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ASX statement

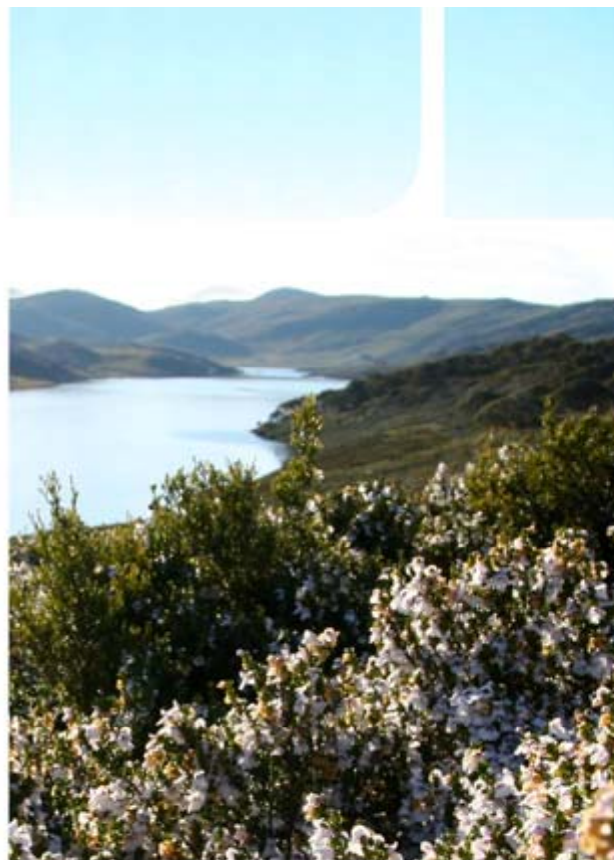
15 December 2010

Attached is a presentation relating to this afternoon's announcement on AGL's NSW organic growth strategy by Managing Director, Michael Fraser.



Paul McWilliams
Company Secretary





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NSW Electricity

Organic growth to deliver higher
shareholder returns

Michael Fraser, Managing Director & CEO
14 December 2010

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Agenda

- › **Strategic Rationale**
- › **NSW – Valuation Influences**
- › **AGL Market Position**
- › **Organic Growth Strategy**
- › **Summary**

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- › **NSW Electricity Strategy**
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Strategic Rationale



Investment Strategy

Any investment has to meet minimum Return on Funds Employed criteria

- › The NSW electricity privatisation provided an opportunity to acquire scale assets in NSW.
- › Benchmarked against organic growth utilising AGL's existing NSW market position and brand strength.

Retail Market

- › NSW electricity customer base ~400,000
- › NSW gas customer base ~700,000
- › Total across NEM of 3.2 million + ActewAGL 0.3 million



Generation

- › NSW generation capacity only 65 MW
- › Primary NSW portfolio requirement is peaking plant
- › Total AGL capacity 3,755 MW

NSW Development sites

- › Dalton 1,500 MW
- › Leaf's Gully 300 MW

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Disciplined Approach

All investments evaluated against minimum 12% IRR hurdle

- › AGL lodged bids for a number of assets and combinations
- › AGL provided with final opportunity to further increase bids
 - › Didn't represent better value for shareholders
- › AGL's bids were substantially below the successful bids
- › AGL's bids were benchmarked against organic growth

NSW - Valuation influences



Key factors influencing NSW valuation

Retail

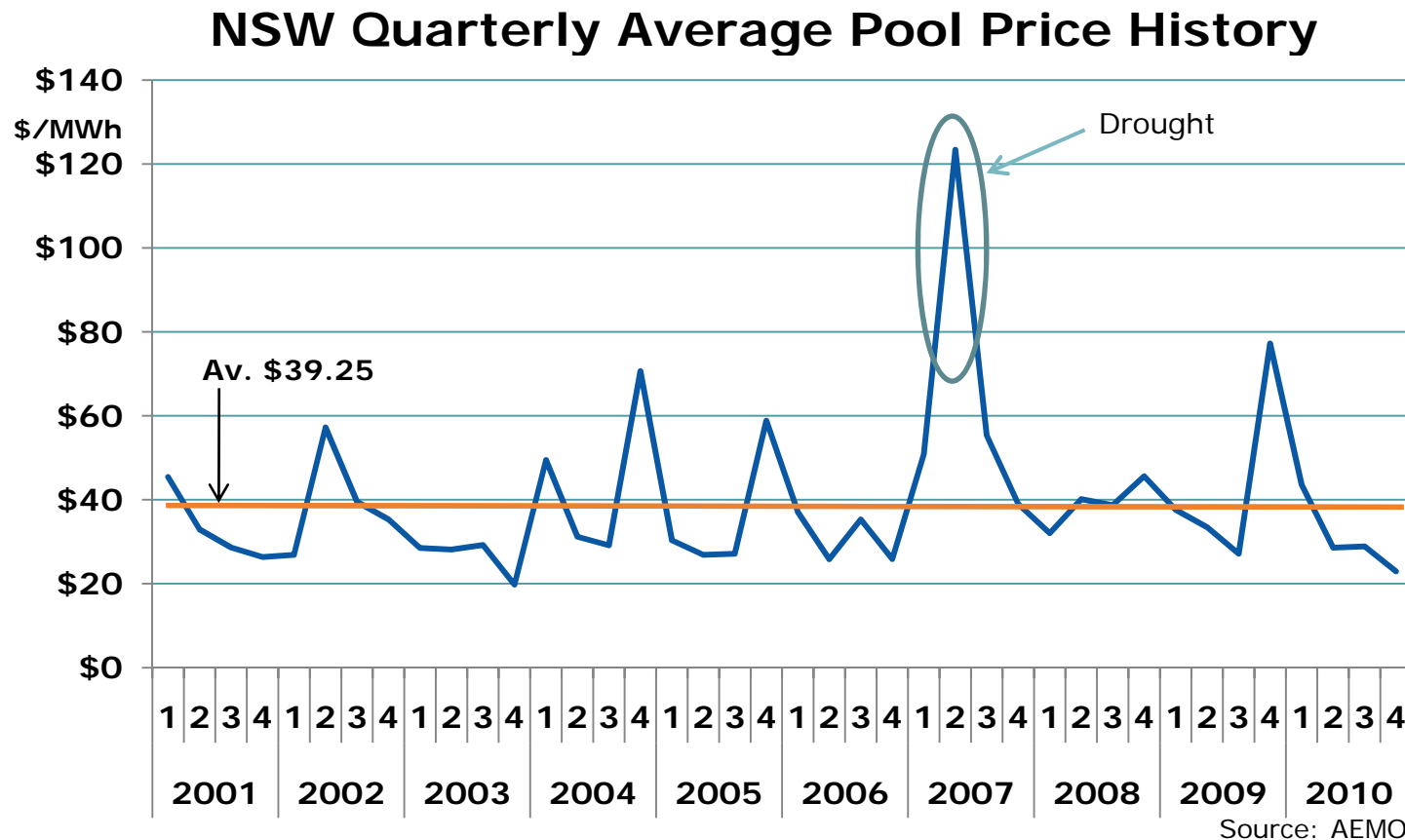
- › Transitional services agreement (TSA)
 - › Costs
 - › Capability and control
 - › Integration timeframes and complexity
- › Rate of market churn
- › Existing hedge books, PPA's
- › Future regulatory determinations

GenTrader

- › Outlook for base load electricity prices
- › Coal contracts – future price / certainty
- › Carbon pricing
- › On going fixed payment levels
- › Plant availability etc

GenTrader

Over last decade pool prices consistently averaged below \$40



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GenTrader

Influences on future base load electricity prices

Wind & other renewables

- › Increased penetration will negatively affect base load electricity prices
- › ~4,000 MW of wind expected to be completed in NSW over next 9 years
- › ~11,000 MW of wind across all NEM states over next 9 years

Domestic gas market

- › Oversupply to continue for some time and likely to suppress base load electricity prices

Coal

- › Cobarra coal mine development – risks around cost and timing
- › Export coal prices likely to see continued upward pressure on domestic coal prices

Carbon

- › Uncertainty around ability of GenTraders to pass through future carbon price increases

AGL's Market Position



New South Wales Market Brand Performance (June 2010)

Awareness
(Total Awareness) %



88



65



20

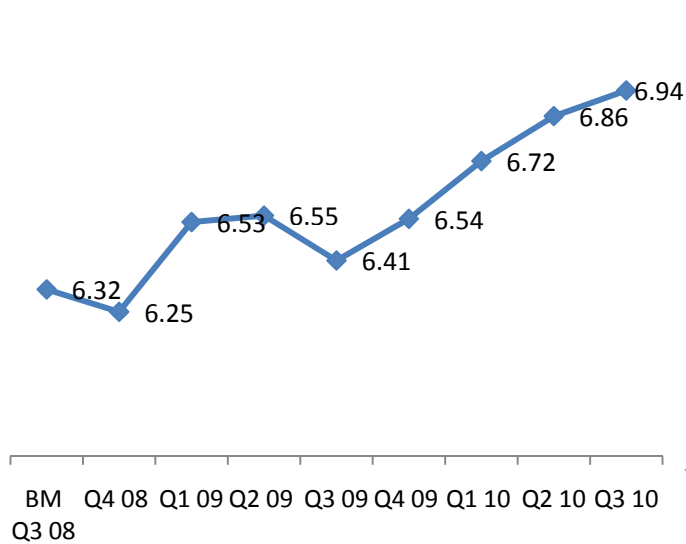
Source: AMR Interactive

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Strong improvement in 2010

Customer rating of AGL "Moments of Truth"



High impact Moments of Truth

Marketing Communications

- Direct mail
- Website
- Advertising and sponsorship

Inbound contacts

- Faults and repairs
- Billing enquiries
- Minor account amendments
- General product enquiries
- New connections

Key changes delivered via...

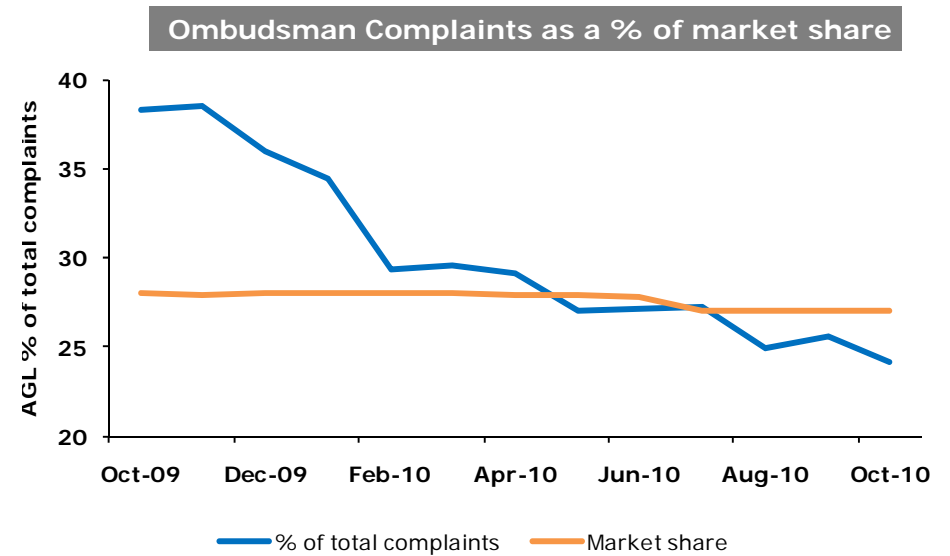
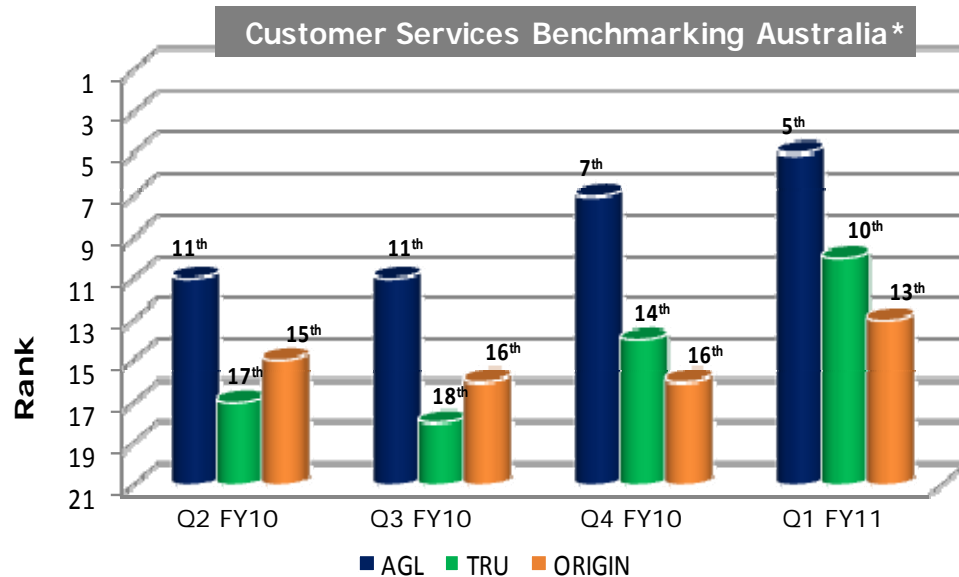
- More appealing, straight talking communications
- Website refresh and improvements
- Credibility of 'Doers' advertising
- Call centre improvements
- New bill

Source: AGL CATS Research

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Continued improvements in Customer Experience



* Source – Customer Services Benchmarking Australia Quarterly Reporting

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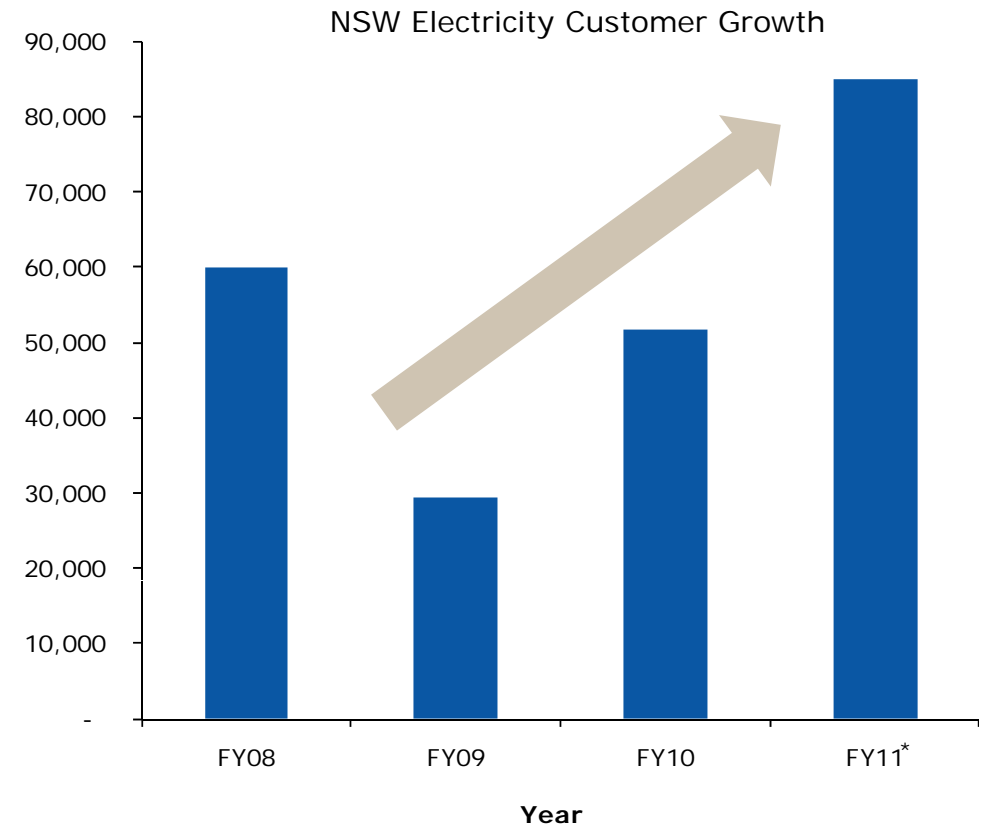
NSW Growth Strategy



NSW Retail: Customer Growth

400,000 to 500,000 additional customers over next 3 years

- › AGL has consistently grown NSW electricity customer numbers in recent years
- › Business as usual is on track to add 85,000 customers in FY11
- › Activity will now be accelerated rapidly to deliver up to 500,000 NSW electricity customer acquisitions over next 3 years



*FY11 projected upon 5 months actual data annualised

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NSW Retail: Customer Growth

Organic growth is significantly more valuable

- › NSW electricity privatisation sale price up to \$1,300 per customer
- › AGL's current customer acquisition cost is running at ~\$150
- › Acquisition costs can double and still deliver significantly higher shareholder value
- › 72% of Country Energy customers unaware they can use other electricity providers
- › AGL has stable customer management systems
 - › Service, Billing, Acquisition/Retention
 - › Business has "clear air" free of integration issues to concentrate on execution of plan

NSW Generation: Adding gas fired capacity

Final investment decision on Dalton expected in mid-2011

- › Permitting site for up to 1,500 MW
- › Initially capacity of 500-750 MW
- › Planning application lodged and initial construction tenders received
- › Attractive equipment pricing
- › Excellent location:
 - › Non-Contentious site owned by AGL
 - › On the grid (330kV transmission on site)
 - › Transgrid identified future project to upgrade to 500kV
 - › Moomba to Sydney gas line 3km South of site
 - › Leverage existing haulage arrangements

Newcastle Gas Storage Facility (GSF)

Significant potential investment in NSW market

- › LNG tank capacity 1.5 PJ
 - › Vaporisation rate 120 TJ/d (5 TJ/h)
- › Capex ~\$300m
- › Addresses gas infrastructure supply bottlenecks
- › Management of peak gas demand (daily and hourly):
 - › Peak supply during high demand
 - › Supports development of peaking power stations
 - › Short Term Trading Market (STTM)
 - › Emergency supply

Summary

Organic growth strategy in NSW will deliver superior returns

› Three initiatives to strengthen integrated strategy

➤ Acquire 400,000 to 500,000 mass market electricity customers in NSW

➤ Install 500 to 750 MW of generation capacity at Dalton

➤ Deliver Newcastle Gas Storage facility

Further Information / Contacts

A range of information on AGL Energy Limited including ASX & Media Releases, Presentations, Financial Results, Annual Reports and Sustainability Reports is available from our website:
www.agl.com.au

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