



asx & media release

February 19 2007

AGL announces the acquisition of Powerdirect

AGL Energy Limited (AGL) today announced it had successfully acquired Powerdirect Australia from the Queensland Government for \$1,200 million, another significant step in AGL's strategy of strengthening its national energy retailing presence and investing across all four corners of the energy supply chain.

The acquisition delivers AGL an additional 473,000 residential, small-to-medium enterprise (SME), and industrial and commercial accounts. With a combined load exceeding 19TWh (terawatt hours), Powerdirect is 20 per cent larger than the Sun Retail business sold by the Queensland Government last year and adds significantly to AGL's already impressive energy portfolio.

The acquisition of Powerdirect will deliver AGL four distinct businesses - a strong South-East Queensland retail franchise, a high growth national SME business, a large and diverse business servicing industrial and commercial customers as well as an established power generation business which includes biomass, building on AGL's growing renewable energy generation portfolio.

AGL Managing Director Paul Anthony said: "Each of these businesses is strategically important to our growth plans and fits well with AGL's integrated energy strategy of matching downstream retail requirements with upstream supply.

"The retail base is ideally suited as a growth platform in Australia's fastest growing energy market due to its proximity to major wholesale energy loads. The dispersed geographic location of Powerdirect's customer base provides a strong growth engine while also acting as a natural defence to competitors. We have accordingly valued the retail business at approximately \$1,300 per customer.

"The acquisition strengthens our growth profile and adds meaningful scale to our new national integrated customer support systems being developed through Project Phoenix. Our cost-to-serve will be driven down by the acquisition as fixed costs are spread over a larger customer base."

Transaction Highlights

- **Transaction price represents 9.8 times expected EBITDA in 2008/09**
- **Delivers AGL immediate scale in Australia's fastest growing energy market**
- **Enables additional synergy benefits through dual fuel capability**
- **Retains strong existing Powerdirect brand and sales channels in the SME segment**
- **Initially, the transaction is expected to have an immaterial effect on an adjusted earnings per share (EPS) basis**
- **The transaction will be funded via an \$882 million equity placement and the residual by existing debt facilities¹**
- **Standard & Poor's has confirmed AGL's BBB long term corporate credit rating and stable outlook**

¹ Equity placement amount is based on a bookbuild floor price of \$15.60 per share.

Strategic benefits of acquisition

Mr Anthony said: "The successful acquisition of Powerdirect accelerates the strategic build of AGL's core business and is another significant step forward in realising a national energy retailing presence.

"Powerdirect has a customer base consuming more electricity per household on average than other NEM States and when combined with the recent Sun Gas acquisition provides AGL the platform to offer dual fuel capabilities in Australia's fastest growing NEM market," he said.

"Through strategic marketing and entrepreneurial management, the SME business has developed a strong national presence and offers AGL an exciting opportunity to grow its customer base in this market on a national scale."

Mr Anthony said the commercial and industrial business acquired through the transaction had approximately double the load of the equivalent business in Sun Retail sold by the Queensland Government last November and, combined with retail and SME customers, represented circa 88 per cent of AGL's existing customer load.

"AGL is also acquiring a modest but strong footprint in the growing sector of biomass generation through four producing generation plants, two of which are fired by renewable energy," he added.

"These power generation assets give AGL access to important technologies and enhance our portfolio of renewable generation assets. Our strengthening renewable generation platform will help mitigate against any potential future carbon impost. These assets also fit with AGL's plans to develop further generating facilities in the region such as our existing power generation proposals at Townsville and Mount Isa."

Financial details

Discussing the funding and financial impact, Mr Anthony said the acquisition is expected to initially be dilutive on a reported EPS basis largely due to substantial non-cash amortisation charges as a result of acquisition accounting under AIFRS. Adjusting for significant non-recurring items and these non-cash amortisation charges, the transaction is expected to have an immaterial impact on adjusted EPS.

AGL has today announced plans for an equity placement to institutional investors to raise a minimum of \$882 million² to help fund the acquisition of Powerdirect. AGL has requested a trading halt of two days to allow completion of the bookbuild for the placement. Following completion of the bookbuild, a prospectus will be lodged with the Australian Securities & Investments Commission on Wednesday February 21. The placement is fully underwritten by Goldman Sachs JBWere, JP Morgan and UBS.

There will be no general public or shareholder entitlement offer. However, following completion of the placement, AGL intends to implement a Share Purchase Plan (SPP) to allow eligible shareholders to subscribe for up to \$5,000 of shares at the same price as shares are issued under the placement subject to a maximum total raising of \$75 million under the SPP. Further details of the SPP will be provided to shareholders shortly.

Standard & Poor's has confirmed AGL's BBB long term corporate credit rating and stable outlook, following the acquisition of Powerdirect.

Business Integration

Mr Anthony said "AGL has successfully acquired and integrated more retail energy businesses than any other Australian retailer and has a detailed integration plan to undertake the transition of Powerdirect into private ownership.

"We will work closely with Ergon, Powerdirect's existing management and transition service provider Energex to ensure a smooth transition and minimise any disruptions, maintaining current high

² Equity placement amount is based on a bookbuild floor price of \$15.60 per share.

service levels for customers. The integration of the Sun Gas business, acquired in February 2007, into AGL's national retail energy platform is currently progressing well."

AGL expects there will be significant competition among energy retailers following the commencement of full retail competition in the Queensland market from July 1. The company has undertaken considerable planning to develop strategies for customer retention and is confident of maintaining market share.

In closing, Mr Anthony said: "This Powerdirect acquisition cements AGL's position as the pre-eminent retailer of choice in Australia and enhances our position as a truly integrated energy company of scale and financial strength."

UBS acted as financial adviser to AGL on the acquisition.

AGL/Origin merger of equals update

AGL remains committed to the proposed nil-premium merger of equals with Origin Energy. AGL believes that the unique combination of benefits which flow from such a merger would be material and is only achievable for both companies' shareholders through the merger.

Mr Anthony said "The business case for a merger is compelling, with the benefits widely recognised by the market.

"The successful acquisition of Powerdirect enhances the opportunities for shareholders, providing the combined group greater flexibility in structuring any combined, national retail company which may be part of a solution for meeting competition requirements in the future," Mr Anthony concluded.

Given the status of discussions, a range of outcomes is possible and there is no certainty that these discussions will result in an agreed merger of equals.

Further enquiries:

Media

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Please note the following arrangements to discuss the Powerdirect acquisition, provide an update on the AGL/Origin merger discussions and present AGL's 2007 interim profit result.

Analyst webcast (www.agl.com.au) and conference call:

10.15am AEST

Dial-in numbers:

Freecall Australia: 1800 268 195

International: +61 2 9696 0770

#Please note only analysts will be able to ask questions during this presentation. An archived version of the webcast will be available on the AGL website following the close of business today.

Media teleconference

12.15pm AEST

Dial-in number

Freecall Australia: 1800 268 165

About Powerdirect

Powerdirect operates in four distinct business sectors: retail, small contestable, commercial/industrial and power generation.

Retail – Powerdirect has a total of 431,800 franchise residential, rural and SME customer accounts in Queensland and contestable residential accounts in other states. The majority of customers are located in South East Queensland containing several growth corridors particularly along the Bruce Highway to Caboolture, Maroochydore and Caloundra.

All of Powerdirect's Queensland franchise customers are currently on regulated tariffs and are scheduled to become contestable with the introduction of full retail competition on July 1 2007, as will the Sun Retail franchise customers recently acquired by Origin Energy. Powerdirect's franchise customers are less geographically concentrated relative to those in the Sun Retail franchise area and are likely to be less vulnerable to churn.

Small contestable – with 37,800 accounts in NSW, South Australia and Victoria, Powerdirect has developed a highly successful business model to provide business customers with tailored products and service levels best suited to their requirements. Powerdirect has achieved rapid growth since commencing operation in this sector in 2003.

With the commencement of full retail competition in Queensland in July, all small business customers in South East Queensland will be fully contestable. The Powerdirect small business operation is ideally suited to compete aggressively in this market and grow its market share.

Industrial/commercial – Powerdirect is a major provider to the industrial and commercial sector, with over 3,600 customers in Queensland, NSW, South Australia and Victoria. Accounting for approximately 14.4TWh per annum, Powerdirect's industrial and commercial load is approximately double the equivalent industrial/commercial load in Sun Retail.

This sector is a significant contributor to the value of the Powerdirect business, providing a markedly different load shape to that of residential and SME customers and enabling cost effective risk management of the wholesale energy portfolio. When added to AGL's existing load, the combined wholesale portfolio will be in excess of 40TWh per annum across the entire NEM and will offer multiple opportunities to extract significant portfolio benefits.

Power generation –the Powerdirect generation business has 43MW of installed capacity and includes two biomass fuelled plants utilising bagasse from sugar cane produced at the Isis mill in Childers and nut shells from the Suncoast Gold macadamia operation near Gympie.

Powerdirect's expertise in biomass generation in particular provides a strong base for the expansion of AGL's fleet of renewable energy power generation assets in the Queensland market.

Location of Powerdirect retail customers

