



ASX & Media Release

AGL executes agreement with NSW government to acquire Macquarie Generation, subject to ACCC approval

12 February 2014

AGL Energy Limited (**AGL**) today announced that it had entered into an agreement with the New South Wales Government to acquire the Macquarie Generation (**Macgen**) assets for a consideration of \$1,505 million¹.

The acquisition of Macgen is expected to be immediately accretive to AGL's Underlying Earnings per Share in its first full year of ownership, FY15².

The acquisition is conditional on approval by the Australian Competition & Consumer Commission (**ACCC**). The ACCC has previously indicated that it will make a final decision on the proposed acquisition by 4 March 2014.

AGL has fully co-operated with the ACCC throughout its review of AGL's potential acquisition of Macgen, and will continue to do so during the remainder of the ACCC's review process. On 6 February 2014 the ACCC issued a Statement of Issues outlining its concerns regarding AGL's potential acquisition of Macgen. AGL believes its response to the Statement of Issues will comprehensively address the key concerns raised by the ACCC, in particular the availability of competitively priced and customised hedge contracts for independent and new entrant retailers in the oversupplied New South Wales electricity market.

AGL believes there is a strong factual basis to demonstrate that the acquisition of Macgen will not result in a substantial lessening of competition. AGL does not currently own any significant generation assets in New South Wales where the two largest electricity retailers, Origin Energy and Energy Australia, already own substantial generation assets acquired as a result of transactions previously approved by the ACCC. AGL also understands that the New South Wales Government's bid selection process had regard to the effects of the sale on market competition in the State before making its decision to proceed with a conditional sale to AGL.

AGL intends to fund the transaction by way of a renounceable rights issue (the **Offer**) to existing shareholders raising approximately \$1.2 billion and \$350 million of bank debt. The equity raising will be deferred until ACCC approval for the transaction has been received. Subject to ACCC approval, financial close is expected in mid-April 2014.

The renounceable rights issue will be fully underwritten equity by Citigroup Global Markets Australia Pty Limited, Deutsche Bank AG, Sydney Branch and Merrill Lynch Equities (Australia) Limited.

New shares to be issued under the Offer will not be entitled to the FY14 interim dividend but are anticipated to rank pari passu for the FY14 final dividend. The FY14 interim dividend will be announced on 26 February 2014, along with AGL's financial results for the six months ended 31 December 2013.

AGL expects that the company's current credit rating will be reaffirmed once the funding for the transaction has been completed.

AGL's Managing Director, Michael Fraser, said: "AGL has been the key player in bringing competition to the New South Wales electricity market. Almost our entire New South



Wales electricity customer base of more than 800,000 customers has been won by competing in the market place.”

“The acquisition of Macquarie Generation is consistent with our integrated strategy and will enable AGL to remain a robust competitor to the major electricity retailers in New South Wales. It will also mean that the State’s largest generation assets are owned by a company with the financial capacity and operating experience to maintain reliability of supply, provide certainty for Macgen’s employees and provide confidence to current and future contract counterparties.”

The Macgen power stations would give AGL ownership of the lowest cost, large-scale baseload generators in New South Wales and would increase AGL’s registered generation capacity by approximately 79 percent to more than 10,600 MW. This would bring AGL’s share of generating capacity in the National Electricity Market to approximately 21 percent and add to AGL’s diverse portfolio of renewable and thermal generation assets.

Additional information about Macgen and the transaction are included in the attached presentation.

Notes:

1. Includes stamp duty but not other transaction costs of \$33 million.
2. EPS accretion in FY15 is based on the following key assumptions:
 - > The first full year of ownership is the year ending 30 June 2015;
 - > Spot and contract wholesale prices are materially the same as those implied by the forward curves;
 - > Generation volumes and plant availability are consistent with prior years and there are no material unplanned plant outages;
 - > Carbon pricing is either removed or moves to a floating price of approximately \$7 per tonne in FY15;
 - > AGL raises approximately \$1.2 billion under the Offer; and
 - > AGL raises approximately \$350 million of debt.
 - > Based on a Theoretical Ex-Rights Price (TERP) adjusted EPS calculation

Further inquiries:

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About AGL

AGL is one of Australia's leading integrated renewable energy companies and is taking action toward creating a sustainable energy future for our investors, communities and customers. Drawing on over 175 years of experience, AGL operates retail and merchant energy businesses, power generation assets and an upstream gas portfolio. AGL has one of Australia's largest retail energy and dual fuel customer bases. 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.

About Macgen

Macgen is the largest producer of electricity in New South Wales. The assets include the Bayswater (2,640 MW) and Liddell (2,000 MW) black coal fired power stations, Hunter Valley Gas Turbines (50 MW), Bayswater B and Tomago development sites, Liddell solar farm, extensive coal handling infrastructure comprising rail unloaders and conveyor systems, 110 million tonnes of contracted coal and approximately 3.5 million tonne coal stockpile. Macgen employs approximately 660 people (full time equivalent).

Macquarie Generation Acquisition

12 February 2014

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The information in this presentation:

- > Is not an offer or recommendation to purchase or subscribe for securities in AGL Energy Limited or to retain any securities currently held.
- > Does not take into account the potential and current individual investment objectives or the financial situation of investors.
- > Was prepared with due care and attention and is current at the date of the presentation.

Actual results may materially vary from any forecasts (where applicable) in this presentation.

Before making or varying any investment in securities in AGL Energy Limited, all investors should consider the appropriateness of that investment in light of their individual investment objectives and financial situation and should seek their own independent professional advice.

Statutory Profit and Underlying Profit

Statutory Profit is prepared in accordance with the Corporations Act 2001 and the Australian Accounting Standards, which comply with the International Financial Reporting Standards.

Underlying Profit is the Statutory Profit adjusted for significant items and changes in fair value of financial instruments.

Underlying Profit has been presented with reference to the Australian Securities and Investment Commission Regulatory Guide 230 "Disclosing non-IFRS financial information" issued in December 2011. AGL's policy for reporting Underlying Profit is consistent with this guidance and the Directors have had the consistency of the application of the policy reviewed by the external auditors of AGL.

- > **Macquarie Generation Acquisition**
- > 12 February 2014
- > AGL External

Transaction Summary

Subject to ACCC approval.

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- › AGL to acquire 100% of Macquarie Generation (“MacGen”) comprising:
 - › Bayswater (2,640 MW) and Liddell (2,000 MW) power stations
 - › Hunter Valley Gas Turbines (50 MW), Bayswater B and Tomago development sites, Liddell solar farm
 - › Extensive coal handling infrastructure comprising rail unloaders and conveyor systems
 - › 110 Mt of low cost contracted coal and ~3.5 Mt opening coal stockpile
- › Purchase price of \$1,505 million¹
 - › Coal book and stockpile valued at ~\$600 million
- › Transaction will be funded to maintain AGL’s BBB credit rating
- › Modelled return substantially exceeds AGL’s cost of capital and hurdle rate
 - › Investment payback of ~7 years
- › Immediately accretive to Underlying EPS² in FY15 and generates substantial future cash flows for AGL

› Macquarie Generation Acquisition

- › 12 February 2014
- › AGL External

1. Purchase price of \$1,505m including \$94m stamp duty but not other transaction costs of \$33m
2. Refer to Slide 13 for key underlying assumptions



Transaction Rationale

Compelling value proposition for low cost generation assets.

Strategy	<ul style="list-style-type: none">> Acquisition entirely consistent with AGL's integrated strategy
Lowest Cost Thermal Plant	<ul style="list-style-type: none">> Lowest SRMC¹ of major base-load generators in NSW
Improved Risk Management in NSW	<ul style="list-style-type: none">> Adds scale and diversity to AGL's generation portfolio> Increases NEM self supply to ~100% of sales volume> NSW represents AGL's largest retail electricity load centre<ul style="list-style-type: none">» Eliminates requirement for contracting in NSW (~\$650m-\$700m p.a.)> Highly flexible Bayswater units improve risk management capability
Long Term Low Cost Coal Contracts	<ul style="list-style-type: none">> Secure and low cost fuel supply in place to 2025 at a weighted average delivered contracted price of ~\$34/t (real Jun-13)> Central Hunter Valley location and significant delivery infrastructure provides competitive advantage in coal procurement beyond 2025
Performance Improvement	<ul style="list-style-type: none">> Opportunity to enhance availability and reliability at both plants
Compelling Value Proposition	<ul style="list-style-type: none">> Conservative valuation approach> Modelled return substantially exceeds both AGL's costs of capital and IRR hurdle² of 12%> Delivers substantial future cash flows> Immediately accretive to Underlying EPS³ in first full year of ownership FY15

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1. Short Run Marginal Cost of generation
2. Post tax
3. Refer to Slide 13 for key underlying assumptions



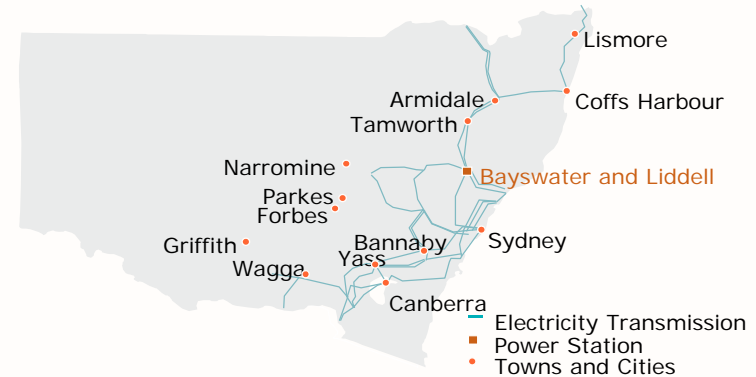
Overview of MacGen

MacGen is the one of the lowest cost generators in the NEM.

Overview

- > MacGen comprises two black coal fired power stations, located in the NSW Hunter Valley
 - » Bayswater (2,640 MW)
 - » Liddell (2,000 MW)
 - » Coal is delivered by rail unloaders (Antiene and Ravensworth) and conveyor
 - » Coal contracts in place with local mines to cover substantially all coal needs to 2025
 - » Annual water entitlements exceed 150% of typical use with ample onsite storage
- > MacGen package of assets also includes:
 - » Hunter Valley Gas Turbines (2 x 25 MW oil-fired gas turbines) predominantly used for “Black Start” services
 - » Bayswater B and Tomago development sites
 - » Liddell solar farm
- > MacGen employs approximately 660 FTE ¹

Location



Key Metrics

	Bayswater	Liddell
Nameplate Capacity	2,640 MW	2,000 MW
Commissioned	1985–1986	1971-1973
End of Technical Life	2035	2022
Fuel Type	Black Coal	Black Coal
% installed capacity in NSW	17%	13%
% installed capacity in NEM	6%	5%
Coal Consumption	c. 8.0 Mtpa	c. 3.0 Mtpa

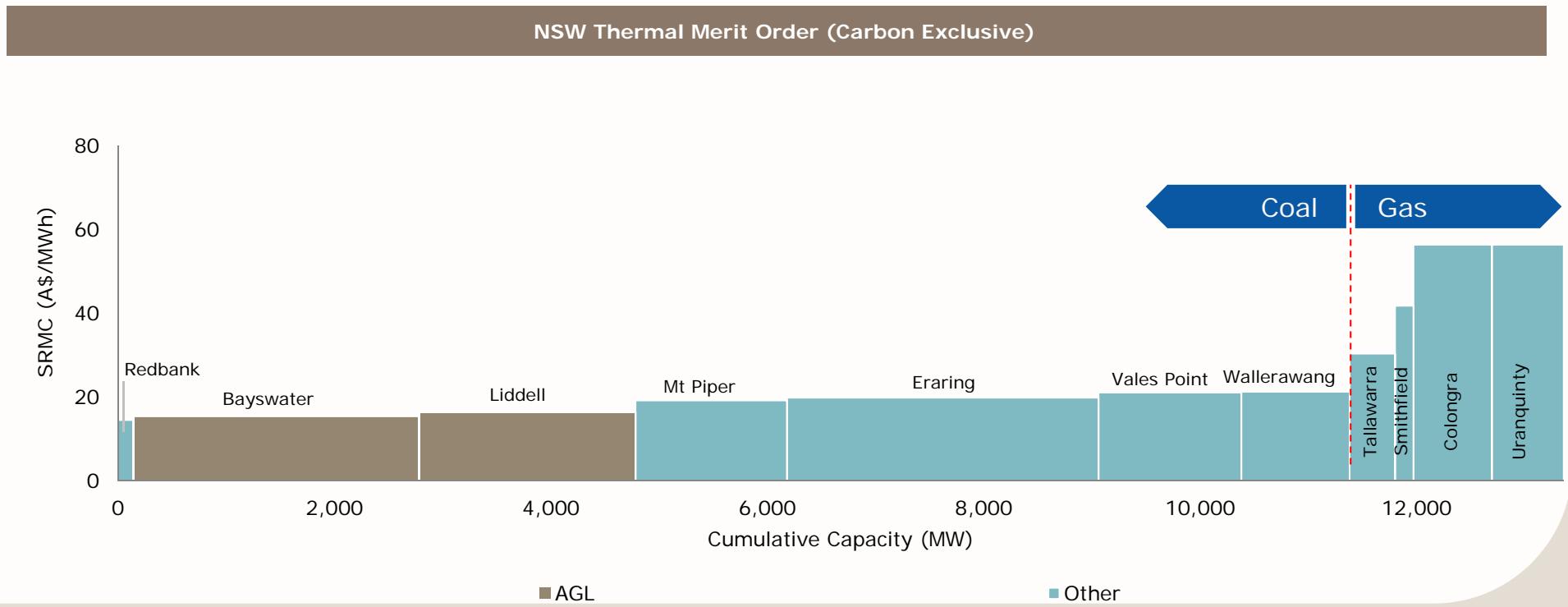
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1. MacGen FY14 Budget per NSW Government dataroom

Low Cost Thermal Plant in NSW

Low SRMC supported by contracted coal position out to 2025.

- > Lowest SRMC of major NSW base-load generators (driven by low cost fuel position)
- > Weighted average carbon intensity close to market average



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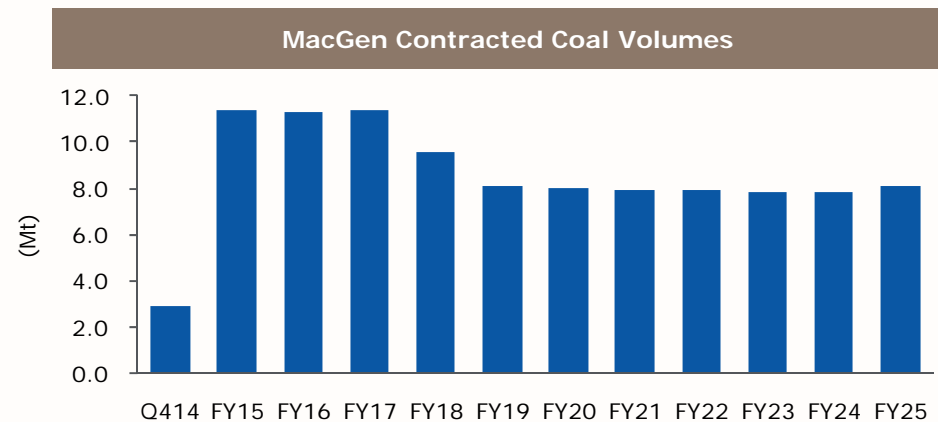
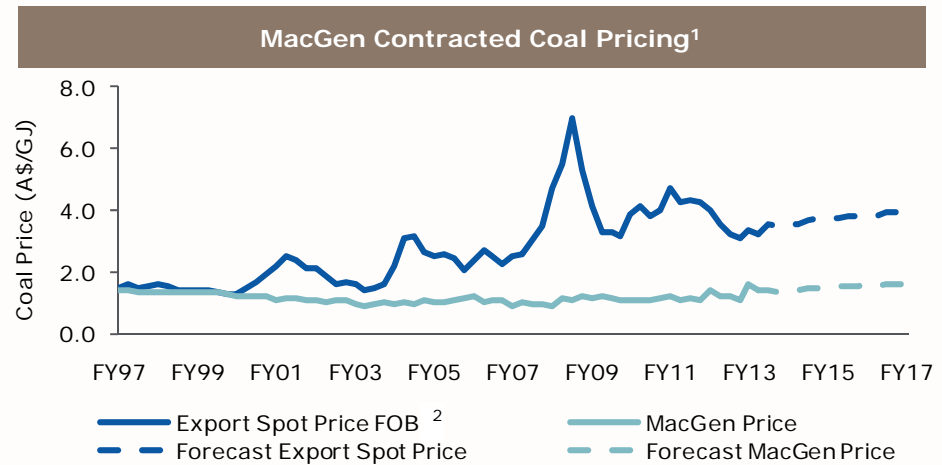
Source: AEMO 2013 Planning Studies – Existing Generator technical Data Summary. Real June 2013.
 1. Assumed gas prices (real June 2013): Tallawarra = \$4.1/GJ; Smithfield = \$4.5/GJ; Colongra = \$4.1/GJ; and Uranquinty = \$4.1/GJ.



Long Term Low Cost Coal Contracts

Low cost contracts out to 2025.

- > Low SRMC in NSW driven by weighted average delivered contracted price of ~\$34/t (real Jun-13)
- > Coal requirements substantially contracted to 2025
- > Long term relationships with three highly experienced suppliers and mine operators:
 - » Glencore / Xstrata
 - » Peabody
 - » BHP
- > Common coal handling infrastructure accrues benefits to both Bayswater and Liddell
- > Flexibility to burn high ash coal from surrounding mines
- > Wilpinjong contract includes optionality to flex volumes



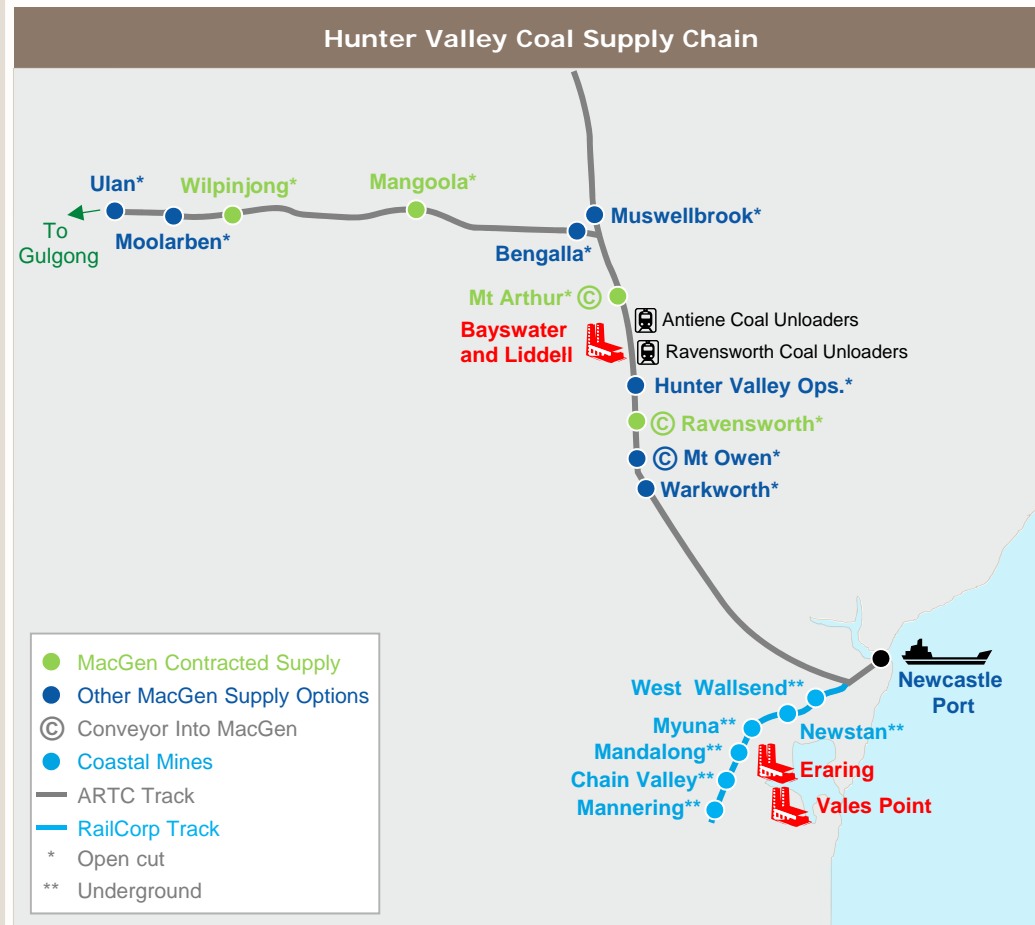
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1. Assumes AUD:USD of 0.88 to Dec-2014 and 0.85 thereafter. Forecast spot price based on Newcastle Benchmark ICE forward curve.
 2. FOB – Free on Board



Well Located with Significant Coal Infrastructure

MacGen has multiple and low cost recontracting options post 2025.



MacGen:

- > Access to multiple, low cost coal supply sources - not captive to any mine / supplier
- > Significant coal delivery infrastructure
 - » Antiene (15 Mtpa) and Ravensworth (8 Mtpa) rail unloaders
 - » 3 conveyors
- > Direct connection to ARTC network

Coastal generators:

- > Source coal from underground mines
- > Large scale rail deliveries likely to require substantial track and coal handling upgrades

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Source: Wood Mackenzie and NSW Government dataroom.

Tomago Aluminium Smelter Contracts

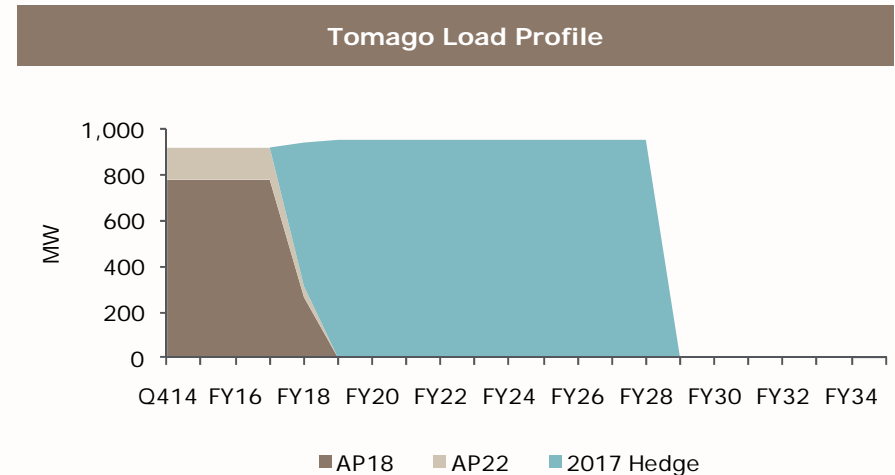
Electricity contracts in place until 2028.

Contract Overview

- › MacGen is party to three contracts with Tomago:
 - » AP18 and AP22 are in effect until November 2017
 - » 2017 Hedge¹ commences in November 2017 at significantly higher price² when the above contracts terminate
- › Baseload volume over life of contracts is ~900 MW
- › Substantially all carbon assistance received by Tomago is passed through to MacGen
- › Tomago ownership: Pacific Aluminium 51.55%; Gove Aluminium³ 36.05%; Hydro Aluminium 12.40%

Tomago Overview

- › Aluminium production of 542kt in FY13⁴
- › 7,934MWh of energy demand in FY13⁴
- › Efficient producer with cost in global second quartile⁵
 - » H1FY14 EBITDA of \$393/t²
 - » CSR estimates cash costs will increase by \$230/t with commencement of 2017 contract²



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1. Tomago may terminate this contract in the event of plant closure
2. CSR 1H14 investor presentation (dated 13 November 2013)
3. Gove Aluminium ownership: CSR (70%) and AMP(30%).
4. NSW Government Dataroom.
5. Source: Wood Mackenzie (Woodmac). Data as at 31 December 2013. Assumes AUD:USD FX rate of 1.01



Compelling Valuation and Deal Metrics

Long term coal contracts provide cost advantage in NSW.

- › Modelled return substantially exceeds AGL's cost of capital and hurdle rate
- › Based on conservative assumptions, purchase price includes significant value embedded within MacGen's:
 - » Long term, low cost coal contracts
 - » Large existing coal stockpile and coal infrastructure
 - » Strategic location in the Hunter Valley

Enterprise Value ¹	\$m	1,538
Value of coal contracts		
Current contracted coal volume	Mt	110
Weighted average MacGen coal cost	\$/t	34.6 ²
AEMO estimate of Eraring/Delta Coastal coal cost	\$/t	40.0 ^{2,3}
NPV of contract cost advantage	\$m	464
Value of Acquired Stockpile		
Stockpile acquired	Mt	3.5
AEMO estimate of Eraring/Delta Coastal coal cost	\$/t	40.0 ^{2,3}
Cost advantage within acquired stockpile	\$m	142
Value of MacGen fuel position	\$m	606

	\$m
Enterprise Value ¹	1,538
Value of MacGen Fuel Position	606
Adjusted enterprise value	932

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1. Purchase price of \$1,505m plus other transaction costs of \$33m
2. Real 30 June 2013.
3. Based on the rounded average of Eraring Energy and Delta Coastal fuel costs for FY2014 per the AEMO 2013 Planning Studies – Existing Generator Technical Data Summary. Assumes average specific energy content of 21.5 GJ/t.



Summary

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MacGen acquisition is another major step in AGL's strategy.

- › Increases AGL registered generation capacity by ~79% to over 10,600 MW¹
- › Delivers ownership of two of the lowest cost base-load generators in New South Wales
- › AGL's experience and track record on asset integration and operational expertise can be applied to MacGen
 - » Opportunity to improve availability and reliability at both Bayswater and Liddell
- › Conservative valuation approach adopted
- › Extensive due diligence process undertaken
- › Retains strong balance sheet post-completion of funding initiatives
- › Expected strong cashflows to support future capital expenditure and dividends

Acquisition immediately accretive to Underlying EPS in its first full year of ownership FY15²

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1. Includes ~150 MW of generation under construction including AGL Solar
2. Refer to Slide 13 for key underlying assumptions



Supporting Slides



Key Assumptions

Effect of MacGen acquisition on earnings.

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Underlying Profit is the Statutory Profit adjusted for significant items and changes in fair value of financial instruments. Underlying Profit has been presented with reference to the Australian Securities and Investments Commission Regulatory Guide 230 "Disclosing non-IFRS financial information" issued in December 2011. AGL's policy for reporting Underlying Profit is consistent with this guidance and the Directors have had the consistency of the application of the policy reviewed by the auditors of AGL. Statutory Profit contains a number of items that do not portray the ongoing performance of the business. Underlying Profit excludes the effect of these items to provide a better understanding of business performance.

To reflect the impact of acquisition accounting and one-off items, the EPS impact has been calculated on an adjusted basis (Underlying EPS). Underlying EPS is calculated by adding back to reported EPS the non-recurring significant items and fair value movement. The AGL Directors believe that Underlying EPS is a better measure to illustrate the underlying performance of the acquisition, and allows for more relevant comparison of financial performance between financial periods.

Key assumptions used to determine the impact of the MacGen Acquisition on EPS are set out in the bullet points below:

- › The first full year of ownership is the year ending 30 June 2015;
- › Spot and contract wholesale prices are materially the same as those implied by the forward curves;
- › Generation volumes and plant availability are consistent with prior years and there are no material unplanned plant outages;
- › Carbon pricing is either removed or moves to a floating price of approximately \$7 per tonne in FY15;
- › AGL raises approximately \$1,200 million under an equity offer;
- › AGL raises approximately \$350 million of debt; and
- › Based upon a Theoretical Ex-Rights Price (TERP) adjusted EPS calculation.

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