

AUSTRALIAN POWER & GAS

INVESTOR DAY

6 December 2012

Australian
Power & Gas

WELCOME

James Myatt

Chief Executive Officer, Managing Director

**Australian
Power & Gas**

Agenda

- Purpose and vision
- Who we are and delivery to date
- The team
- The regulatory environment
- Residential retail
- Commercial markets
- Capital and funding requirements
- AOB

Australia's leading independent energy retailer

“Australian Power & Gas is as much a marketing company as an energy retailer. We focus on building our marketing channels to the levels of our largest competitors. Our customer base is our key asset.”

Our Vision



AUSTRALIAN
POWER & GAS
WILL BE A
**1 BILLION
REVENUE
BUSINESS
BY 2015/16**

Who we are... currently

- Deregulation of energy markets and rising prices are creating opportunities for more nimble players that can offer lower prices to existing customers of other energy companies, normally the large incumbents
- The residential market sector in eastern Australia has a gross margin availability of circa \$3.5 billion per annum, from 10 million available customer accounts

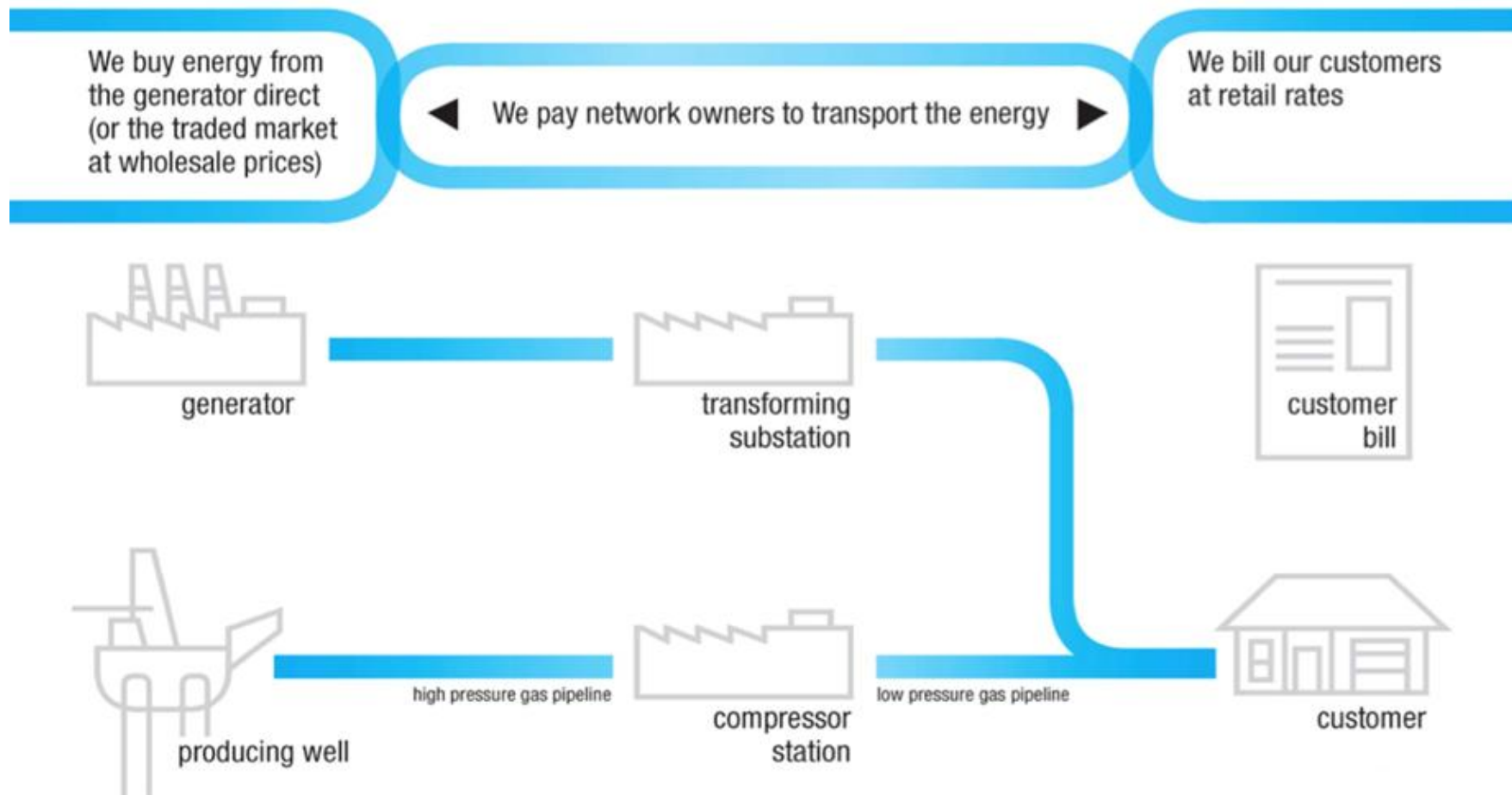
Our longer term goal is to acquire 500,000-600,000 of these residential customer accounts which equates to a market share of 5%

- Our strategy is to grow scale through our proven sales channels and unique expertise in marketing directly to households
Our key competitive advantage is our speed of growth and our marketing channel saturation
- Residential energy marketing is a low-involvement decision, which means channel to market is more important than product
- We have an exclusive 10-year agreement with Appco, part of the Cobra Group, one of world's largest direct marketing companies
- We have a highly variable cost, outsourced business model

“ The vast majority of people only switch energy retailers when a cheaper proposition is put to them, normally at the door. ”

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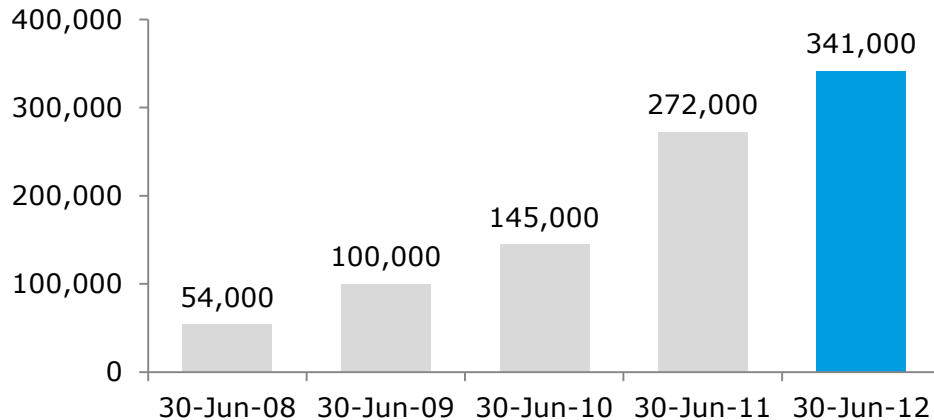
How our business works



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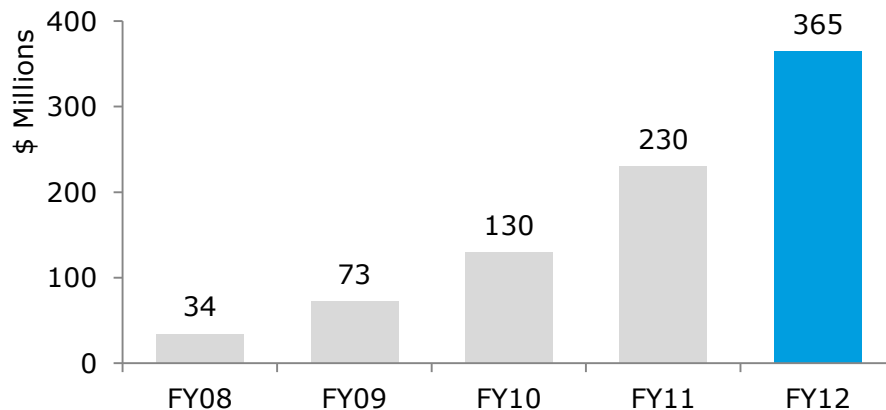
Track record of growth

Net accounts



- Net active accounts have grown to overall market share of ~3%. In Victoria we have achieved 5% market share over 5 years
- Revenue growth has occurred due to the increasing accounting numbers and also from passing through wholesale and distribution cost increases
- NPAT of \$6.1m in FY2012 represents 1.7% on sales

Revenue



Strategy focused on exploiting core capabilities

“Our core focus remains growing our retail customer base across the Eastern seaboard. We also believe that substantial opportunities exist in the marketplace for us to leverage our core capabilities. This will include broadening the range of energy products offered and also the services offered to the existing customer base.”

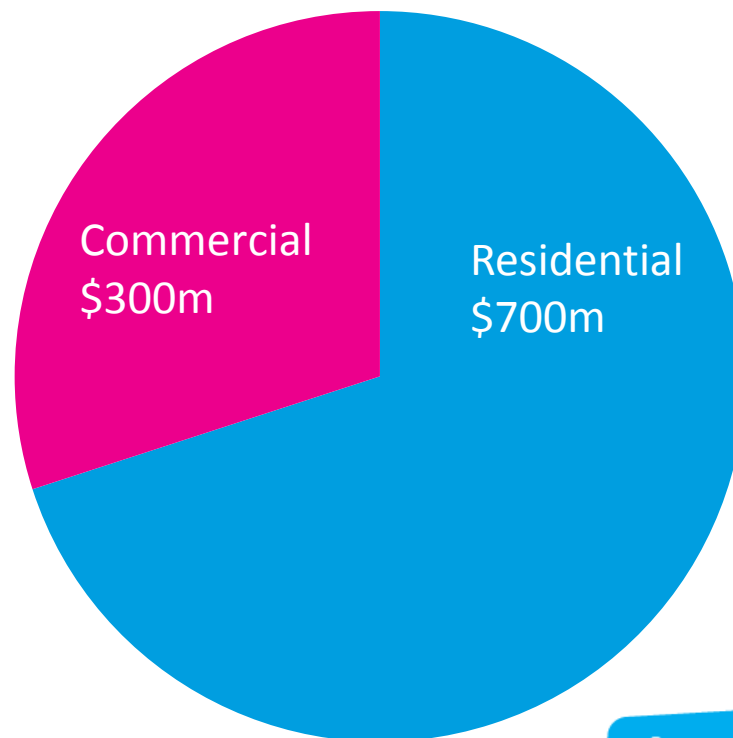
Growing to \$1 billion in revenue

Entry to commercial and industrial markets is a key focus in FY13

FY13 Forecast



Indicative Revenue Split 2015/16



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Today's speakers

“We have a very experienced management team in place to drive growth, some of whom are presenting today.”

Regulatory Environment

James Myatt

M Mktg, Assoc Dip Applied Sc, AFAMI, MAICD, CPM

Chief Executive Officer, Managing Director

Appointed in July 2006 as Chief Executive Officer, James was the key visionary and founder of Australian Power & Gas.

James has more than 25 years experience in the energy sector holding senior positions with Energy Australia, TXU Australia, Duke Energy International and AGL/Solaris Power.

James is a Board member and past Chair of the Energy Retailers Association of Australia. James was recently named Entrepreneur Of The Year (Listed) for the Eastern region by Ernst & Young.



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Residential Sector

David Goadby

BSc

General Manager Retail

David joined Australian Power & Gas in July 2011 and is responsible for the management of the company's residential business unit. David was recruited for his extensive experience in consumer orientated businesses including senior roles in British Gas, Scottish & Newcastle, Nestle, Telecoms and nearly a decade with Procter & Gamble.

David is also a Board Member of Energy Assured Limited.



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Commercial Sector

Grant Long

Associate Diploma Electrical Engineering

MBA

General Manager Commercial Markets

Grant was appointed in July 2012 and is responsible for the development and management of the company's commercial markets business unit.

Grant's background includes sales or business development roles within Energy Australia, Telstra and Ernst & Young. Grant was also an Account Director and National Business Development Director for Dimension Data.



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Funding

Warren Kember

B Comm, MBA, CA

Chief Financial Officer

Warren joined Australian Power & Gas in September 2006 and is responsible for accounting, tax, financial risk management and treasury functions.

Warren has over 25 years of financial management experience holding CFO positions with a range of listed public and private entities. Warren has specialised in leading the financial development of small and medium sized listed entities.



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REGULATORY FRAMEWORK

James Myatt

Chief Executive Officer, Managing Director

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Regulatory framework

“Regulatory framework plays an important role in how we have and will continue to grow our business.”

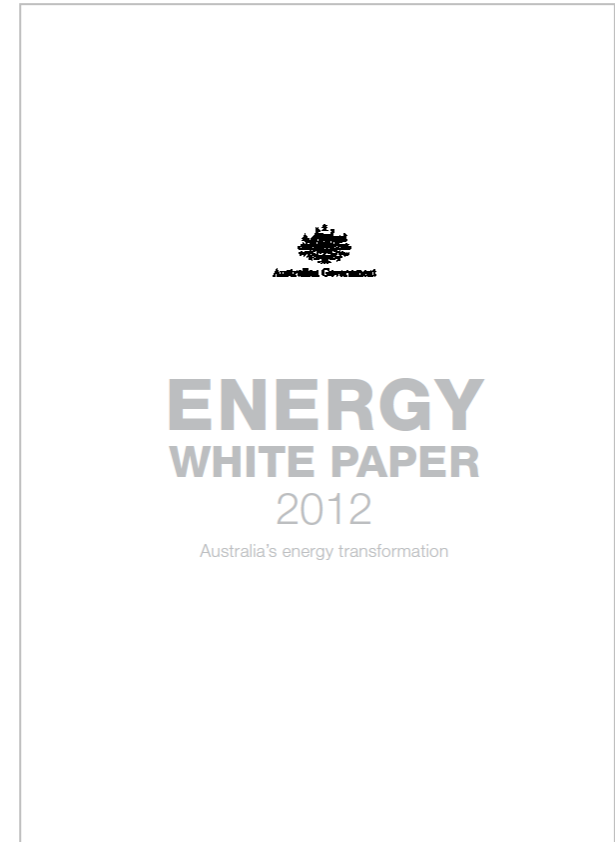
Regulatory environment

“Each State has its unique regulatory characteristics that continue to evolve.”

Federal Government

Energy White Paper

- Strategic policy framework for driving future energy market development
- Emphasis on deregulation of energy pricing and increasing market efficiency
- Endorses implementation of technology to offer consumers better services and management of their energy use
- Supports increased competition and business innovation to drive market sustainability



Regulatory environment – Queensland

New Government undertaking major review of energy industry

- LNP Government reviewing all drivers of cost increases for energy and need for reform
- Have stated a goal to have sustainable, competitive market for future, yet to be seen how this is to be done
- Interim period may see increased attention to perceived consumer protections with longer term interest in national-based regulatory reform

Retail price deregulation

- Residential price deregulation unlikely before 2016
- Numerous retailers have reduced activity in Queensland as a result of government price caps
- Opportunities in commercial space for unregulated transactions

Regulatory environment – New South Wales

Positive signs for improved competitive market

- Government appears to be open to a way for it to exit energy industry with further privatisation of assets
- We believe there is the prospect of residential consumers to have deregulated pricing in 2016 – AEMC review of competition to commence soon
- Reduction in the size of regulated customers to 100 MWh in FY 2012-14 increasing opportunity in commercial and large residential markets
- Seeking to implement smart metering in 2013 in NSW and opportunities for business technology innovation
- Former head of Tier 2 retailer appointed member of regulatory tribunal (IPART)

Regulatory environment – Victoria

Victorian deregulated market model for other states

- Price deregulation in Victoria resulting in a highly competitive market with stable energy prices
- Federal Government urging other states to follow Victorian model of price deregulation coupled with sustainable regulatory framework

Smart meters create innovation opportunities

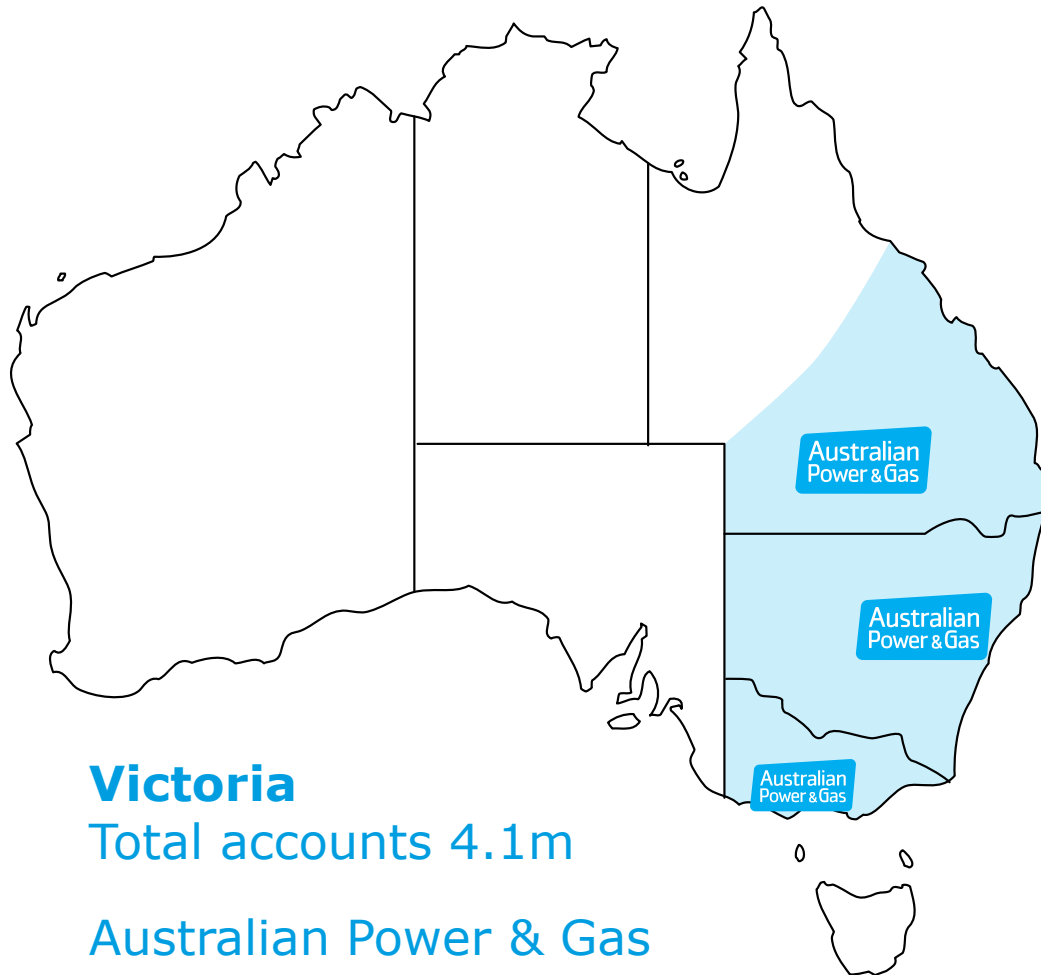
- Government near completion of roll out of smart meters to all Victorians
- Looking to lead Tier 2 retailers to have enabling technologies for smart meter who want to manage their own energy use
- Flexible pricing program to commence 1 July 2013 to allow consumers to opt into time-of-use pricing and increase energy management

RESIDENTIAL RETAIL

David Goadby
General Manager Retail

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Our markets



Victoria

Total accounts 4.1m

Australian Power & Gas
has 225,000 accounts
in Victoria

SE Queensland

Total accounts c. 1.1m

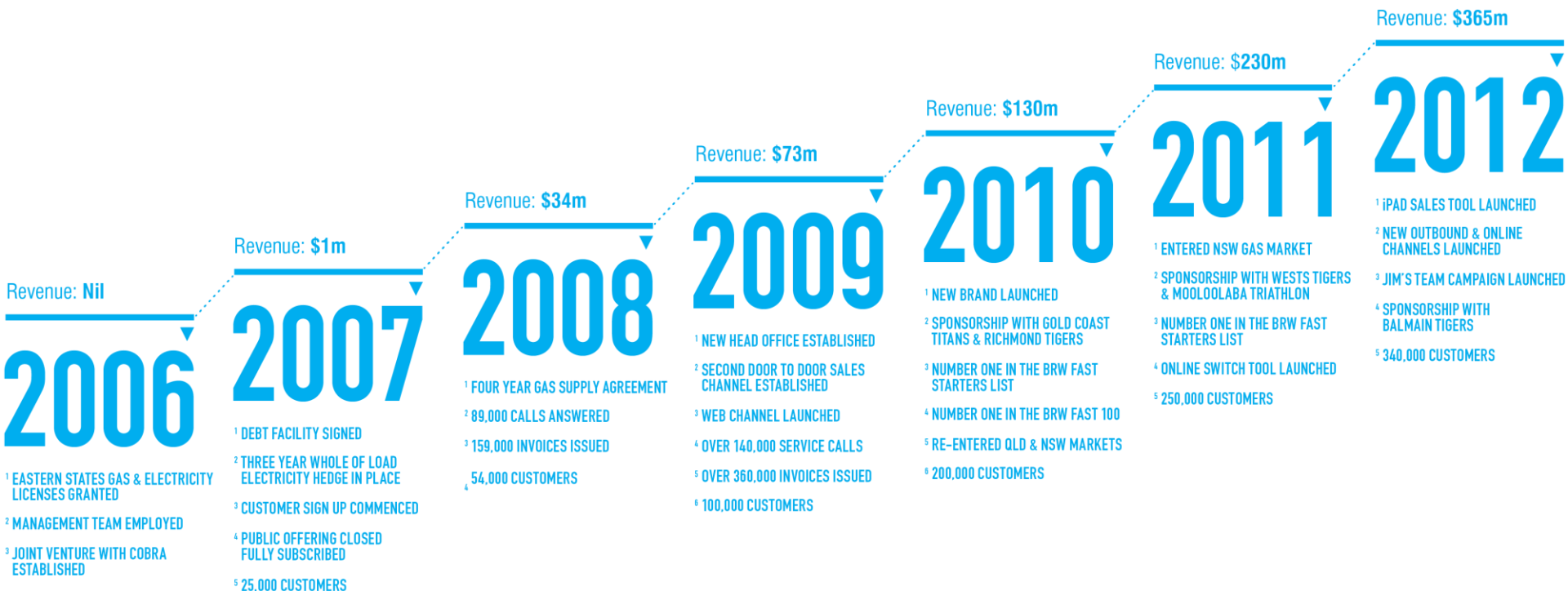
Australian Power & Gas
has 31,466 accounts
in Queensland

New South Wales

Total accounts 4.3m

Australian Power & Gas
has 85,000 accounts
in New South Wales

Growth to date

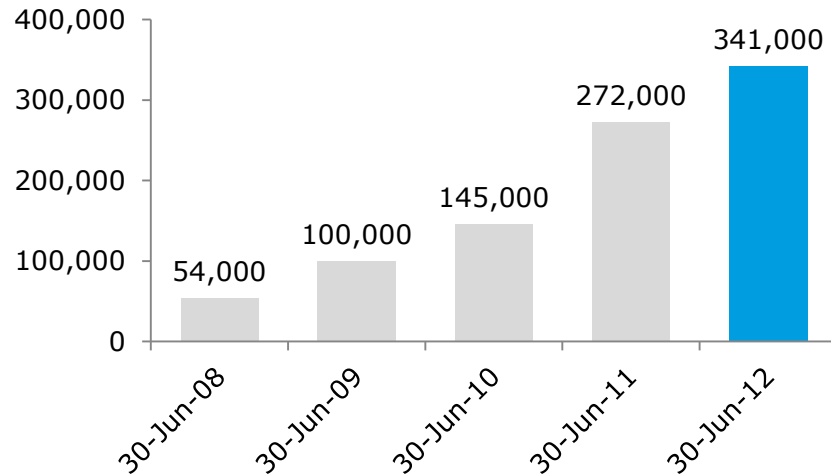


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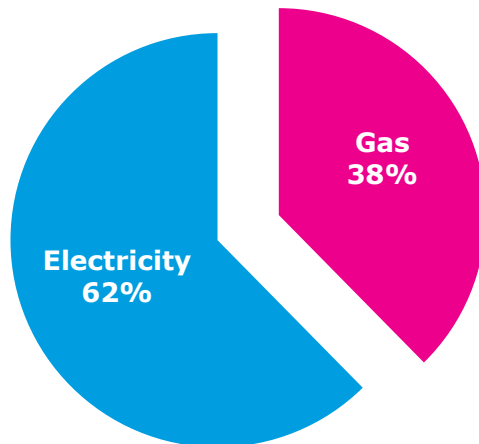
Strong customer growth

Net accounts

↑ 25% or 69k



- Strong growth in all States, particularly NSW
- Continued focus on increasing number of dual fuel customers (electricity and gas accounts)
- Diversification of State risk
- Customer acquisition platforms developed in each region to maintain growth options



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Retail proposition

- Point of difference with the “Big Guys” in the energy industry
- *We’re committed to:*
 - Helping customers save money on their home energy
 - Delivering award-winning customer service
 - Having a 100% Australian-based team
- Building on concept of ‘Jim’s Team’ to increase consumer engagement
- Invested in experienced leadership team to anticipate and drive industry change



A man in a dark pinstripe suit and light blue shirt stands smiling, gesturing with his right hand. To his right is a large graphic with three stacked blue boxes containing the text "A BETTER DEAL", "THAN THE", and "BIG GUYS" in white capital letters.

We're committed to:

- ★ Helping customers save money on their home energy
- ★ Delivering award-winning customer service
- ★ Having a 100% Australian-based team

Jim Myatt
Founder & CEO
Australian Power & Gas

Australian Power & Gas

Regulatory environment – Energy Assured Ltd

Self regulating scheme successful for door to door marketing

- Founding member of Energy Assured Limited (EAL) a self regulated scheme for door to door marketing
- EAL endorsed by ACCC and in operation since January 2012
- Decreased complaints and better quality management of door to door marketers
- EAL annual audit ranks us as having industry leading operation

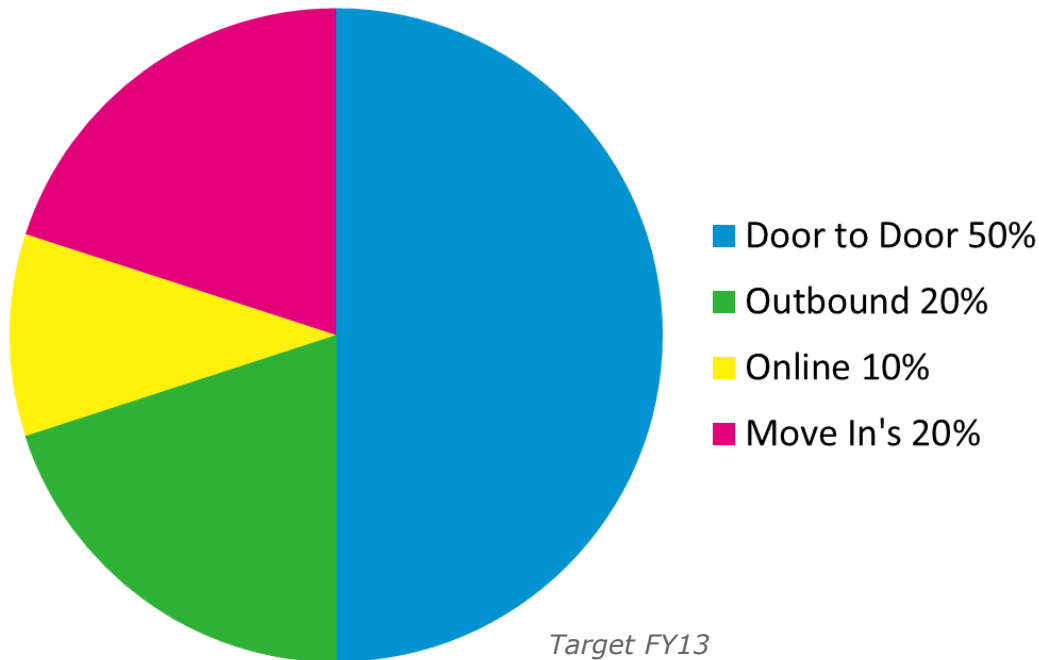


Using leading iPad technology at the door



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We are building new channels



- Over 12 separate channels operating to drive customer growth
- Focus on high value, dual fuel customers in Victoria and New South Wales (particularly regional NSW)

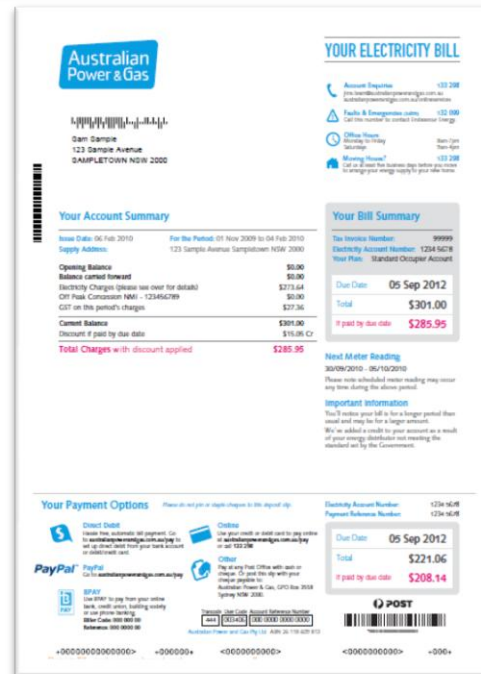
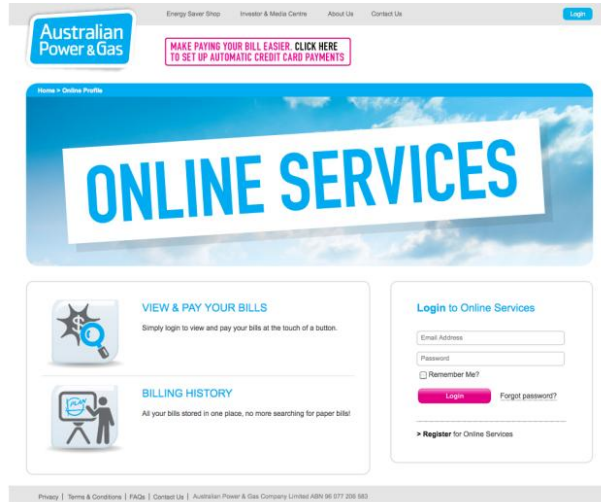


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Building our door to door capability



Innovating in the way we deal with customers



- Online customer service portal
- Account management, update details, plan change and register for e-billing
- More than 5,000 customer accounts registered since launch in November 2012

- Redesigned bill
- Clearer and will ultimately increase customer satisfaction
- New automated online payment options including PayPal launch

- Australian Power & Gas Plus
- Online portal for Smart Meter customers
- Launching in early 2013

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New categories to complement existing brand proposition



- Customers are less likely to churn if they have multiple products and services with us
- Insurance/Phone and Internet researched as permissible category extensions
- White label partnerships with A&G Insurance Services & Telco In A Box both whom have challenger market positioning
- Currently in initial test phase
- Low risk, low capital requirements



Growing in regional markets



- More than 70% of NSW sales are now outside the metropolitan Sydney area
- Increased marketing activity by sales channels in regional NSW in 2013 where we enjoy strong market position
- Focus on community activity and sport sponsorships in regional areas

COMMERCIAL MARKETS

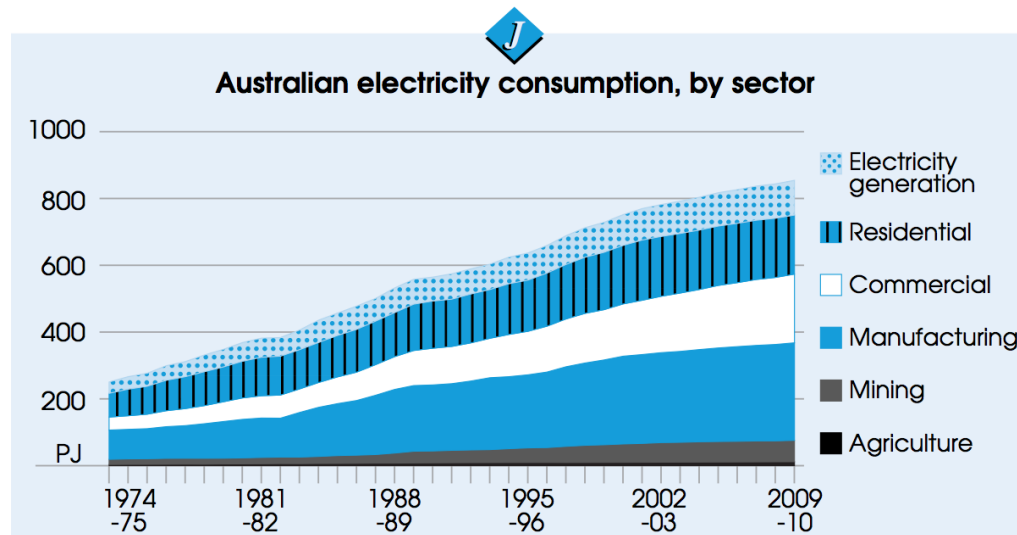
Grant Long

General Manager Commercial Markets

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Commercial Markets presents a substantial opportunity

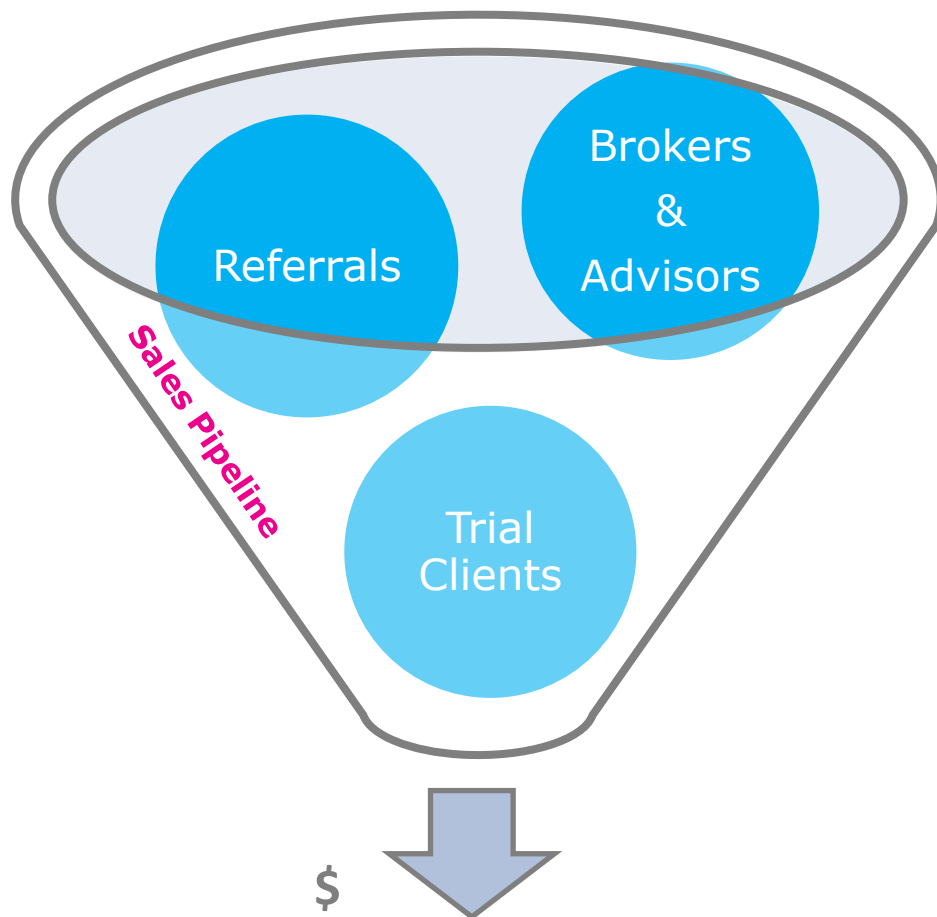
Entry to commercial and industrial markets is a key focus in FY13



Source: ABARE, 2009-10

- Commercial Markets energy consumption is 70% of total market volume
- Non-residential markets are unregulated and complement our existing load profile
- Commercial markets leverages existing business structure and core strengths
- Trial customers commencing transition in December 2012
- A full market launch being planned for late 2012-13 after completion of market trials

Commercial Markets open for business



Building the Sales Pipeline!

- Trial customers are being contracted and the pipeline developed
- \$37M of pipeline being qualified
- First 4 employees are on board. Success to date
- Leveraging existing Australian Power & Gas functions
- First 8 commercial clients signed
- 2570 Residential Customer Equivalents (RCE)

Residential Customer Equivalents

(RCE) is a utility usage measurement providing comparative translation of commercial customer consumption to a standard household equivalent.

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Our proposition

Value Proposition

1. Competitive pricing & flexible terms
2. Timely and accurate billing
3. Consistent account management

Australian Power & Gas Electricity Supply Offer
 Australian Power & Gas - October, 2012.
 Energy Usage - Schedule of Rates (including carbon)
 (Optional - 2 Year Fixed Cost (Flat Rate Peak and Off Peak))

Day	Time	Rate	Unit
21 Oct	06:00 - 18:00	0.0000	kWh
21 Oct	18:00 - 06:00	0.0000	kWh
22 Oct	06:00 - 18:00	0.0000	kWh
22 Oct	18:00 - 06:00	0.0000	kWh

Green Charges
 • Greenhouse Gas Emissions (GGE) - 0.0000
 • Large Scale Renewable Certificate (LSC) - 0.0000

Network Charges
 All associated network, renewable energy, meter and other charges will be added to the bill through the charges incurred by the meter and network provider. These charges are not included in the offer.

- ✓ Price driven market
- ✓ Leverage existing wholesale capability for clients
- ✓ Bespoke offers reflecting business needs

Australian Power & Gas
 Your Bill
 Bill Number: 12345678
 Bill Period: 1 Oct 2012 - 31 Oct 2012
 Bill Amount: \$123.45
 Bill Due Date: 15 Nov 2012

Usage Summary

Category	Usage (kWh)	Rate (\$/kWh)	Amount (\$)
Peak	100	0.0000	0.00
Off Peak	200	0.0000	0.00
Greenhouse Gas Emissions (GGE)	0.0000	0.0000	0.00
Large Scale Renewable Certificate (LSC)	0.0000	0.0000	0.00
Total			\$123.45

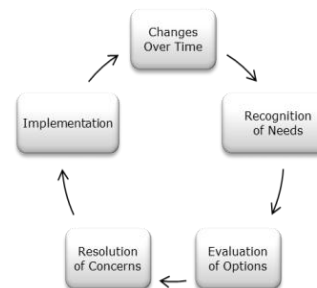
Energy Usage Graph

The graph shows energy usage over the last 12 months, with a peak in usage during the summer months (Dec-Feb) and a low during the winter months (Jun-Aug).

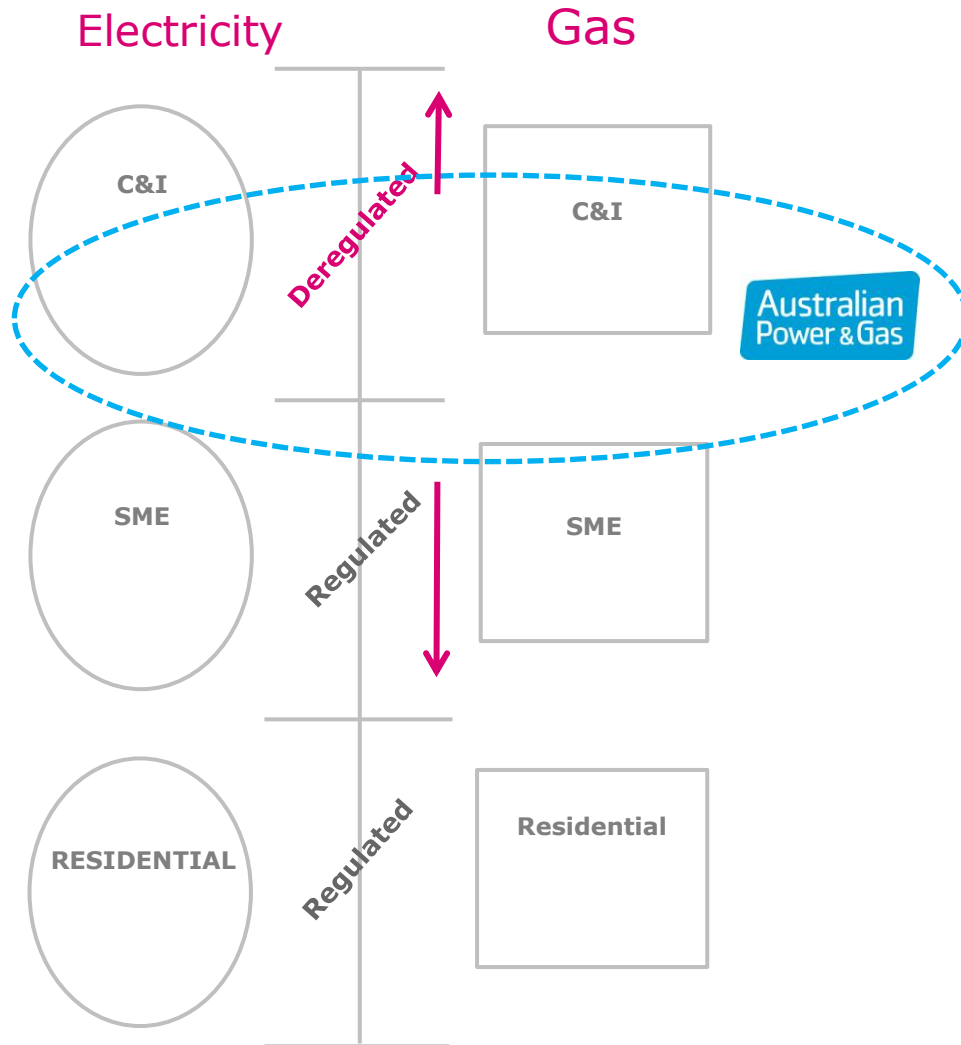
- ✓ Major driver of client satisfaction
- ✓ Informative, transparent, accurate and timely
- ✓ Key driver for reducing credit risk



- ✓ Fit for purpose client management
- ✓ Blend of technology and people
- ✓ Consistent and client centric.



Future expansion



Enhancing capability, playing to strengths

- Market trial and launch 2012/13, initial focus on mid-tier C&I
- Build credentials to expand C&I position and targets
- Dedicated push into SME medium term 2013/14
- Leveraging mass market expertise to focus on small business customers

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FUNDING FOR GROWTH

Warren Kember
Chief Financial Officer

**Australian
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Funding for growth

Growth expenditure consists of:

- Residential customer acquisitions - FY13 will be similar to FY12 at \$16m
- Commercial & Industrial customer acquisitions – FY13 spend will be around \$1m
- Growth in accounts increases working capital requirements
- Business systems expenditure will increase during FY13 to accommodate growth

Capital platform

- Existing residential business has a maturing cash flow to fund account acquisition expenditure
- New debt facility with Macquarie Bank enhances use of available security (receivables) and access to wholesale markets. Cash released from existing bank guarantee arrangements

Debt & wholesale facilities

Key elements

- \$70 million total loans consisting of:
 - \$55m revolving facility secured
 - \$15m wholesale hedging and bank guarantee facility
 - Increase in facility can be negotiated in line with business growth
- Secured against cash on deposit of \$15m and receivables (currently \$110m)
- Cash from existing bank guarantee arrangements released

Benefits

- Supports growth aspirations
- Lower finance costs
 - Lower interest and facility fees that previous arrangements
 - Interest costs further lowered by being able to repay loan balance with collections on a daily basis
 - Annual interest saving in the order of \$2m
- Lower wholesale costs
 - Increased range of counter parties available
 - Wider range of hedging instruments to manage load

Debt capacity

- Existing residential business expected to generate significant cash flow as customer base matures. On a business as usual basis this would result in a falling net debt level and gearing
- Growth of Commercial customer base and systems development will result in a negative cash flow until business matures. However the working capital required will be lower than with residential due to the monthly billing of amounts due
- Net debt expected to be around \$60 million by June 2013, well within security levels

KEY HIGHLIGHTS

James Myatt

Chief Executive Officer, Managing Director

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Key highlights

- Leveraging scalable platforms for growth both in markets and products
- Key focus on entry into Commercial Markets – 70% of energy market
- Strong capital structures in place to fund growth
- Continue driving innovation to increase loyalty and drive value of customers
- Experienced management team in place
- Goal to generate \$1 billion revenue by 2015/16

THANK YOU

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