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ASX & Media Release

Review of gas assets and exit of gas exploration and production

4 February 2016

AGL Energy Limited (AGL) today announced that following a review, it has taken a strategic decision that exploration and production of natural gas assets will no longer be a core business for the company due to the volatility of commodity prices and long development lead times.

There is no change to AGL's commercial or retail gas activities. AGL is confident that it has sufficient gas for its residential and small business customers following the recent contract with the Gippsland Basin Joint Venture and the planned expansion of the Eastern Gas Pipeline. Incremental future gas requirements are likely to be sourced from the southern markets.

AGL expects to recognise an impairment charge of $640 million after tax ($795 million pre-tax) against the carrying value of its gas exploration and production assets including an increase in rehabilitation provisions. This charge will be recognised as a significant item in the financial results for the six months ended 31 December 2015. The impairment has minimal impact on FY16 Underlying profit.

The FY16 cash impact of this strategic decision, excluding potential sale of assets, is expected to be less than $10 million and relates to rehabilitation, redundancy and other associated costs.

The two major drivers of the impairment charge have been the fall in global oil prices with consequent effect on long-term Queensland gas prices and Waukivory Pilot well data indicating lower than expected production volumes for the Gloucester Gas Project.

Managing Director and CEO, Andy Vesey, said AGL would focus on its core competencies, transforming the business to capitalise on the evolution occurring in the energy sector and to meet its customers' rapidly changing needs and expectations.

Queensland

Primarily due to the fall in long-term Queensland price forecasts, AGL has impaired its Queensland natural gas assets at Moranbah, Silver Springs and Spring Gully. Apart from gas storage and related plant at Silver Springs, AGL expects to sell these assets. Due to difficult market conditions this may take some time. It is likely that the sale of Moranbah will require a cash payment in relation to onerous contract provisions previously booked.

New South Wales

In New South Wales, AGL will not proceed with the Gloucester Gas Project and will cease production at the Camden Gas Project in South West Sydney in 2023, twelve years earlier than previously proposed. Resulting impairments for both projects have included additional provisions ensuring rehabilitation costs have been appropriately provided for.

AGL has completed the business case for the Gloucester Gas Project which incorporated disappointing gas flow data from the Waukivory Pilot wells and economic modelling of the gas resource. Unfortunately, the economic returns to support the investment of approximately $1 billion were not adequate. Consequently, in the interest of our shareholders and customers, this is the most responsible course of action.

AGL will relinquish its Petroleum Exploration Licence for the Gloucester region (PEL 285) to the NSW Government and will now commence a comprehensive decommissioning and rehabilitation program for its well sites and other infrastructure in the Gloucester region.

"Exiting our gas assets in New South Wales has been a difficult decision for the company. AGL has invested significantly in these projects and communities over the past seven years for the Gloucester Gas Project, and ten years in the case of the Camden Gas Project.

"We are proud of the dedication and professionalism of our employees and contractors in their efforts to get to this point and our work to bring benefits to the communities in which we operate. We remain committed to leaving a positive legacy in these regions," said Mr Vesey.

AGL will establish a $2 million Independent Trust Fund and will work with the Gloucester community to identify investment options to deliver ongoing economic benefit to the region and its communities.

Without the Gloucester Gas Project, there are limited opportunities for scale and efficiencies across projects, so at Camden, AGL will extract gas from its existing wells enabling closure in 2023. The Camden site and wells will be progressively decommissioned and the sites rehabilitated.

Impairment summary

The carrying value assessment of the Group's assets will be finalised in conjunction with the interim financial results to be released on 10 February 2016, and is subject to final audit review.

The expected impairment by project and remaining book values are shown in the tables below.

Table 1. Impairment charge by Project

($m)	**Pre-tax**	**Post-tax**
Moranbah	375	338
Silver Springs	208	146
Spring Gully	14	14
Gloucester	166	119
Camden	32	23
Total Impairment Charges	**795**	**640**

Table 2. Net Asset Breakdown of combined Projects

($m)	31/12/2015	Net Assets Impairment	31/12/2015 (Adjusted)
Exploration & Evaluation	138	(138)	-
Oil and Gas	533	(495)	38
Property, Plant and Equipment	214	(112)	102
Total PP&E Book Value	**885**	**(745)**	**140**
Working capital	(22)	-	(22)
Inventories	8	(6)	2
Environmental provision	(61)	(44)	(105)
Onerous provision	(250)	-	(250)
Net Assets (excluding tax)	**560**	**(795)**	**(235)**

Conference call

AGL will host a conference call later this morning. Dial-in details for this call are shown below. Questions will be taken at the conclusion of the call.

Time: **9.30am (AEDT)**

Dial-in details: Toll Free (Australia): 1800 558 698 (quote "AGL")
International: +61 2 9007 3187 (quote "AGL")

Further inquiries:

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About AGL

AGL is one of Australia's leading integrated energy companies. It is taking action to responsibly reduce its greenhouse gas emissions while providing secure and affordable energy to its customers. Drawing on over 175 years of experience, AGL serves its customers throughout eastern Australia with meeting their energy requirements, including gas, electricity, solar PV and related products and services. 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, solar, landfill gas and biomass.