 million customers
- Customer base / channel to market important in leveraging upstream strategy and achieving retail economies of scale
- Ultimate focus on managing margin

### Generation

- Currently ~3700MW of capacity owned or operated & under construction (~300MW under const.)
- Medium term target of ~5000 to 6000MW across base, intermediate and peak
- Achieve ~60-70% of load internally covered / generated
- Delivers desired portfolio outcomes for projected load and customer profile
- Expanded MRET will require near doubling of capacity by 2020 on like for like basis

# Value Creation Opportunities



## Corporate

- Cost initiatives
  - Organisational downsizing substantially complete
  - IT outsourcing contracts executed

## Retail

- Broader benefits from whole of system Project Phoenix 'capability build'
- Adjustments / planned removal of retail price controls
- Reduced churn levels resulting from:
  - Customer 'fatigue', wholesale market volatility & industry consolidation
- Repositioning AGL's brand to capitalise on our inherent carbon credentials

## Merchant

- Increasing control of wholesale costs through deepening physical generation capacity (currently ~3400MW owned/operated & ~300MW under construction)
  - e.g.; TIPS, Yabulu, Condamine & development pipeline (~1400MW)
- Leading renewable portfolio and deep pipeline of development opportunities
- Inherent optionality and growth within existing upstream gas JVs and investments
  - Moranbah, QGC & Sydney Basin - strategically located in AGL core markets
  - Recent examples: Enertrade/Arrow JV, QGC/Condamine



# Project Phoenix - Update

## Release 1 "Live"

### Completed

- Detailed design and build:
  - design, configuration & build of all strategic retail business processes, voice architecture, interfaces, reports & industry regulated enhancements
  - rationalisation of retail products & rates: ~1,100 to 78 strategic products & ~1,000 to 33 rate categories
- Appointment of Applications Management Outsourcing (AMO) provider
  - appointed global firm of TATA Consultancy Services (TCS), delivering global intellect and experience
  - also delivers ability to significantly reduce costs in running existing (non phoenix ) AGL IT systems
- System testing & deployment preparation:
  - integration testing, industry market participant connectivity, data cleansing
  - workforce transition, organisational & process readiness, cut over readiness
- **First release of 1.2 million mass market customers successfully migrated during the week ended 15 December**

### Next

- Further two releases in calendar 2008

# Project Phoenix – Value Creation

Delivering world class, scaleable customer management capability

**The Phoenix initiative is founded on imperatives to improve service standards, achieve cost leadership and establish a basis for future growth**

**As at 15 December 2008, Release 1 has been successfully executed and all the key objectives of the Program to date have been met**

- **Realise full synergy benefits** – consolidate disparate operations, functions and management layers → Consolidation to Melbourne now complete, flatter organisation, rationalised service functions
- **Drive out operating costs** – reengineer and increase process automation across sales and customer contact, billing, collections and market processes (e.g. transfers) → Achieved all Phoenix 2006/07 cost targets, headcount reduced >300 from peak
- **Reduce IT complexity and cost** – systematic replacement of legacy systems with an enterprise-wide future platform → Legacy systems being retired with Phoenix, outsourced applications and infrastructure
- **Create the basis for differentiation** – target high-value customers and improve service delivery through greater customer insight and single view of the customer → CRM live in with Release 1 customers, new IVR and CTI capability installed

# Renewable Energy – Value Creation

A paradigm shift in market functioning

## **AGL existing renewable portfolio (owned & operated) leads market**

- 646 MW Hydro
- 55 MW Cogeneration, Landfill, Biomass, Bagasse and Solar
- 90 MW Wind (off-take and O&M contract)

## **Under construction**

- 140 MW hydro
  - Bogong expansion (part of Kiewa Scheme)
- 166 MW wind
  - Brown Hill (Hallett) 95MW
  - Hallett Hill 71MW

## **Heads Of Agreement**

- 330 MW Macarthur Wind Farm development

## **Further renewable developments identified / firm pipeline**

- First mover advantage will deliver significant upside in carbon constrained market



# Conclusion

Moving forward



- FY2008
  - EBITDA \$830 to \$875 million
  - Underlying NPAT \$330 to \$360 million
  - Dividend 52 to 55 cps fully franked
- FY2009
  - EBITDA \$870 to \$915 million
  - Underlying NPAT \$360 to \$390 million
- 1<sup>st</sup> Phoenix transfer of 1.2 million customers successfully migrated, project remains on track and budget to deliver business case benefits (both financial and operational)
- Ongoing, disciplined roll out of integrated strategy with renewed focus on capital discipline
- Significant upside from leading renewable position and expertise
- Business sound with deep optionality and opportunities in a dynamic, consolidating market

# Further information

A range of information on AGL Energy Limited including ASX & Media Releases, presentations, the inaugural 2007 Annual Report and financial results as well as historical 'The Australian Gas Light Company' Scheme Booklets, Annual Reports, Sustainability Reports, presentations and financial results are all available from our website: [www.agl.com.au](http://www.agl.com.au) or [www.aglinvestor.com](http://www.aglinvestor.com) alternatively, contact:

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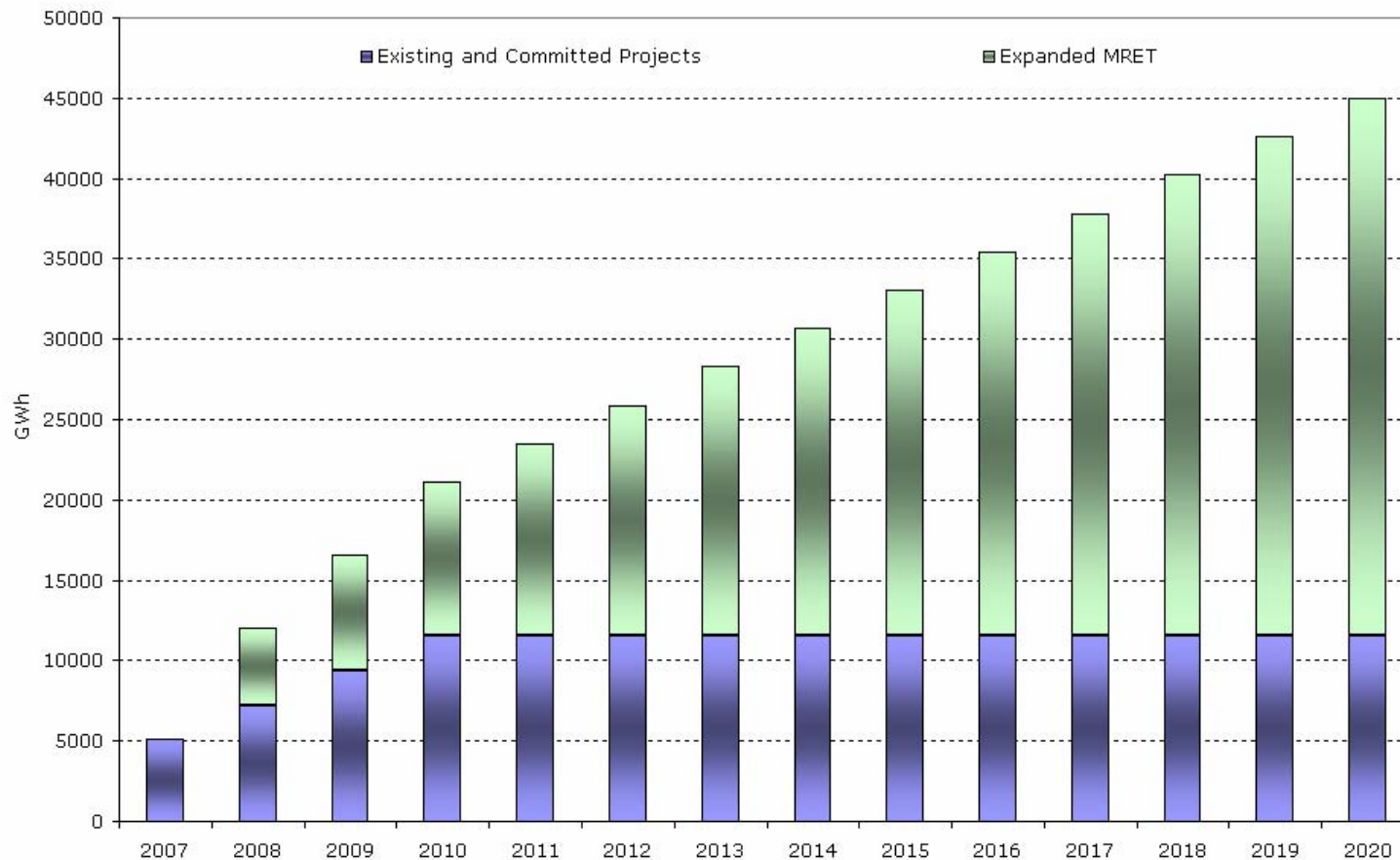
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# Appendices



# Expanded Renewable Energy Target

- By 2020, an additional 35,500 GWh of renewable energy will be required. This will require the construction of around 11,600 MW of new renewable capacity with total investment of \$27.1 b (based upon 35% CF and \$2.3 million per MW)



- It is not clear what the target trajectory will look like
- Target will be 45,000 GWh by 2020
- Further detail will emerge in 2008

# Hydro Update

Major Dam Levels – week ending 8 Dec 07			
Location	GL	Metres	% Full
<b>Dartmouth</b> (~180MW)	<b>662.56</b>	<b>412.52</b>	<b>16.95%</b>
Yearly % Change			-1.31%
Min op level	1,260	432.00	32%
<b>Eildon</b> (~135MW)	<b>813.21</b>	<b>261.29</b>	<b>24.39%</b>
Yearly % Change			+10.8%
Min op level	100	237.6	3%
<b>Rocky</b> (~241MW)	<b>25.75</b>	N/A	<b>91.36%</b>
Yearly % Change			+18.49%
Min op level	N/A	N/A	0%