



ASX and Media release

9 July 2008

AGL enters into Geothermal Alliance with Torrens Energy

AGL Energy Limited (AGL) announced today that it will acquire a 9.99% cornerstone investment in Torrens Energy Limited (TEY) by way of a share placement at \$0.40 per share for a cash outlay of \$2.2 million. AGL and TEY have also entered into a Geothermal Alliance Agreement (GAA) to commercialise base load geothermal projects close to the National Electricity Market (NEM). The alliance combines TEY's geothermal exploration capabilities with AGL's energy market development experience. TEY will be responsible for carrying out the exploration activities and provide AGL with the option to farm-in to TEY's Geothermal Exploration Licences (GEL) at permit and project level.

AGL Managing Director Michael Fraser said "Geothermal energy is an emerging renewable technology that will complement AGL's existing pipeline of renewable energy projects in wind and hydro. This is an opportunity for AGL to participate in the development of this new industry".

AGL will have significant long-term obligations under the Mandatory Renewable Energy Target Scheme (MRET), which the Federal Government intends to substantially expand by 2020. If successful, geothermal energy could play an important role in meeting AGL's longer term renewable energy obligations and provides further technology diversification to AGL's position as Australia's largest integrated renewable energy company. The GAA prescribes the terms and conditions for AGL's entry into a 50/50 joint venture aimed at commercialising geothermal energy. The GAA gives AGL the option to participate in a number of base load renewable energy projects close to the NEM.

A recent opinion from an independent geothermal consultant supports expectations that heat flow values from TEY's permit areas are comparable to those recorded in the Cooper Basin. TEY's permit areas have the added advantage of being located in close proximity to established electricity transmission infrastructure, which should provide cost advantages in commercially exploiting TEY's geothermal resources.

Further enquires:

Media

Nathan Vass Senior Adviser Media
Direct: + 61 2 9921 2264
Mobile: + 61 (0) 0405040 133
e-mail: nvass@agl.com.au

Analysts & Investors

Graeme Thompson, Head of Investor Relations
Direct: + 61 2 9921 2789
Mobile: + 61 (0) 412 020 711
e-mail: gthompson@agl.com.au



About AGL

AGL is one of Australia's leading integrated energy companies and is taking action toward creating a sustainable energy future for our investors, communities and customers. Drawing on over 170 years of experience, AGL operates retail and merchant energy businesses, power generation assets and an upstream gas portfolio. AGL has Australia's largest retail energy and dual fuel customer base. 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 Australia's largest private owner and operator of renewable energy assets and is looking to further expand this position by exploring a suite of low emission and renewable energy generation development opportunities.

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AGL is taking action toward creating a sustainable energy future for our investors, communities and customers. Key actions are:

- > Being selected as a member of the Dow Jones Sustainability Index 2006/07
- > Gaining accreditation under the National GreenPower Accreditation Program for AGL Green Energy®, AGL Green Living® and AGL Green Spirit
- > Being selected as a constituent of the FTSE4Good Index Series

Geothermal Investment Fact Sheet

Investment Structure

Components of Torrens Energy Limited (TEY) transaction:

1. Subscription agreement to acquire a 9.99% equity stake in TEY (5.5 million shares) valued at \$0.40 per share with a cash cost to AGL of \$2.2m. AGL intends to maintain its equity share in TEY at approximately 9.99% by participating in TEY's future equity raisings.
2. Geothermal Alliance Agreement (GAA), detailing conditions for entering into a 50/50 Joint Venture (JV) for the purpose of commercialising geothermal energy on a project-by-project basis. AGL will earn a 50% interest in future projects under the following conditions:
 - TEY must sole fund the upfront exploration and geothermal assessment of a project and identify a location for drilling the first deep well to approximately 4,000 metres (Confirmation Well); and
 - AGL may elect to sole fund drilling the initial Confirmation Well. Following completion of the Confirmation Well, AGL will earn a 50% interest in the project and Geothermal Exploration Licence (GEL) permit and AGL and TEY will form a 50/50 JV for that project.

The other key terms of the GAA:

- AGL will operate the drilling of the Confirmation Well and be responsible for contracting a suitable drilling rig;
- AGL will have a right to participate in all of TEY's current and future geothermal projects in Australia which are located within the NEM (SA, VIC, TAS, NSW and QLD);
- Once a JV is formed all future costs will be borne on a 50/50 participating interest basis;
- AGL will have the right to purchase all geothermal energy at market rates from all geothermal projects covered by the GAA;
- AGL will manage the construction of the associated power generation infrastructure; and
- AGL has the option to provide operating and maintenance services to the projects.

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Indicative project expenditure

AGL's share of future costs will be staged over the appraisal, pilot testing and full commercialisation stages. Indicative capital expenditure during the 2009 financial year is approximately \$10 million, which excludes the initial \$2.2million equity investment stake in TEY). Future capital expenditure will be disclosed during the relevant financial periods.

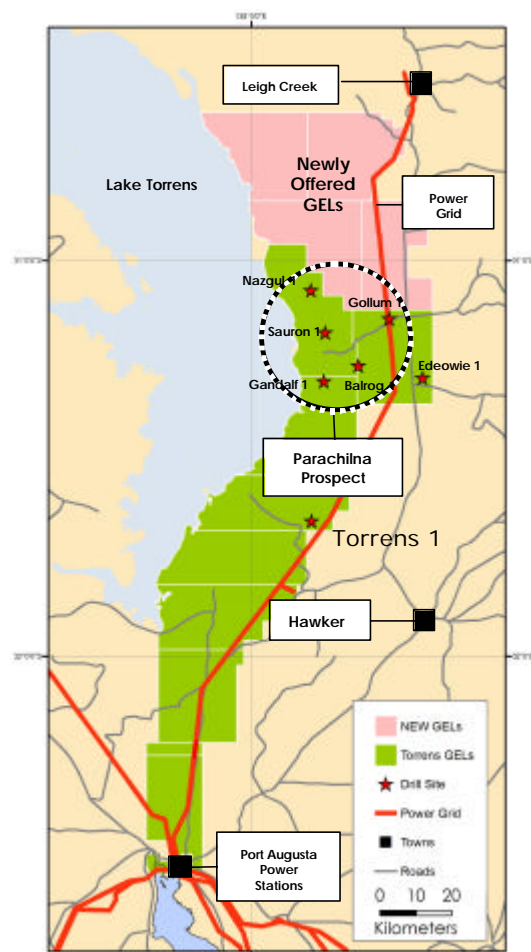
TEY has recently acquired GELs 407-410, north of Parachilna Prospect north of Port Augusta South Australia (right).

TEY's current landholding stands at 21 licenses, for a total of around 9,800 km², the largest landholding in South Australia.

Exploration drilling completed by TEY in early 2008 in the Parachilna Prospect area discovered high heat flow (see table 1) indicating that the heat producing basement exists below the anomalous zone which is open to the north.

Modelled temperatures from Parachilna have now been incorporated into the new Austherm04 image (see Figure 1). The newly offered GELs 407-410 are in the heart of this major anomaly. Heat flow values are comparable to those recorded in the Cooper Basin.

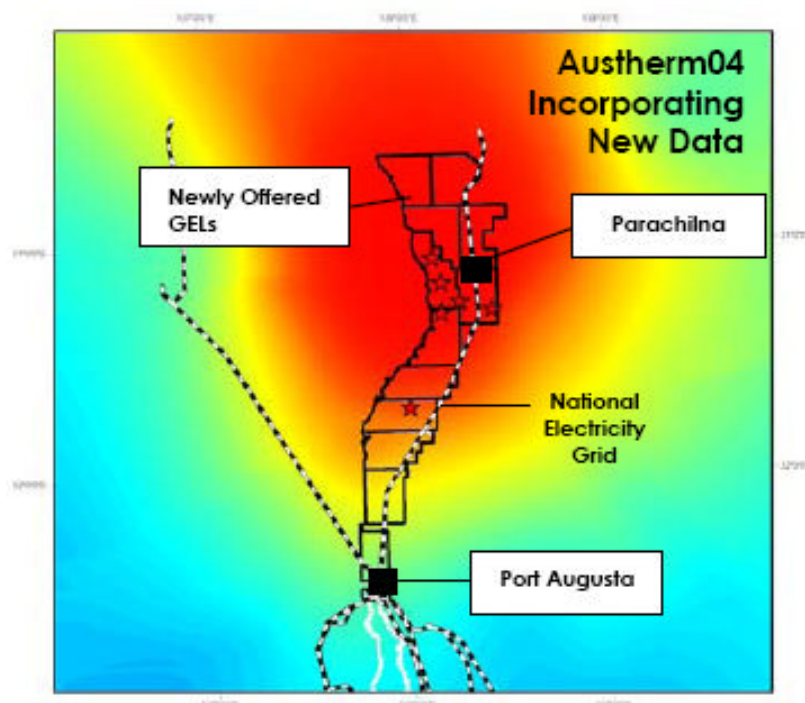
Temperature modelling shows that temperatures of over 200°C are achievable at approximately 4000m depth across a large area, which is well within the range required for "hot rock" base-load electricity generation.



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Figure 1: Austherm04 Heat Imaging



Source: Torrens Energy Limited

The heat flow modelling table supplied below by TEY has been independently verified by Hot Dry Rocks Pty Ltd in May 2008.

Table 1: Heat and Temperature Modelling done by TEY at Parachilna

Hole Name	Northing*	Easting*	Hole Depth	Heat flow	T @ 5000m***
Nazgul 1	6,558,636	228,175	600m	106 mW/m ²	260°C ± 6°C
Sauron 1	6,546,894	231,051	375m	106 mW/m ²	258°C ± 6°C
Balrog 1	6,537,810	240,075	507m	95 mW/m²	234°C ± 5°C
Gollum 1	6,551,120	247,129	501m	90 mW/m ²	222°C ± 5°C
Gandalf 1	6,533,218	231,885	585m	85 mW/m²	206°C ± 5°C
Torrens 1**	6,488,846	221,583	760m	82 mW/m ²	180°C ± 10°C
Edeowie 1	6,534,753	255,505	759m	70 mW/m ²	160°C ± 5°C

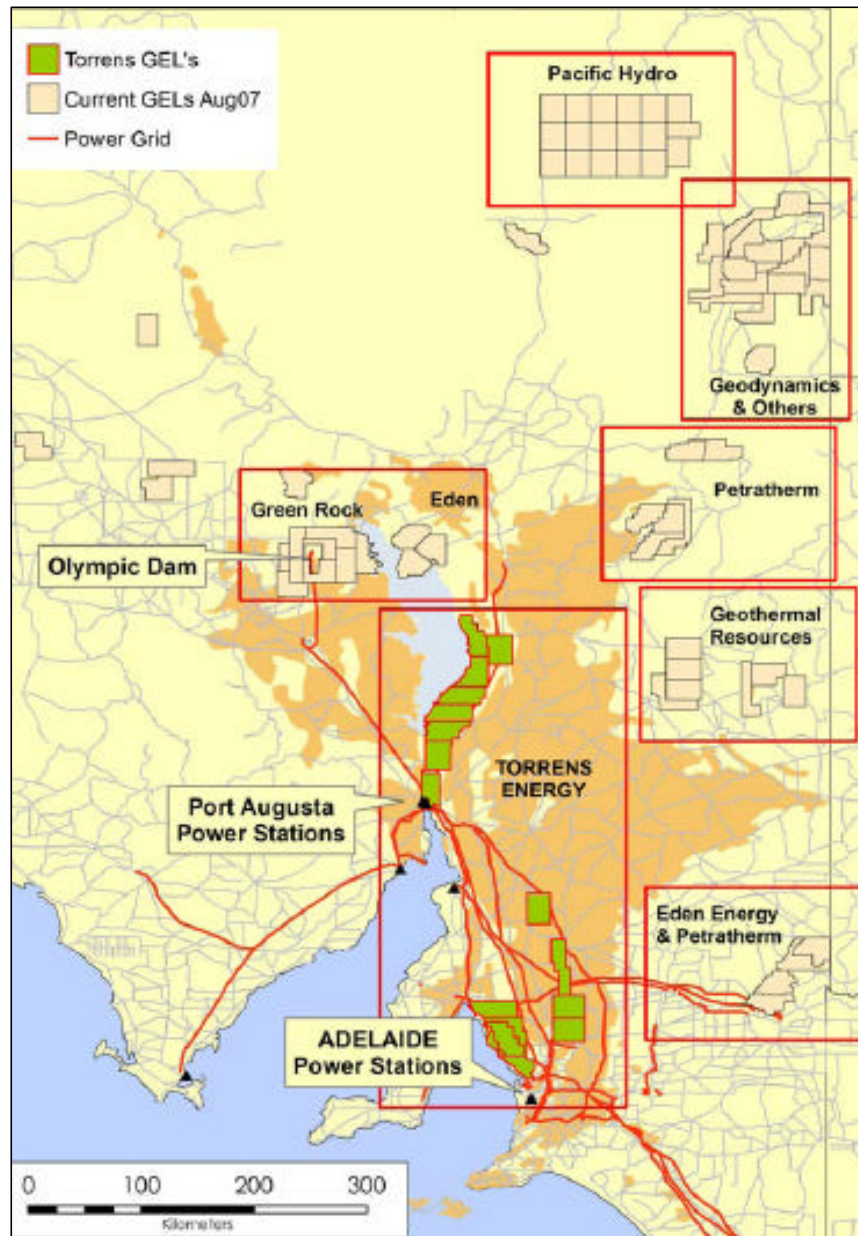
*Coordinates are in the GDA 94 Datum, using the UTM (Zone 54) projection. **Torrens 1 was measured shortly after drilling and is therefore not equilibrated. ***Estimated temperatures at 5000m depth are modelled from near-surface heat flow data collected from drilling, and measured or assigned thermal conductivities, with geological profiles taken from existing mapping and modelling, potential field modelling and current drilling data.

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Figure 2 below illustrates the location of TEY's GELs being located in close proximity to the existing electricity transmission grid in South Australia by comparison to other geothermal permit holders.

Figure 2: Geothermal Exploration Licenses in South Australia



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