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asx & media release

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AGL secures cornerstone investment in QGC

AGL Energy Limited (AGL) today announced it had reached agreement with Queensland Gas Company Limited (QGC) to take a cornerstone investment of 27.5 per cent for up to \$292 million. As part of the transaction AGL will also enter into a 540 petajoule (PJ), 20-year Gas Supply Agreement (GSA) with QGC.

AGL Managing Director Paul Anthony, said: "This is a very significant and mutually beneficial transaction for both AGL and QGC. For AGL, we again deliver against our integrated strategy by taking an equity stake in a producing gas reserve while also securing a long term, very competitively priced GSA on market leading terms. For QGC, it secures a sizeable capital injection to rapidly develop and commercialise its substantial resource base while adding a cornerstone shareholder with a pre-eminent channel to market and considerable gas development and marketing skills."

Transaction Highlights

- **Very attractive NPV outcome and excellent high teen equity return**
- **Initially delivers AGL a 27.5 per cent ownership stake in QGC via placement to AGL at \$1.44 per share, for a cash outlay of up to \$292 million**
- **AGL secures 540 PJ, 20-year, GSA with additional 200 PJ option, below the current average price of AGL's wholesale gas portfolio**
- **Delivers further diversity, flexibility and price stability to AGL's wholesale gas portfolio on favourable terms and conditions**
- **Delivers AGL a \$22.5 million (total) gas market development services fee payable by QGC over three years**
- **QGC to undertake an off-market share buy-back at \$1.44 per share for up to 12.5 per cent of the enlarged share capital post-AGL share issue**
- **AGL's ownership not to exceed 30 per cent after share buy-back with AGL to sell into the buy-back to the extent necessary to achieve that outcome**
- **AGL entitled to appoint three out of nine directors to the QGC board**
- **Transaction is subject to QGC shareholder approval**

Strategic Rationale

The transaction represents a further deployment of the AGL integrated "four corners" strategy by delivering a competitively priced equity stake in a proven and producing upstream gas reserve. AGL will continue to focus on developing a portfolio of similar stakes in proven, producing gas reserves where it can leverage off the operational expertise of various operators by adding its own leading channel to market and energy market development capabilities.

"As well as delivering our wholesale energy portfolio further fuel diversity, price competitiveness, stability and longevity of gas supply, this transaction is also a perfect fit with our recent acquisition of Sun Gas which has 70,800 customers in south-east Queensland representing approximately 50 per cent of Queensland's mass market customer base," Mr Anthony added.

Mr Anthony said that QGC's assets, which are based around the Surat Basin, also complemented AGL's recently acquired half-share in the Moranbah Gas Project based around the Bowen Basin.

"This provides a useful additional resource diversification for AGL centred around two truly world class coal seam methane (CSM) basins," he said.

Gas Supply Agreement and Gas Market Development Services Agreement

As part of the transaction, AGL has also secured a market leading GSA and a Gas Market Development Services Agreement (GMDSA).

The 540 PJ, 20-year GSA (scheduled to commence in 2008) and an additional 200 PJ optional volume are on pricing terms below AGL's current average gas portfolio price. The GSA offers flexible terms for delivery point, load factor and annual contract quantities that increase over time as production increases at QGC's gas fields and supplies from AGL's existing contracts decline. The additional 200 PJ call option to AGL also delivers considerable flexibility allowing for the volume to be exercised in two tranches of up to 100 PJ each. The security of arrangement is also enhanced by the requirement for QGC to allocate any additional reserves against this option.

"The GSA has been struck on market leading terms with attractive features compared to our existing portfolio of gas supply contracts. It also delivers additional portfolio security and longevity of gas supply as our existing contracts mature," Mr Anthony added.

AGL will also enter into a three-year GMDSA with a total fee payable by QGC of \$22.5 million phased over the initial three years whereby AGL will provide market development services to QGC and grant QGC access to its unutilised pipeline capacity.

Financial & Funding Details

On a stand-alone basis, the transaction is forecast to be mildly earnings per share (EPS) decreative by around 1 cent per share (on average) over the initial three-year period commencing in financial year 2008. This guidance does not however include any positive upside to AGL's investment return from potential gas market development contract opportunities to QGC or AGL's opportunity to gain further market share from securing the 540 PJ GSA and 200 PJ option on terms that improve the competitiveness of AGL's overall wholesale gas portfolio.

"AGL achieves significant strategic and financial benefits from securing the competitively priced and flexible GSA which will allow us to leverage our sizeable channel to market on the back of QGC rapidly developing their reserves following our investment," Mr Anthony said.

"It's very much a win-win for both parties. By keeping QGC listed, all their shareholders can benefit from the longer term financial outcomes of this agreement and AGL will also share in the value of any additional reserves which are in excess of the volumes required to meet QGC's existing contractual agreements and the new AGL GSA," Mr Anthony added.

The transaction will result in no change to either AGL's prior 2007 financial year earnings guidance of \$0.798 EPS or medium term earnings guidance of 15 per cent EPS growth.

AGL intends to fund the acquisition by way of a hybrid capital market instrument¹, currently anticipated to be issued in the first quarter of calendar year 2007. AGL will structure the raising to ensure it preserves its current investment grade credit rating of BBB (Standard & Poor's).

¹ Could be in the form of either a debt or equity hybrid, full details will be disclosed no later than with the release of the AGL 2007 interim result in February 2007

Transaction Timing

The investment by AGL is subject to QGC shareholder approval at a QGC extraordinary general meeting expected to be held in February 2007. Under a separate agreement, QGC will also be seeking approval from its three per cent shareholder and joint venture partner, Sentient Gas, to convert its joint venture interests into additional QGC shares. Both transactions are fully supported by the QGC board of directors.

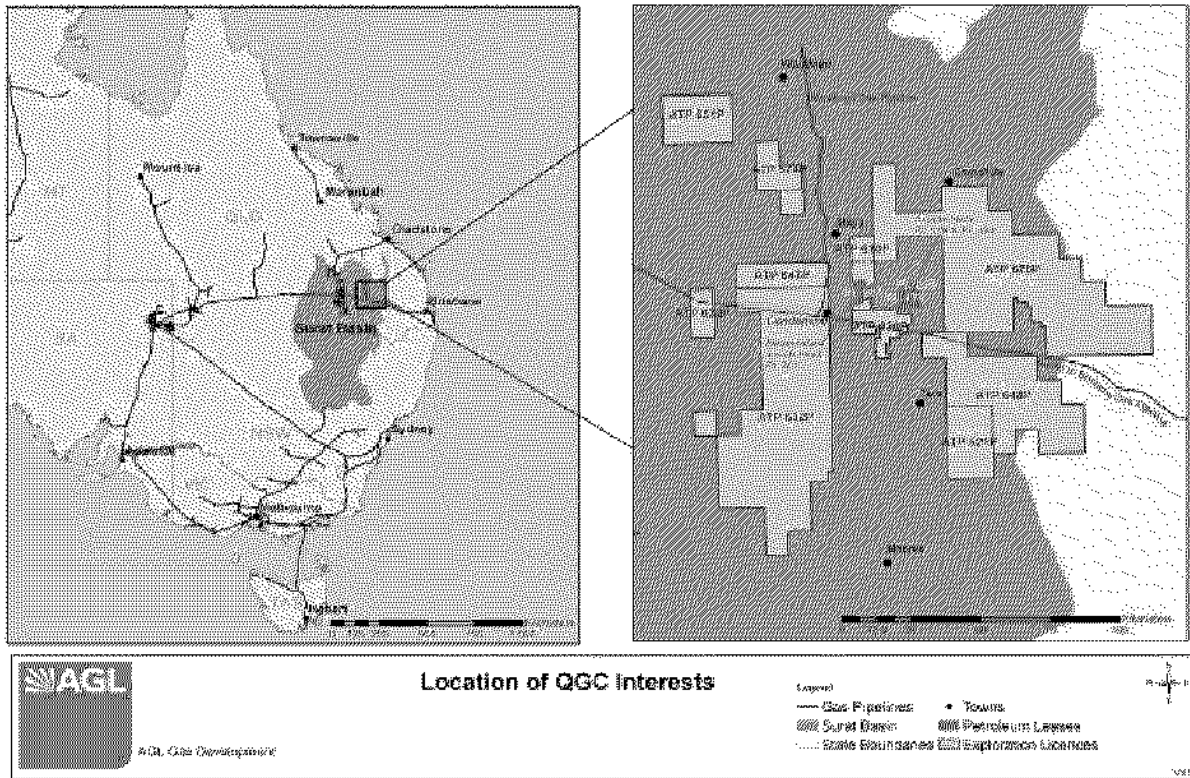
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ACQUISITION FACT SHEET

Reserves

- On 8 November 2006, QGC reported its share of certified CSM reserves had substantially increased from levels announced in February 2006. Proved (1P) reserves increased 55 per cent to 228 PJ and 2P reserves increased 64 per cent to 695.3 PJ. Proved plus probable plus possible (3P) reserves increased to 2,555.97 PJ
- On 1 December 2006, the independent gas expert Netherland Sewell & Associates Inc provided economic certification of QGC's reserve upgrades.
- Following the Sentient Gas transaction announced today, QGC's share of 1P reserves will increase by 8 per cent to 245.6 PJ, 2P reserves will increase by 7 per cent to 741.2 PJ and 3P reserves will increase by 8 per cent to 2,755.3 PJ.

AGL GSA and sales volumes

- If the transaction is approved by QGC shareholders in early 2007, sales under the AGL GSA would commence on 1 January 2008 and terminate at the end of 2027.
- The majority of the GSA's gas would be intended for sales into AGL's recently acquired Sun Gas portfolio in Queensland, but could also provide a competitively priced supply into AGL's southern markets and/or secure other Queensland markets of interest such as Mt Isa.
- In addition to the GSA volume, AGL has the option to call on two tranches for up to 100 PJ on similar terms to the GSA. Each tranche is for up to 5 PJ per annum for up to 20 years.
- After factoring in the GSA and option volumes, AGL still anticipates requiring additional gas supplies in the medium to long term. This requirement could be supplied by PNG gas if that project proceeds.

QGC's interests

- At the moment 100 per cent of QGC's CSM production interests are located on the Berwyndale South CSM field. QGC has a 100 per cent interest in the field and associated gas sales contracts. This anticipates that Sentient Gas will convert its 10 per cent interest in Berwyndale South and 10 per cent interest in CS Energy and Braemar contracted gas sales into an additional 10 per cent QGC shareholding.
- QGC is also developing the nearby Argyle CSM field to be linked to Berwyndale South, with contract sales due to commence in mid 2007. QGC has a 59.375 per cent JV interest in the field and is operator. Origin Energy holds the remaining 40.625 per cent JV interest.
- In addition to Berwyndale South and Argyle, QGC holds approximately 60-70 per cent interests in the Bellevue and Kenya East CSM fields.
- The company also holds exploration JV interests across a number of Surat Basin ATPs.