

## ASX & Media Release

### **Upstream Gas Review results in asset impairments of circa \$435 million after tax FY15 Underlying Profit<sup>1</sup> guidance unchanged**

**6 July 2015**

AGL Energy Limited (AGL) has today announced that, following a comprehensive review of its Upstream Gas business, it would focus on core gas projects and divest non-core and under-performing gas assets and activities.

AGL has a strong gas supply position through a combination of contracted gas at competitive prices and owned production at Camden. This covers AGL's expected household demand until 2027 and contracted commercial and industrial demand until 2021, and can be augmented by ongoing portfolio management tailored to customers' requirements. This position enables AGL to focus on a small number of gas projects including strategically important gas storage while avoiding significant capital expenditure, releasing poorly performing assets and allowing management to concentrate on enhancing shareholder value across the group.

Core projects to be retained include the Camden Gas Project, Gloucester Gas Project, Silver Springs underground storage facility, Wallumbilla Liquefied Petroleum Gas plant and the recently opened Newcastle Gas Storage Facility (NGSF). These assets enhance AGL's flexibility in managing its gas portfolio.

Effective immediately these assets will be transferred to AGL's recently formed Group Operations function to deliver greater operational efficiency, productivity improvements and to leverage expertise from across AGL.

The NGSF was opened in June 2015. In FY16, NGSF will be progressively filled with 1.5 PJ of natural gas and, as planned, will be able to supply customer requirements for only a small portion of FY15. The facility is therefore expected to generate a pre-tax loss of around \$10 million in FY16 before generating a profit in the following year.

AGL also confirmed that it would not proceed with the proposed Camden Northern Expansion Project, which has been on hold since February 2013. The Camden Gas Project will continue its current operations focused on reducing production costs.

Assets to be divested include the Hunter Gas Project assets (PEL 4 and PEL 267) and associated agriculture activities. While there is significant coal seam gas in the Hunter Valley, the overlay of Critical Industry Clusters and the two kilometre setback result in this resource not being economic to develop. Other assets to be divested include PEL 2 (which includes the North Camden area), AGL's interests in the Cooper Oil Project (ATP 1056P), Spring Gully (ATP 592P) and the Moranbah assets. PELs 2, 4 and 267 will be sold as part of the NSW Government's PEL buy-back scheme.

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<sup>1</sup> Underlying Profit is the statutory net profit after tax adjusted for significant items and changes in the fair value of certain financial derivatives.



## **Gloucester Gas Project**

The Gloucester Gas Project will assist AGL to secure competitively priced gas for our NSW customers.

AGL has recently signed an agreement for the removal of flowback water to an approved treatment facility. This will enable AGL to conduct flow testing on the four Waukivory pilot wells over a period of approximately six months. Flow testing is an important step toward reaching a final investment decision (FID), now expected in 2016.

A detailed in-house review of the valuation of the project has been completed incorporating the effect of significant delays in production of first gas and the latest estimates of gas volumes, development costs and lower forward gas prices. The combined effect has been to lower the valuation of the project. In advance of all work being completed to allow FID and subject to audit, AGL expects to write down the value of the Gloucester Gas Project by approximately \$193 million after tax, which will be recognised as a significant item in the FY15 accounts.

## **Moranbah**

The Moranbah assets comprise AGL's 50% interest in the Moranbah Gas Project, back-in rights in the wider Bowen Basin (ATP 1103P) and the North Queensland Energy (NQE) business. NQE includes the Yabulu Power Station power purchase agreement (PPA) and associated gas supply agreement (GSA) and gas transportation agreement (GTA).

For the past 18 months, AGL has designated the Moranbah assets as "held for sale". In accordance with accounting standards, no depreciation charges associated with these assets have been brought to account over this period. To date, the sale process has not identified a buyer of the Moranbah assets. Consequently, with effect from 30 June 2015, AGL will de-designate the "held for sale" classification and reinstate depreciation charges. This change in designation arises as a result of relevant accounting standards. From a commercial viewpoint a sale process for the asset is ongoing.

Historically the Moranbah assets have been valued collectively. A review of the assets has concluded that the NQE business should now be valued separately to recognise that lower than expected gas volumes are not generating sufficient revenue to cover the fixed costs associated with the Yabulu PPA and associated GTA. Subject to audit, this is expected to result in an impairment charge totalling approximately \$237 million after tax to be recognised as a significant item in the FY15 accounts. This will comprise onerous contract provisions of \$262 million, the remaining book value of NQE of \$34 million and depreciation previously not recognised on the entire Moranbah project for the 18 months to 30 June 2015 of \$25 million less a tax effect benefit of \$84 million.

AGL's interest in ATP 1103 potentially has significant value but is recorded in AGL's accounts at a net value of nil. Accounting standards do not allow for a significant write-up of value in these circumstances.

In relation to the contribution of the Moranbah assets to AGL's underlying profit, the effect of reinstating annual depreciation charges in FY16 will be largely offset by the effect of the annual unwind of the onerous contract provision. Overall, the underlying profit contribution of Moranbah in both FY15 and FY16 is then expected to be similar.

## **Cooper Oil**

The sale of Cooper Oil is underway and expected to result in a loss on sale of approximately \$7 million to be recognised as an impairment charge, and will be included as a significant item in the FY15 accounts.

## Summary of Significant Items and Book Values

A summary of the expected FY15 significant items including the items in today's announcement is outlined in Table 1 below together with previously announced expected significant items. Calculations will be finalised as part of preparing the FY15 accounts. These figures have not been audited.

**Table 1: FY15 Significant items (expected)**

	Pre-tax \$m	PAT \$m
<b>Upstream Gas</b>		
Gloucester	(275)	(193)
Moranbah	(321)	(237)
Cooper Oil	(7)	(5)
<b>Sub-total</b>	<b>(603)</b>	<b>(435)</b>
<b>Previously announced</b>		
Restructuring costs	(30)	(21)
Macquarie stamp duty	(93)	(65)
Macquarie elimination of derivative contracts	(37)	(37)
Macquarie acquisition and integration costs	(33)	(24)
Carbon repeal	(12)	(8)
<b>Total</b>	<b>(808)</b>	<b>(590)</b>

Included in the FY15 results will be a restructuring charge of \$4 million as a consequence of the Upstream Gas review. This amount is contained within the estimated \$30 million of restructuring costs which has already been disclosed.

Following the impairment of assets, the expected effect on the net assets of key projects are outlined in Table 2 below.

**Table 2: Upstream Gas – Net assets of key gas projects (expected)**

	Net assets before provisions \$m	Provisions Pre-tax \$m	Net assets after provisions \$m
Moranbah	361	(321)	40
Gloucester	406	(275)	131
Total	767	(596)	171

## Outlook

AGL has reconfirmed that FY15 Underlying Profit is expected to be in the top half of the guidance range of \$575-\$635 million.

## Conference call

AGL will hold a conference call at 9.30am today to discuss the outcomes of the Upstream Gas review detailed in this announcement.

Questions will be taken following a short presentation.

## Dial-in details:

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### **About AGL**

AGL is one of Australia's leading integrated energy companies and is the largest ASX listed owner, operator and developer of renewable energy generation in the country. Drawing on over 175 years of experience, AGL operates retail and merchant energy businesses, power generation assets and an upstream gas portfolio. AGL has one of Australia's largest retail energy and dual fuel customer bases. AGL has a diverse power generation portfolio including base, peaking and intermediate generation plants, spread across traditional thermal generation as well as renewable sources including hydro, wind, landfill gas and biomass. AGL is taking action toward creating a sustainable energy future for investors, communities and customers.