



asx and media release

AGL stake in QGC valued at \$1.18 billion. AGL acquires options over certified gas reserves, exploration acreage, power station and gas supply contract

28 October 2008

Following today's announcement by BG International (AUS) Investments Pty Limited, a wholly-owned indirect subsidiary of BG Group plc (BG Group – LSE:BG.L) of its on-market bid for Queensland Gas Company Limited (QGC), AGL Energy Limited (AGL) advises that its intention is to sell all of its shares in QGC into the BG bid unless a superior offer emerges for the entirety of QGC.

AGL also advises that it has entered into an option agreement with BG that provides AGL with the right to acquire 1,097 PJ of 3P gas reserves plus exploration acreage. In addition, AGL has the right to acquire the 140 MW gas fired Condamine Power Station in Queensland and an associated 10 PJ pa gas supply contract.

Transaction Highlights

- AGL to receive A\$5.75 per share for its 204.6 million shares in QGC
- The sale of its QGC shares delivers AGL cash proceeds before capital gains taxation of approximately A\$1.18 billion
- AGL's existing 740 PJ gas supply contract with QGC to remain in place on identical terms and conditions
- AGL has signed an option agreement with BG giving AGL the right but not the obligation to acquire:
 - 100% of the Lacerta gas development project and 15% of the Polaris gas exploration project, and/or
 - The 140MW Condamine combined cycle power station currently under construction and a 10 PJ pa gas supply contract until 1 January 2014
- The exercise price for the Lacerta and Polaris interests is A\$0.78 per GJ on existing 3P reserves of 1,097 PJ, valuing the interests at A\$856 million.
- Exercise price for Condamine power station to be the higher of the costs paid up to completion (currently estimated at A\$170 million) or the fair market value determined by an independent expert
- AGL and BG to discuss in good faith a future option for AGL to supply gas from the Lacerta development to BG's proposed Queensland Curtis LNG project (should AGL exercise the option and acquire an interest in Lacerta)



- 100% of AGL's share of any gas produced from the Polaris exploration project may be dedicated to BG's proposed Queensland Curtis LNG project (should AGL exercise the option and acquire an interest in Polaris)
- AGL has no obligation to accept the BG bid. The exercise of the option agreement is not conditional on AGL accepting the BG bid.

Strategic Benefits

Commenting on the transaction AGL Managing Director, Michael Fraser, said "This transaction is consistent with our often stated objective of converting the QGC equity stake into direct ownership of gas reserves. The entire transaction represents an excellent outcome for AGL. Our original investment of A\$327 million, made in March 2007, has the potential to be transformed into a number of investments and cash valued at close to A\$1.2 billion and we retain our original 740 PJ gas supply contract".

Michael Fraser added that AGL would assess the gas acreage and power station options under the BG deal against other potential opportunities.

"We will conduct a thorough assessment of not only the assets potentially available under the BG options but also other opportunities available in the gas and electricity markets" Mr Fraser said.

If the Lacerta and Polaris option is exercised, AGL will acquire direct equity ownership of Walloons acreage containing certified 3P reserves of 1097 PJ, and 2P reserves of 469 PJ. If AGL exercises the Condamine power station option, it will own, upon completion, 140MW of combined cycle generation and an associated gas supply agreement, both of which complement its existing Queensland merchant and retail businesses.

The potential addition of the Walloons acreage to AGL's existing upstream gas investments in the Sydney Basin, Moranbah Project and Galilee Basin, together with the company's substantial gas contract portfolio, place AGL in a very robust position to meet its ongoing gas demands beyond 2016.

If BG is successful in its bid, and after the bid closes, AGL and BG intend to further discuss mechanisms to potentially supply gas into BG's proposed Queensland Curtis LNG Project in Gladstone to allow AGL to access LNG net back pricing for gas supply from the Lacerta project. Gas from the Polaris development may also be dedicated to BG's LNG project.

"I am very comfortable that whatever the outcome of the BG option, we already have in place an equity and contract gas portfolio with sufficient duration, depth and optionality to serve our needs well into the future. The BG option, of course, adds further strategic optionality to our business" Mr Fraser added.

Financial Impacts

As previously advised, AGL will provide an update on guidance following the PNG sale process. This guidance will include the impact, if any, of this transaction.

Following a sale of AGL's QGC stake and prior to any decision regarding the various options, AGL would have net debt of approximately A\$700 million (for further details see Fact Sheet).

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BG / QGC / AGL Transaction

Fact
Sheet.

Terms of BG Offer for QGC:

- > Unconditional on-market takeover bid for all shares in QGC not held by BG.
- > All cash at A\$5.75 per share.
- > Payment by BG to vendors within 3 days of acceptance.

AGL shareholding in QGC

- > AGL holds 204,616,102 shares in QGC.
- > AGL acquired these shares in March 2007 for A\$1.60 per share.
- > It is AGL's intention to accept the BG bid in relation to its entire shareholding unless a superior offer emerges for the entirety of QGC.
- > AGL would, under the BG offer, receive cash proceeds of A\$1.177 billion, 3 days after acceptance by AGL.

Terms of Lacerta and Polaris Gas Projects Call Option

- > The option to purchase the assets crystallises when BG acquires at least 50.1% of the issued share capital of QGC. The option can then be exercised within four months after bid close.
- > The option is to purchase 100% of ATP 795P and ATP 767P (permits containing the Lacerta gas development project) and 15% of ATP 768P (permits containing the Polaris gas exploration project) and associated rights.
- > The Exercise price for Lacerta and Polaris is A\$855.660 million, which equates to A\$0.78 per GJ of 3P reserves.
- > There is no interest payable on the option exercise price until 1 February 2009. The interest is then calculated at A\$856 million X (LIBOR + 150 basis points) per annum.
- > Completion is conditional on QGC and Sunshine Gas Limited shareholder approval (if required), Ministerial, regulatory and any third party approvals to enable transfer of the assets.
- > If the option is exercised, AGL will operate the Lacerta gas development and BG/QGC will operate the Polaris gas exploration project.
- > The Lacerta gas field has certified gas reserves of 469 PJ (2P) and 1,097 PJ (3P).

Recent Comparable Transaction Metrics

The following data has been sourced from "Appendix 4: Comparable transactions of the Sunshine Gas Limited Independent Experts Report" dated 19 September 2008.

Announcement Date	Acquirer	Target	3P certified reserves (PJ)	A\$/GJ 3P
8 September 2008	Conoco	Origin	5,069	1.88
10 June 2008	QGC	Roma	n/a	n/a
2 June 2008	Shell	Arrow Energy	837	0.77
29 May 2008	PETRONAS	Santos	1,600	1.65
1 February 2008	BG	QGC	623	1.00

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Terms of Condamine Power Station Project Call Option

- > The option to purchase the assets crystallises when BG acquires at least 50.1% of the issued share capital of QGC. The option can then be exercised within four months after bid close.
- > The option is to purchase QGC's and BG's interest in the Condamine Power Station project.
- > The Exercise price to be the higher of the costs paid up to completion (estimated at A\$170 million) of the power station and the fair market value determined by an independent expert to be appointed by the parties.
- > No interest is payable on the option exercise price until 1 February 2009. The interest is then calculated at the value determined above X (LIBOR + 150 basis points) per annum.
- > Completion is conditional on QGC shareholder approval (if required), Ministerial, regulatory and any third party approvals to enable transfer of the assets.

Details of Condamine Power Station Project:

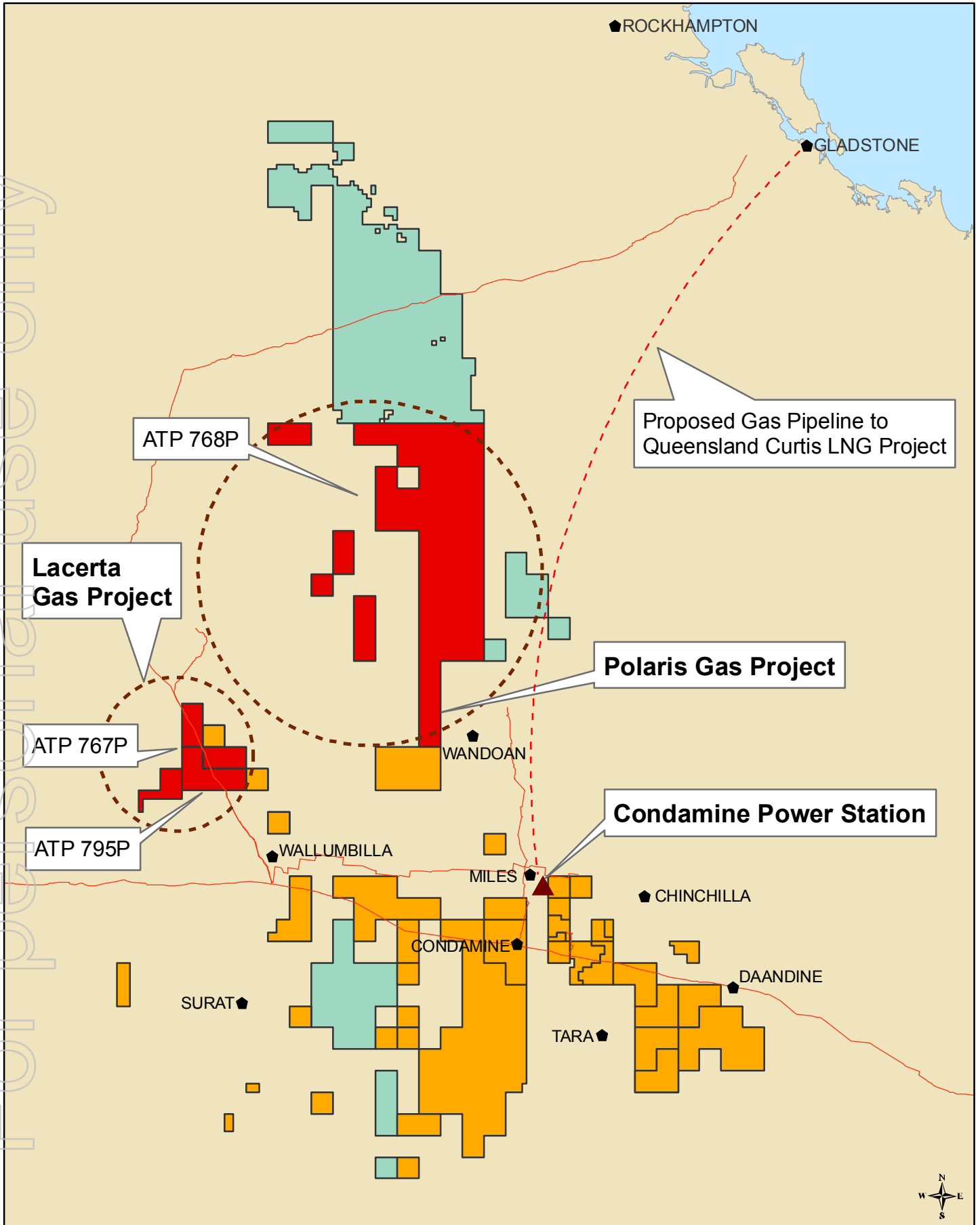
- > The 140 MW combined cycle gas turbine station is currently under construction and should be ready for open cycle service (about 84 MW) during the first quarter of 2009 with full operation by October 2009.
- > The project is located on a site adjacent to the start of the proposed Berwyndale to Wallumbilla pipeline which is currently under construction by AGL.
- > The station comprises two Swedish made SGT800 Siemens turbines.
- > The station will be electrically connected to the 132 KV Ergon owned Columboola Switching Station which is located 3 km away.
- > Gas will be supplied by BG/QGC under a 10 PJ per annum contract until 1 January 2014.

Financial Details

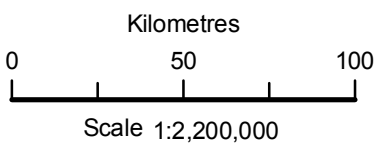
Indicative AGL debt profile post receipt of QGC share sale proceeds and paydown of revolving facilities

Facilities A\$m	Limit	Usage	Available	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	-	-	1,057.0	-
Net Debt	-	-	685.5	-

Assets covered by AGL Option



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 Ref: 1827



- Legend**
- ◆ Towns
 - Gas Pipelines
 - ▲ Power Station
 - Tenures covered by AGL Option
 - Queensland Gas Tenures
 - Sunshine Gas Tenures
 - Proposed Gas Pipeline to Queensland Curtis LNG Project

Disclaimer: While AGL has taken great care and attention to ensure the accuracy of the data represented on this map, no liability shall be accepted for any errors or omissions. No part of this map may be reproduced without prior permission of AGL.

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