

21 August 2014



AGL ENERGY LIMITED \$1,232 MILLION PRO RATA ACCELERATED RENOUNCEABLE ENTITLEMENT OFFER

NOTIFICATION TO INELIGIBLE RETAIL SHAREHOLDERS

Dear Shareholder,

On 20 August 2014, AGL Energy Limited ("AGL") announced a fully underwritten pro rata accelerated renounceable entitlement offer of new AGL ordinary shares ("New Shares"), with retail entitlements trading to raise approximately \$1,232 million ("Entitlement Offer"). The offer price is \$11.00 per New Share ("Offer Price").

This letter is to inform you about the Entitlement Offer and to explain why you will not be able to subscribe for New Shares under the Entitlement Offer. This letter is not an offer to issue New Shares to you, nor an invitation for you to apply for New Shares. **You are not required to do anything in response to this letter.**

The Entitlement Offer and use of proceeds

The Entitlement Offer consists of an institutional entitlement offer and an offer to eligible retail shareholders (as described below, "Eligible Retail Shareholders") to participate at the same Offer Price and offer ratio ("Retail Entitlement Offer"). The Entitlement Offer is being made in accordance with section 708AA of the Australian Corporations Act 2001 (Cth) ("Act") (as modified by Australian Securities and Investments Commission Class Order 08/35 and other relief), meaning that no prospectus needs to be prepared.

The proceeds from the Entitlement Offer will be used to fund part of the purchase price for the acquisition of the Macquarie Generation ("MacGen") assets from the New South Wales ("NSW") Government for consideration of \$1,505 million as announced to the Australian Securities Exchange ("ASX") by AGL on 12 February 2014, and subsequently authorised by the Australian Competition

Tribunal on 25 June 2014. The MacGen assets comprise the Bayswater (2,640 MW) and Liddell (2,000 MW) power stations, the 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 and 104 Mt of low cost contracted coal and approximately 4.2 Mt opening coal stockpile.

Details of the Entitlement Offer

The Entitlement Offer is being made to eligible shareholders on the basis of 1 New Share for every 5 existing AGL ordinary shares held on the Record Date of 7.00pm (Sydney time) on 25 August 2014 ("Entitlement").

An offer booklet in relation to the Retail Entitlement Offer will be lodged with the ASX and will be despatched to Eligible Retail Shareholders on or around 29 August 2014 ("Retail Offer Booklet").

Eligibility criteria

"Eligible Retail Shareholders" are those persons who:

- are registered as a holder of existing AGL ordinary shares as at 7.00pm (Sydney Time) on the Record Date (25 August 2014);
- have a registered address on the AGL share register in Australia or New Zealand;
- are not in the United States and are not acting for the account or benefit of a person in the United States (to the extent such persons hold AGL ordinary shares for the account or benefit of a person in the United States);

- d. were not invited to participate (other than as nominee, in respect of other underlying holdings) in the institutional entitlement offer and were not treated as ineligible institutional shareholders under the institutional entitlement offer; and
- e. are eligible under all applicable securities laws to receive an offer under the Retail Entitlement Offer.

Shareholders who are not Eligible Retail Shareholders and who did not participate in the institutional entitlement offer and were not treated as ineligible institutional shareholders under the institutional entitlement offer are "Ineligible Retail Shareholders".

The restrictions upon eligibility under the Retail Entitlement Offer arise because of the legal and regulatory requirements in countries other than Australia or New Zealand and the potential costs to AGL of complying with these legal and regulatory requirements compared with the relatively small number of shareholders in those countries, the relatively small number of existing AGL ordinary shares they hold and the relatively low value of New Shares to which those shareholders would otherwise be entitled.

AGL has determined, pursuant to ASX Listing Rule 7.7.1(a) of the ASX Listing Rules and section 9A(3)(a) of the Act, that it would be unreasonable to make or extend offers to shareholders in certain countries under the Retail Entitlement Offer.

Unfortunately, according to our records, you do not satisfy the eligibility criteria for an Eligible Retail Shareholder stated above. Accordingly, in compliance with ASX Listing Rule 7.7.1(b) and section 9A(3)(b) of the Act, AGL wishes to advise you that it will not be extending the Retail Entitlement Offer to you and you will not be able to subscribe for New Shares under the Retail Entitlement Offer. You will not be sent the documents relating to the Entitlement Offer.

However, as the Entitlement Offer is renounceable, you may receive value for Entitlements you would have received had you been eligible to participate in the Retail Entitlement Offer. Arrangements have been made for the Entitlements that would otherwise have been offered to Ineligible Retail Shareholders to be sold, for their benefit, via a retail shortfall bookbuild on or about 18 September 2014 ("Retail Shortfall Bookbuild"). This is to be undertaken by the underwriters to the Entitlement Offer, Citigroup Global Markets Australia Pty Limited, Deutsche Bank AG, Sydney Branch and Merrill Lynch Equities (Australia) Limited.

You will receive any proceeds in excess of the Offer Price in respect of each Entitlement sold in the Retail Shortfall Bookbuild that you would have received under the Retail Entitlement Offer if you

were eligible to participate, net of any applicable withholding tax. However, there is no guarantee that you will receive any value as a result of the Retail Shortfall Bookbuild.

The retail Entitlements will be tradeable on ASX. The assignment, transfer and exercise of retail Entitlements trading on ASX will be restricted to persons meeting certain eligibility criteria. In particular, persons in the United States and persons acting for the account or benefit of persons in the United States will not be eligible to purchase or trade Entitlements on ASX or take up or exercise Entitlements purchased on ASX or transferred from another person. If holders at the end of the trading period do not meet the eligibility criteria, they will not be able to take up or exercise the Entitlements and, as a result, they may receive no value for them.

You are not required to do anything in response to this letter.

For further information on the Entitlement Offer or if you believe that you are an Eligible Retail Shareholder, please contact the AGL Offer Information Line on 1800 824 513 (within Australia) or +61 1800 824 513 (outside Australia) from 8.30am to 5.30pm (Sydney time) Monday to Friday. If you have any further questions, you should contact your stockbroker, accountant or other professional adviser.

On behalf of the Board of AGL, I thank you for your continued support.

Yours faithfully,

Jeremy Maycock, Chairman
AGL Energy Limited



Important Information

This letter is issued by AGL Energy Limited (ABN 74 115 061 375). This letter is not a prospectus or offering document under Australian law or under any other law. It is for information purposes only and does not constitute an offer, invitation or recommendation to subscribe for, retain or purchase any securities in AGL in any jurisdiction. This letter does not constitute financial product advice and does not and will not form part of any contract for the acquisition of AGL ordinary shares.

This letter does not constitute an offer to sell, or the solicitation of an offer to buy, any securities in the United States. Neither the Entitlements nor the New Shares have been, nor will be, registered under the U.S. Securities Act of 1933, as amended (the Securities Act) or the securities laws of any state or other jurisdiction of the United States.

Accordingly, the Entitlements may not be issued to, purchased or traded by, or taken up or exercised by, and the New Shares may not be offered or sold to persons in the United States, unless they have been registered under the Securities Act, which none of AGL or the lead managers has any obligation to do or procure, or offered and sold in a transaction exempt from, or not subject to, the registration requirements of the Securities Act and applicable U.S. state securities laws. The Entitlements and the New Shares to be offered and sold in the Retail Entitlement Offer may only be offered and sold to persons that are not in the United States and are not acting for the account or benefit of persons in the United States, in each case in 'offshore transactions' (as defined in Rule 902(h) under the Securities Act) in reliance on Regulation S under the Securities Act.

Neither this letter nor any other documents relating to the offer of Entitlements or New Shares may be sent or distributed, in whole or in part, to persons in the United States or to persons that are acting for the account or benefit of persons in the United States.

The provision of this document is not, and should not be considered as, financial product advice. The information in this document is general information only, and does not take into account your individual objectives, taxation position, financial situation or needs. If you are unsure of your position, please contact your accountant, tax advisor, stockbroker or other professional advisor.

