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ASX and Media release

AGL announces upgrade to FY2009 profit guidance

18 December 2008

AGL Energy Limited (AGL) today announced an increase in its forecast FY2009 underlying net profit after tax (NPAT) following the sale of its shares in Queensland Gas Company Limited (QGC) and its oil and gas interests in Papua New Guinea (PNG).

AGL's revised NPAT guidance for FY2009 has increased by $10 million, resulting in a range of $370 million to $400 million. AGL's previous guidance to the market was NPAT of $360 million to $390 million.

At its 2008 Annual General Meeting, AGL advised that, following completion of the PNG sale process, it would update FY2009 EBITDA (earnings before interest, tax, depreciation and amortisation) guidance.

The revised FY2009 EBITDA guidance is $775 million to $820 million. This EBITDA range is consistent with the previous range of $870 million to $915 million after adjusting for the reduced contributions from PNG, QGC and Elgas as a consequence of the sales of these assets during FY2009.

Detailed analysis and reconciliations of the forecast results for NPAT and EBITDA are available in the fact sheet accompanying this release.

AGL Managing Director Michael Fraser said the underlying business was performing well.

"It's pleasing that despite the difficult economic conditions, we have been able to deliver on our strategy of divesting non-core assets to strengthen our balance sheet and leave us sufficiently confident to increase our FY2009 earnings guidance," Mr Fraser said .

"Following completion of AGL's $3.2 billion non-core asset divestment program, the ratings agency Standard & Poor's affirmed AGL's 'BBB' long-term credit rating and revised the rating outlook to stable from negative in November. After completion of yesterday's purchase of the Gloucester basin coal seam assets, AGL will still have no net debt. In fact, we have surplus cash investments of approximately $100 million."

AGL is currently scheduled to release its results for the six month period ending 31 December 2008 on 25 February 2009.

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Fact Sheet.

FY2009 Financial Outlook Update

This fact sheet provides further details of AGL's revised FY2009 NPAT and EBITDA guidance following completion of the non-core asset sale program.

1.1. FY2009 updated underlying NPAT guidance

At its 2008 AGM, AGL stated that FY2009 NPAT would be in the range of $360m to $390m, regardless of the outcome of the PNG sale process, because the reduction in profit contribution from PNG following any sale was approximately equivalent to the lower interest expense from repaying debt and/or investing surplus funds from the sales proceeds.

AGL now advises that FY2009 underlying NPAT is expected to be in the range of $370m to $400m. The increased guidance range results from lower interest expense following the sale of QGC offset in part by the funding of Gloucester basin coal seam gas assets ("Gloucester"), lower PNG liftings and lower QGC equity accounted profits;

› Lower net interest expense (positive benefit) of approximately $20m after tax:
  » Reduction in after tax interest expense driven primarily by the sale of QGC.
  » Increased after tax interest expense from purchasing Gloucester.

› Lower PNG lifting and QGC equity accounted profits of approximately ($10.0m) after tax:
  » In previous NPAT guidance, AGL had assumed a full six months contribution from PNG. The closing of the transaction on 18 December 2008 results in a forecasted oil lifting for late December no longer contributing to after tax profit.
  » Following the sale of its investment in QGC, AGL will no longer equity account for its share of QGC profit.

1.2. FY2009 updated EBITDA guidance

At its 2008 AGM, AGL announced it would not provide FY2009 EBITDA guidance until after the outcome of the PNG sales process was known. Updated FY2009 EBITDA guidance range of $775m to $820m is now provided (previously $870m to $915m). Given the sale of PNG, QGC and Elgas, this updated guidance range only includes EBITDA from these assets/investments until they were sold. Previous EBITDA guidance assumed a full year contribution. The following table reconciles updated EBITDA guidance to previous market guidance by adjusting for the previously forecast EBITDA contribution between respective sale dates and 30 June 2009:

Previous EBITDA guidance	**$870m**	**to**	**$915m**
Reduced EBITDA due to part year contribution:			
PNG		($85m)	
QGC		($5m)	
Elgas		($5m)	
Updated EBITDA guidance	**$775m**		**$820m**

1.3. Dividend Policy & FY2009 Forecast Dividend

AGL's existing dividend policy is maintained (payout ratio of approximately 60% of underlying NPAT, fully franked subject to capital requirements).

It is currently anticipated the DRP will be in operation for the upcoming FY2009 interim dividend.

1.4. Divested Non-Core Assets – Historical Contributions

Asset / Effective Sale Date / Gross Proceeds		FY2007 Actual $m	FY2008 Actual $m	FY2009 Forecast $m
Alinta AGL/ 12 December 07/ ~$520m	EBITDA EBIT	13.1 13.1	13.6 13.6	n/a n/a
Gas Valpo/ 01 May 08/ ~$82m	EBITDA EBIT	20.6 14.7	18.3 13.5	n/a n/a
NQGP/ 31 July 08/ ~$103m	EBITDA EBIT	n/a n/a	7.2 7.2	0.8 0.75
Elgas/ 02 October 08/ ~$221m	EBITDA EBIT	13.2 13.2	15.6 15.6	10.6 10.6
QGC/ 05 November 08/ ~$1.2bn	EBITDA EBIT	.85 .85	6.8 6.8	2.6 2.6
PNG/ 30 September 08/ ~$1.1bn	EBITDA EBIT	195.5 110.9	147.4 85.9	50 50[2]

2. See section 1.5 below for an explanation of PNG pro forma adjustments

1.5. Existing Pro Forma Adjustments to Underlying NPAT

Included in AGL's FY2009 NPAT guidance of $370m to $400m are two pro forma adjustments relating to customer amortisation and PNG depreciation.

1. As part of the acquisition accounting for SunGas and Powerdirect assets, $184.6m was allocated to the value of customer accounts. This value is to be amortised over the expected life of the customer accounts. For FY2009 the net impact of the amortisation will be to reduce profit by $18.0m ($14.5m FY2008). The impact of this has been removed from the guidance to allow for a valid comparison with previous guidance.

   When presenting the FY2009 results, it is AGL's intention to cease this practice of adjusting for customer amortisation.

2. Under Australian accounting standards, the reclassification of PNG as an asset held for sale meant AGL could not charge the income statement with any depreciation or amortisation. For the period 1 July 2008 to 18 December 2008, the net impact of reduced depreciation and amortisation is estimated to increase FY2009 NPAT by $35m. AGL has removed this impact to calculate the Underlying NPAT.

1.6. Debt Profile

Indicative AGL debt profile post receipt of QGC and PNG proceeds and purchase of Gloucester;

Facilities	Limit $m	Usage $m	Available $m	Maturity
Non Current				
Revolving credit facility	500.0	-	500.0	October 2009
Term facilities Tranche B	633.3	633.3	-	October 2009
Term facilities Tranche A	222.5	222.5	-	October 2010
Revolving facility	327.5	-	327.5	October 2010
Term facilities Tranche C	886.7	886.7	-	October 2011
Total Debt Facilities	**2,570.0**	**1,742.5**	**827.5**	-
Cash	**-**	**1,865.0**		-
Net Cash	**-**	**122.5**		-

- Revolving credit facilities have been repaid as they can be redrawn if required.
- Term facilities have not yet been repaid as they are at materially lower margins than currently prevail. AGL continues to assess the economic benefit of not repaying term facilities.

1.7. Accounting

1.7.1. QGC

The profit on sale of the investment in QGC is calculated as follows:

	Accounting Profit $m	Tax Impact $m
Acquisition cost of shares	329.3	329.3
Share of post acquisition profits	70.6	
Gain on deemed disposal on equity dilution 30 June 2008	22.2	
Equity carrying value October 2008	422.2	
Proceeds on sale	1,176.6	1176.6
Profit on disposal	754.4	847.3
Capital Gains Tax		254.2
Reversal of tax on deemed disposal 30 June 2008		(6.6)
Total Tax expense		247.6
Summary		
Accounting profit before tax	754.4	
Tax Expense	247.6	
Profit after tax	**506.8**	

1.7.2. PNG

Calculation of the amount of profit realised on sale of the investment in PNG is being finalised and will be detailed in the release of AGL's half year results on 25 February 2009.