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AGL Energy Limited this week posted its first trade in Australian Emission Trading Units (AETUs) with the sale of 10,000 units for \$19 each. Why have you sought to offer AETU trading ahead of the launch of a formal Emissions Trading Scheme (ETS) and will these trades be recognised under the proposed government scheme?

MD & CEO Michael Fraser

Our launch of AETU trading gives us first mover advantage in providing some certainty for our major customers who wish to lock in future retail energy pricing that reflects the cost of carbon. It also provides the opportunity for electricity market participants and other wholesale parties to access a carbon price and at the same time should restore some additional liquidity in forward electricity contracts beyond July 2010, the proposed commencement of emissions trading in Australia.

The design of an Australian ETS has been on the drawing board for many years within government from work carried out by Treasury around the turn of the century, to the National Emissions Trading Taskforce (NETTS) conducted by the states, to the previous Prime Minister's Taskgroup on Emissions Trading, to the Garnaut Review. As a result of this, it's possible to create a framework within which to broadly model potential price outcomes as the basic details such as time frames are known. We've also been able to identify in-house synergies and abilities that we can leverage in a future scheme.

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What methodology and assumptions underlie your pricing of the AETUs?

MD & CEO Michael Fraser

We use models that have been developed by both external providers and in-house specialist analysts. The modelling focuses on the electricity sector and looks at least marginal cost forms of carbon abatement within this sector. Further refinement will see abatement cost curves developed for other sectors to be included in the AETS. The market will ultimately determine the cost of carbon and this cost will be influenced by the depth of the emissions cuts mandated by government and the cost of using new technologies to reduce emissions.

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AGL recently reconfirmed its earnings guidance for the year ended June 2008 and provided buy and sell side analysts with a range of presentations on strategy, divisional operations and future opportunities. To what extent are you confident you've got the right strategy given the significant changes underway in the Australian energy market?

MD & CEO Michael Fraser

Our confidence in our strategy is based on our integrated asset base in the Australian market, the strategic initiatives we've already implemented and the early positive results we're witnessing within the business.

We're clearly ahead of our direct competition in preparation for a carbon constrained, and increasingly competitive, environment. We're investing in our iconic brand and our retail business and now have an industry leading retail cost model. We've got the largest and fastest growing portfolio of privately owned renewable energy assets in Australia and see a long-term growth opportunity. We've expanded and diversified our gas supply and generation assets so we have better control over our wholesale energy costs. We've got a balance sheet that will ultimately deliver flexibility to fund our immediate plans. And we're building a high performance culture and have re-united our management team after the events of late 2007.

We recognise that the Federal Government's commitment to an ETS and its expanded Mandatory Renewable Energy Target (MRET) are trigger points that will have far reaching implications. We're prepared for the changes.

We also see opportunities in the industry change occurring due to the large increases in upstream gas reserves following the emergence of the coal seam gas sector; volatility in wholesale electricity and gas markets; the intense competition in retail markets; and the potential privatisation of New South Wales generation and retail assets.

Our current positioning and ongoing strategic initiatives provide material diversification across the upstream and downstream energy value chains, which enhances our risk management capabilities as well as providing access to multiple profit pools.

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In presentations to analysts you claimed project Phoenix is pivotal in transforming your entire retail business. Can you comment on how the new IT platform will change the business and the impact it will have on your competitive position?

MD & CEO Michael Fraser

Phoenix is a complete transformation of our retail business. It's not just an IT platform but a complete rebuild of our retail business that's already started to deliver the early signs of world-class customer service and marketing capabilities as well as industry leading cost-to-serve metrics. We've successfully migrated 1.6 million customers to the new system and we'd expect our entire 3 million-plus customer base to be on the system by calendar year end.

We'll capture \$60 million in EBIT benefits by the June 2010 year but the ongoing benefits will be even more important. We can create future value from the knowledge we'll have about our customers and their needs. We'll know with greater clarity how much each individual customer segment contributes to our margin. Our ability to segment customers will enable us to deliver value propositions that suit their specific needs and to enact more timely and effective customer retention and win-back strategies. Our ability to manage and invest in our customer base transforms our model from standardised service to value-add.

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Will your retail business be able to handle quantum increases in customer numbers if you were to undertake further acquisitions?

MD & CEO Michael Fraser

We're transforming from multiple systems in multiple jurisdictions to a single-system-based retail business that's fully automated and national. In future, additional customer numbers won't be an issue, the system is completely scalable without the need for any material changes or upgrades. We're two-and-a-half years into the four-year Phoenix program and by definition that puts us two-and-a-half years ahead of our competitors which we believe provides a huge competitive advantage, especially in an industry where consolidation is a real possibility in the short term.

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In your recent earnings update you stated there has been a net gain in customer account numbers since December 2007. Is the competitive environment easing?

MD & CEO Michael Fraser

Australia has some of the most competitive retail energy markets in the world and I see no change to that in the foreseeable future. Double digit customer churn rates are a reality and we're prepared to live in that world. The advantage for us is that the customer intelligence, market segmentation and lower cost base that Phoenix delivers will better enable us to focus customer retention efforts on the high value segments. The overriding emphasis will always be on margins while maintaining or growing market share.

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Some suggest you have too little exposure to gas reserves and you'll be squeezed by your lack of equity in gas as east coast Australian gas prices rise towards international levels. Is this an impediment to growth or future margins?

MD & CEO Michael Fraser

We don't believe so. There's no shortage of gas in eastern Australia. Currently eastern Australian gas reserves and contingent resources exceed 30,000 PJ, of which only about 26 percent are contracted, and there's every expectation that the industry will continue to deliver further reserve upgrades. Current reserves cover today's sales of 640 PJ per annum for over 40 years. In fact, we believe there needs to be a major east coast LNG project to get off the ground for much of the east coast reserve base to be commercialised in a reasonable time-frame, or we could see a material oversupply. Gas reserves are not an issue.

We also don't envisage any material impact on margins if gas prices rise. History highlights a clear picture of retail prices tracking wholesale prices. To a large extent, the stability of the pricing relationship between wholesale and retail is entrenched by market price reviews, contract flexibility and the regulatory price setting process whereby, amongst other things, regulators make allowance for wholesale cost input pressures if retailers prove prudent in their wholesale portfolio procurement and management.

Our existing contract gas portfolio of some 3,200 PJ has material depth and flexibility across multiple markets. We'll look to supplement that portfolio with additional equity gas and we have a medium term target of 2,000 PJ. However we'll apply discipline around the trade-off between acquisition cost and resulting EPS impacts. If contracting achieves a superior outcome, we'll continue down that path

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Is there a risk you've invested too early in renewables, particularly wind power, given the Federal Government legislation in relation to the ETS and the expanded MRET isn't yet enacted?

MD & CEO Michael Fraser

Although we have the leading and fastest growing renewables portfolio in Australia, our investment to date and the projects we're currently committed to, apart from the Bogong hydro expansion which will deliver valuable peaking capacity, allow us only to meet the current MRET target. Furthermore, we're already booking solid returns as illustrated by the Hallet 1 wind farm in South Australia. Capital has been returned, development profits booked and we've locked in 25 years of supply at prices discounted to current market.

All the signs are that the government remains committed to the increased MRET target. The broader move towards zero emission energy sources through a retailer compliance based scheme has bipartisan support so we see it as highly likely the scheme will be legislated at a federal level. This was recently confirmed by Minister for Climate Change and Water Penny Wong in a press release dated 6

March 2008. We remain very confident an expanded MRET will be a reality in the not to distant future.

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What are your ambitions in relation to renewables and in particular wind farms?

MD & CEO Michael Fraser

The government's expanded MRET policy requires an additional 35,500 GWh of renewable energy to be in production by 2020 given the 2020 target of 45,000 GWh per annum. That increase in production implies about 12,000 MW of new renewable capacity, assuming it is all wind. We have substantial expertise and experience in renewable energy developments across the full suite of proven renewable technologies, not only in wind but also hydro, bagasse, landfill gas and renewable cogen plants. We also have a small photovoltaic investment in South Australia.

In terms of wind, we manage and maintain the 90 MW Wattle Point wind farm in South Australia and in the next few weeks will complete construction and commission the 95 MW Hallett 1 wind farm. The 71 MW Hallett 2 wind farm is under construction and we have a further 600 MW of wind in development and 1,400 MW under review. We have first mover advantage in this area; the sites we've secured have world-class wind resources and will deliver superior economics and ultimately returns. Having such a deep pipeline of wind and other renewables will also help us address the growing level of Renewable Energy Certificates (REC) required of us as a major retailer under an expanded MRET scheme. We aim to ultimately self-supply the vast majority of our REC requirements and this has the added advantage of avoiding value transfer to third parties.

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To what extent is there a technology or reliability risk with wind energy?

MD & CEO Michael Fraser

The technology risk is minimal given the huge growth in installed wind power across the world over the past decade. Installed capacity has increased from below 5,000 MW in the mid 1990s to well over 90,000 MW today and with that has come great strides in wind turbine technology. Today wind is a proven and very robust technology on a global scale.

In terms of reliability, the Australian wind resource is world class along parts of the Victorian, South Australian, and West Australian coastlines and in the west of Tasmania. We have secured some high quality sites and they'll only become more valuable as demand for renewable energy rises. Building a geographically diverse portfolio of wind resource assets is also an important strategy as we build reliability of generation across our wind assets. Our modelling of output from our wind assets at Hallett 1 and Wattle Point already demonstrates the benefit of wind assets across different sites. Supplementing this we also have a diverse portfolio of hydro, other renewable and thermal generation delivering us considerable flexibility and redundancy in our current generation portfolio of some 3,800 MW.

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As at the end of December 2007, AGL had net debt of \$2.3 billion, up from \$2.2 billion six months earlier, and gearing stood at 31.2 percent, up from 25.0 percent. With Standard & Poor's having recently revised your BBB credit rating to outlook negative from stable, what balance sheet capacity do you have to fund the planned investment in wind power as well as major acquisitions such as assets emerging from the New South Wales privatisation?

MD & CEO Michael Fraser

The gearing calculation you mention is distorted by the impact on shareholders' equity of AIFRS financial hedge recognition. It's important to understand that for us the overriding debt metric is not gearing but free funds from operations (FFO) interest coverage – gearing is just an output. FFO interest coverage is also the key metric the ratings agency assesses us on.

We're very committed to restoring our existing BBB rating to stable outlook. Standard & Poor's currently requires a five times FFO coverage and we've already undertaken a number of actions to achieve this including the full underwriting of our March DRP and the recent sale of GasValpo. We've also commenced the sale process for both the pipeline assets we purchased under the Enertrade transaction and our PNG Gas Project stake. These actions alone will deliver at least \$300 million more than the \$600 million to \$700 million debt reduction required to return our credit rating to stable outlook.

We believe we have considerable flexibility. Potential non-core asset sales could allow us to fund some \$2 billion of growth without the need for new equity whilst maintaining our BBB credit rating.

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Thank you Michael.

For more information about AGL, visit www.agl.com.au or call Graeme Thompson, Head of Investor Relations, on +61 2 9921 2789

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