

24 August 2000

**COMMENTARY BY THE DIRECTORS ON THE  
PRELIMINARY FINAL STATEMENT MADE TO THE  
AUSTRALIAN STOCK EXCHANGE LIMITED  
ON 24 AUGUST 2000**

**HIGHLIGHTS**

Highlights for the year ended 30 June 2000 were the achievement of a record profit, the highest growth in earnings per share and, at the same time, implementation of the biggest expansion programme in the Company's history.

AGL achieved a 103.3% increase in profit attributable to Proprietors. Earnings per share including abnormals rose 96.8%.

Substantial progress was achieved in re-positioning the Company as an energy investment, marketing, management and development organisation.

The Australian Pipeline Trust (APT), which was listed on the Australian Stock Exchange on 13 June 2000, paid a total of \$1,246.6 million for AGL's interest in almost 7,000 km of high pressure gas transmission pipelines and other pipeline interests.

AGL realised net cash proceeds of \$754 million and an abnormal profit after tax of \$161.9 million after making a special provision for \$61.5 million, which relates to the restructuring of the gas transportation agreement for haulage of natural gas through the Moomba to Sydney pipeline system.

APT has granted AGL's new Infrastructure Management & Services group an asset management contract for 20 years and a services contract for a minimum of five years. In addition, AGL and APT have entered into a pipeline development agreement which gives APT the right to acquire an interest in any pipeline projects developed by AGL, including the planned PNG Gas pipeline.

AGL holds a 30% stake in APT and will derive both operating income and unit holder distributions from the new arrangements.

The proceeds from the sale of APT were used to retire debt and fund two major acquisitions.

First the buying of the electricity retail business of ETSA Power, which has approximately 737,000 customers, from the South Australian Government in January 2000 at a cost of \$175.0 million.

Second, the Natural Gas Corporation (NGC) in New Zealand acquired 75.8% of New Zealand's largest energy retailer, TransAlta New Zealand (TANZ), at a net cost of NZ\$824.9 million. AGL through its 71.6% shareholding in NGC contributed \$218.6 million in support of a rights issue made by NGC.

In December 1999 AGL was selected as the preferred partner in a joint venture with the Australian Capital Territory (ACT) Government to create a new 'multi-utility' by merging AGL's natural gas business with ACTEW's power and water business. The joint venture, in which AGL and ACTEW each hold a half share, will operate a natural gas, electricity, water and sewerage business serving the needs of 130,000 customers in the ACT.

In May 2000 AGL (20%) and ACTEW (26%) invested in TransACT, a company formed to roll-out the first broadband fibre-optic telecommunications local access network in the ACT. This state-of-the-art network will provide telephone, video and high-speed data services to Canberra residents and businesses. The roll-out is expected to be completed by the first half of 2002.

## **RESULTS**

Group earnings before borrowing costs, tax and abnormal items was up 47.7% to \$515.2 million. The result includes higher profits from Pipelines due to an increased equity share of profits from East Australian Pipeline Limited (EAPL), higher profits from NGC following the acquisition of the Fletcher Challenge one-third shareholding, the TransAlta NZ (TANZ) acquisition on 31 March 2000 and profit contributions from the electricity retail customers in South Australia.

Net borrowing costs rose to \$138.2 million mainly due to the acquisition of electricity customers in South Australia and the 75.8% interest in TANZ by NGC, offset by the sale of the gas transmission pipeline assets to APT.

Net debt increased from \$1,316.0 million to \$2,019.7 million. Tax expense on operating profits before abnormal items increased 82.4% to \$115.3 million primarily as a result of increased profits.

The abnormal items after tax for the year were \$201.0 million comprising:

- ?? profit from the sale of transmission pipeline assets to APT (\$161.9 million);
- ?? tax benefit resulting from the re-statement of the Group's net deferred income tax balances as a result of reductions in company tax rates (\$40.7 million);
- ?? profits from the sale of Stage 1 Breakfast Point (\$9.5 million); and
- ?? tax benefit resulting from the recognition of capital tax losses in respect of future income tax benefits not previously brought to account (\$15.6 million).

offset by:

- ?? costs incurred to restructure AGL's businesses and processes (\$20.6 million); and
- ?? GST implementation costs (\$6.1 million).

Profit attributable to AGL's Proprietors for the year was \$450.0 million, up 103.3% compared with \$221.3 million for the previous year.

## **Indicators**

Earnings per share, including abnormals, increased from 68 cents to 133.8 cents, an increase of 96.8%. Excluding abnormals the increase was 15.8%. Net tangible asset backing per share

at year end declined by 98 cents to \$1.83 compared to \$2.81 last year primarily as a result of the increase in intangible assets resulting from the NGC and TANZ acquisitions and the purchase of the electricity retail licences in South Australia.

### **Sales Revenue**

Sales revenue was \$2,292.2 million, an increase of \$832.6 million primarily reflecting the consolidation of NGC and TANZ as controlled entities and the purchase of the ETSA Power business. Energy Infrastructure's sales revenue was \$201.8 million. Energy Sales & Marketing's sales revenue totalled \$1,509.1 million. NCG/TANZ's sales revenue was \$504.6 million.

### **Cash Flows, Borrowings and Gearing**

Operating cash flow for the year was \$373.3 million, compared with \$297.2 million for the previous year.

During the year, net borrowings increased by \$703.7 million to \$2,019.7 million. The increase mainly reflects the purchase of ETSA Power in South Australia for \$175 million, purchase of TANZ by NGC for \$432 million, purchase of additional interest in EAPL for \$119.7 million and payment for 30% interest in APT for \$146.4 million. These acquisitions and investments were partially offset by operating cash flows, net proceeds from the sale of transmission pipeline assets to APT and the sale of Industrial Pipe Systems.

The net debt to equity ratio was 96.8% compared with 86.3% at the end of last year, primarily resulting from extra borrowings. Net borrowing costs for the year were covered 3.7 times by earnings before borrowing costs, tax and abnormal items compared to 4.5 times for the previous year.

### **Issued Capital**

An additional 13,185,118 shares in the Company were issued during the year, 12,550,970 in relation to the AGL Dividend Reinvestment Plan (DRP) and the remainder associated with the AGL Share Reward and Share Loan Plans.

### **DIVIDENDS**

The Directors have recommended a final dividend for the year of 27 cents per share, franked to 6 cents (22.2% of final dividend) payable on 17 October 2000. The Foreign Dividend Account (FDA) credit in respect of the dividend is 5 cents per share. Given the size of the abnormal profit this year the Directors have further recommended a special unfranked dividend for the year of 23 cents per share, also payable on 17 October 2000.

Together with the 16.7% franked interim dividend of 24 cents per share, paid on 14 April 2000 this represents a total dividend for the year of 74 cents (13.5% franked), 64.4% up on the total dividend of 45 cents per share (35.5% franked) for the previous year. The total FDA credit declared in respect of the dividends is 10 cents per share.

Share transfers received by 4 October 2000, up to the time specified in the Australian Stock Exchange Listing Rules and the Stock Exchange Clearing House Business Rules, will be registered before entitlements to the dividends are determined.

The Dividend Reinvestment Plan will continue for both the final and special dividends with a discount rate of 2.5%. Proprietors who elect to participate in the DRP will receive additional AGL shares in lieu of receiving the cash dividends.

## **OPERATIONS**

### **Energy Infrastructure**

The Energy Infrastructure division contributed \$329.1 million to AGL's earnings before borrowing costs and tax.

In June 2000 Energy Infrastructure was reorganised into the Infrastructure Management & Services business trading as 'Agility' to provide infrastructure development, construction, management and related services to owners and developers of infrastructure. The strategy is designed to unlock the full value of the Company's energy-related expertise to grow a new source of non-regulated earnings.

**Gas Networks** contributed \$176.5 million to earnings before borrowing costs and tax. Total natural gas transported for the year was 111.3 PJ, up 3.5 PJ on the previous year. During the year a record 40,754 sites were added to the network, exceeding the previous year by 1,058, bringing the total number of sites to 868,893 in NSW and the ACT.

Since the introduction of open access to the NSW network system approximately 12 PJ per annum of natural gas is now being transported to 38 customer sites under third party transportation contracts.

Tariff market sales grew by 1.6 PJ during the 1999/2000 financial year, despite the transfer of 0.3 PJ into the contract market. The residential segment grew by 1.4 PJ largely driven by new customer growth and an increase in the average consumption per domestic customer.

The gas network was extended by 685 km to 25,562 km. Major areas of pipe-laying activity saw gas distribution systems extended to the southern NSW towns of Holbrook, Culcairn, Temora, Henty and Cooma together with Forbes and Parkes in the Central West.

The SCADA (Systems Control and Data Acquisition) Centre for monitoring and controlling gas distribution systems in NSW and the ACT was relocated from Breakfast Point to a new site at North Parramatta, without interruption to supply.

During the year Gas Networks participated in the NSW Gas Retail Contestability Steering Group process managed by the NSW Ministry of Energy and Utilities. This group has been developing the business rules and systems and processes required to enable full retail competition in the NSW gas market. The original timetable called for all customers with an annual consumption below 10 TJ to be subject to open access as from 1 July 1999, however the timetable was amended by the Government to provide for access to customers in the 1 TJ to 10 TJ band from 1 October 1999. Full contestability will now commence from 1 July 2001.

**Electricity Networks** in Victoria, which covers approximately 950 sq km of north-west greater Melbourne contributed \$68.9 million to earnings before borrowing costs and tax. A total of 4,017 GWh was delivered within the distribution territory, a 3.7% increase in energy throughput on the previous year. The network continued to grow, with an additional 5,198 sites connected during the

year. It now comprises 256,258 sites and 6,874 km of distribution network and over 95,000 poles.

A further improvement in increasing the reliability efficiency of electricity supply to our customers in Victoria was achieved during the year. Customer Minutes Off Supply was reduced to 93.4 from an average of 104.7 minutes. These results were achieved even though a non-AGL industrial dispute impacted supply to customers through load shedding and supply restrictions imposed by the State Government.

New projects undertaken and completed during the year included the establishment of a zone station at Braybrook and the provision of an additional transformer at the Sunbury zone substation. Other measures to improve reliability included a number of new 22 kV feeder installations and the automation of key locations on the electrical network.

**Pipelines** contributed \$83.7 million to earnings before borrowing costs and tax. Total national throughput of 209.4 PJ was 5.0% higher than last year's volume of 199.5 PJ and represented a two-year growth of 16.2% largely due to the Carpentaria Gas pipeline and the Goldfields Gas pipeline.

Pipelines' contribution for the year included \$26.8 million resulting from the restatement of deferred tax balances of associated entities and AGL's interest in EAPL increasing from 51% to 100% prior to the divestment of EAPL to APT in June 2000.

During the year AGL's Construction & Engineering Services division successfully completed the 365 km Mid West pipeline to Windimurra in Western Australia, Phase 1 of the Canberra Primary Mains extension and looping work to expand the capacity of the Roma to Brisbane pipeline to satisfy growing market demand. It also completed the Moomba to Melbourne compression augmentation project and construction of the Leonora lateral in Western Australia for Stawest Power.

On 13 June 2000 the transmission pipeline assets of AGL were sold to APT.

### **Energy Sales & Marketing**

Energy Sales & Marketing (ES&M) division is responsible for the purchase, sale and marketing of natural gas, electricity and energy services to nearly two million customers in Australia. During the year ES&M contributed \$67.7 million to earnings before borrowing costs and tax.

Record natural gas sales to the NSW tariff market was achieved during the twelve month period with sales of 33.5 PJ, 4.9% higher than the previous year. The result was achieved by continued growth in both residential and small business sectors. Natural gas customer numbers increased by 39,881 to 868,028 representing a record level of growth.

Gas consumption by business and wholesale contract customers totalled 85.8 PJ. This included sales to Energy 21 in Victoria, via the NSW to Victoria interconnect under a winter heating agreement and sales into South Australia to Terra Gas Trader. In Western Australia gas retailing activities were expanded by 0.3 PJ with sales to the Windimurra vanadium project in conjunction with Western Power Corporation and to Jandakot Woolwashers.

Appliance trading continued at record levels for both AGL-branded 'Energy Shop' agencies throughout the country regions of NSW and the branded 'Energy Shop' franchise outlets with sales revenue of \$32 million.

Total electricity sales grew by 120.2% to 9,457GWh largely due to the five-month contribution from AGL South Australia, formerly ETSA Power. Significant growth in sales was achieved in the Victorian contestable electricity market with total load of 2,634 GWh, an increase of 12% over the previous year.

In October 1999 AGL Electricity formed a strategic alliance with the nation's largest electricity generator, Macquarie Generation. This alliance will enable the offering of competitively-priced electricity for contestable electricity customers over the next three years and is primarily aimed at supporting AGL's activities in NSW. This has assisted AGL in rapidly growing our electricity customers in NSW from 188 to 362. Electricity sales into NSW totalled 923.1 GWh (up 69%).

A contract for electricity supply was signed with Qenos in Victoria on 1 September 1999. This is a major contract and it will increase AGL's Victorian contestable electricity sales by 7%.

### **Power Generation**

Power Generation contributed \$2.9 million to earnings before borrowing costs and tax.

AGL's 100%-owned Cawse power station located approximately 60 km north-west of Kalgoorlie, supplies electrical energy and steam to Centaur Nickel, which operates an adjacent lateritic nickel and cobalt mine and processing plant. Earlier in the year nickel production was at the lower end of the range in this new project but approached the plant's design capacity by year end.

AGL and Western Power Corporation jointly own the Windimurra power station which supplies electricity to the vanadium mine and processing plant located at Windimurra, approximately 70 km from Mt Magnet in Western Australia. During the year construction of the power plant was completed and the first commercial electricity was delivered in September 1999.

The four power stations owned by AGL (15%) in partnership with Canadian company, TransAlta (85%), and located at Mt Keith, Leinster, Kalgoorlie and Kambalda in Western Australia operated satisfactorily during the year.

### **Energy Services**

AGL Energy Services increased its market by successfully providing a wide range of value-added benefits for new and existing customers as well as winning and completing a number of requests for project management work. This included a cogeneration facility at Sydney Water's Malabar Sewerage Treatment Plant.

AGL built, owns and operates two natural gas refuelling stations at Ryde and Botany to service the expanding fleet of NSW natural gas-powered buses. At the start of the Olympics 250 buses will be in service.

AGL Energy Services has also been contracted by Melbourne Water Corporation to build, own and operate a 3.6 MW power generation facility at the Western Treatment Plant at Werribee, on Melbourne's western outskirts. This power plant which is fuelled by sewage gas and will provide most of the electricity required at the treatment plant, the largest of its kind in the Southern Hemisphere.

The AGL-owned and operated Whittlesea Landfill Gas Extraction system in Victoria was completed and commissioned in March. It is currently combusting approximately 6 GJ of methane gas per hour previously lost to the atmosphere.

## **INTERNATIONAL**

### **New Zealand**

On 14 July 1999 AGL acquired the one-third shareholding held by Fletcher Challenge in Natural Gas Corporation (NGC) for NZ\$269.6 million (AUD\$213.4 million). The acquisition took AGL's total shareholding in NGC to 74.4%.

On 31 March 2000 NGC acquired Canadian company TransAlta Energy Corporation's 75.8% interest in TransAlta New Zealand (TANZ) for NZ\$824.9 million. TANZ retails gas and electricity to approximately 520,000 customers in Wellington, North Auckland and the Hutt Valley in the North Island and in Christchurch in the South Island. This represents around 30% of New Zealand's estimated 1.7 million energy customers.

In addition, TANZ has interests in four electricity generating plants with a total annual capacity of 4,075 GWh, representing approximately 12% of New Zealand's annual electricity demand. These plants, all operated by TANZ are gas-fired generating stations at Southdown (47.5% owned) and Taranaki combined cycle (100% owned), the Cobb dam and hydro scheme near Nelson and the Silverstream landfill plant (46.5% owned).

The TANZ majority acquisition was a rare opportunity to purchase interests in sizeable concentrations of energy customers and electricity generating plants. It allows NGC to achieve a critical mass and therefore a sustainable competitive position in energy retailing. It also gives NGC access to substantial gas-fired generation. With this acquisition, NGC now has a direct interest in over 650,000 energy customers in New Zealand.

New Zealand's operations contributed \$104.0 million to earnings before borrowing costs and tax for the year.

### **Chile**

Since 1998 AGL has held a 50% interest in Gas Valpo, a Chilean gas company based in Valparaiso and the leading natural gas distributor and owner of gas distribution businesses in the area.

In July 2000 this year AGL moved to 100% ownership of Gas Valpo through acquisition of the remaining 50% interest held by AGL's joint venture partner, Lipigas. The purchase price for this transaction was US\$22 million, AGL's original investment in Gas Valpo was US\$26.3 million.

Customers converting to natural gas exceeded budget by more than 15% and are now over 20,000.

### **Industrial Pipe Systems**

In April this year AGL sold its pipe manufacturing subsidiary, Industrial Pipe Systems (IPS), to Georg Fischer AG, a major international manufacturing group based in Switzerland for \$36.3 million. As part of the sale, AGL entered into a strategic alliance with Georg Fischer to support the future development of the IPS gas distribution technologies both in Australia and selected overseas markets.

The decision to sell IPS was consistent with our focus on investment management and development of business activities in both the competitive and regulated sectors of the energy marketplace.

### **LPG**

The contribution to earnings before borrowing costs and tax from the Company's 50% interest in Elgas Limited and the wholly-owned H C Extractions Pty Limited totalled \$17.7 million compared to \$10.4 million for the previous year.

Trading conditions proved to be extremely difficult for Elgas. World LPG prices rose sharply from US\$148 per tonne in June 1999 to US\$325 per tonne in March 2000. This, combined with a weak Australian dollar, resulted in record high LPG purchase costs and an adverse impact on consumer demand.

Although trading profit declined, this was more than offset by the restatement of Elgas' net deferred income tax balances as a result of the announced reductions in company tax rates. Elgas' contribution to AGL increased from \$9.2 million to \$9.4 million.

The construction of the 65,000 tonne LPG storage cavern at Port Botany was completed during the year at a cost of \$190 million. LPG was first piped into the Cavern in April 2000 and the first road tanker was loaded on 31 May 2000.

H C Extractions had a record year, generating earnings before borrowing costs and tax of \$8.3 million (\$7 million higher than last year). This result was largely achieved as a result of the benefits of higher LPG prices.

### **Property**

Remediation of AGL's former gasworks site at Breakfast Point, Mortlake, is progressing well with approximately 70% of the work now complete. The site's purchaser, the Rosecorp Consortium, obtained 'Master Plan' approval from Concord Municipal Council.

Under the sale arrangement, the purchaser exercised the first-call option over the southern portion and settlement of Stage 1 took place in March 2000 resulting in an abnormal profit after tax of \$9.5 million.

Civil works and the finalisation of all services relating to the construction of the 25-lot industrial subdivision at our Mars Road, Lane Cove site was completed in April 2000. Twenty lots were sold and settled prior to the end of the 2000 financial year.

M J Phillips  
Chairman