

## Financial Calendar

1999		2000			
September	October	December	March	April	June
<b>29 September</b> Shares begin trading ex-dividend	<b>6 October</b> Record date for final dividend	<b>31 December</b> Half-year end	<b>2 March</b> Interim dividend and half-year result announced	<b>14 April</b> Interim dividend payable	<b>30 June</b> Year end
	<b>19 October</b> Annual General Meeting		<b>27 March</b> Shares begin trading ex-dividend		
	<b>Final dividend payable</b> Highlights from Chairman's Address to Annual General Meeting mailed		<b>31 March</b> Record date for interim dividend		

### Invitation to the Annual General Meeting

The Annual General Meeting of the Company will be held in the Ballroom, Sheraton on the Park, 161 Elizabeth Street, Sydney on Tuesday 19 October 1999 at 11.00am. The formal Notice of Meeting is enclosed with this Report.

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### Gas Energy Units

The basic unit of energy used in the gas industry is a joule.

1 megajoule (MJ) = 1 million joules

1 gigajoule (GJ) = 1 thousand megajoules

1 terajoule (TJ) = 1 million megajoules

1 petajoule (PJ) = 1 billion megajoules

It takes approximately one megajoule to boil enough hot water for 14 cups of tea.

### Electricity Energy Units

The basic unit of energy used in the electric industry is a watt hour.

1 kilowatt hour (kWh) = 1 thousand watt hours

1 megawatt hour (MWh) = 1 thousand kilowatt hours

1 gigawatt hour (GWh) = 1 thousand megawatt hours

It takes approximately 300 watt hours to boil enough hot water for 14 cups of tea.

## Directory of Offices

### Head Office

#### The Australian Gas Light Company

AGL Centre

Corner Pacific Highway and Walker Street

North Sydney NSW 2060

Telephone 02 9922 0101

Facsimile 02 9957 3671

### Energy Infrastructure

#### Sydney

Level 11, AGL Centre

Corner Pacific Highway and Walker Street

North Sydney NSW 2060

Telephone 02 9922 0101

Facsimile 02 9957 3871

### Gas Networks

18 Rodborough Road

Frenchs Forest NSW 2086

Telephone 02 8977 6500

Facsimile 02 8977 6820

### Pipelines

#### Canberra

189 Gladstone Street

Fyshwick ACT 2609

Telephone 026 295 5222

Facsimile 026 239 2711

#### Brisbane

Level 7, 300 Ann Street

Brisbane QLD 4000

Telephone 07 3270 3800

Facsimile 07 3221 3160

#### Darwin

16 Georgina Crescent

Palmerston NT 0830

Telephone 0889 351 611

Facsimile 0889 321 663

#### Perth

Level 1, 35 Ventnor Avenue

West Perth WA 6005

Telephone 089 422 4100

Facsimile 089 422 4101

### Electricity Networks

#### Melbourne

Head Office

Level 2, 333 Collins Street

Melbourne VIC 3000

Telephone 03 9201 7000

Facsimile 03 9629 1878

#### Broadmeadows

34 King William Street

Broadmeadows VIC 3047

Telephone 03 9201 7000

### Energy Sales & Marketing

#### Sydney

Level 7, AGL Centre

Corner Pacific Highway and Walker Street

North Sydney NSW 2060

Telephone 02 9922 0101

Facsimile 02 9922 8477

#### Canberra

Suite 2, Level 7, Garema Court

148-180 City Walk

Canberra City ACT 2601

Telephone 02 6243 0900

Facsimile 02 6243 0916

#### Five Dock

181-187 First Avenue

Five Dock NSW 2046

Telephone 02 9712 6116

Facsimile 02 9712 6150

#### Parramatta

46 George Street

Parramatta NSW 2150

Telephone 02 9840 7450

Facsimile 02 9840 7496

#### Melbourne

Level 2, 333 Collins Street

Melbourne VIC 3000

Telephone 03 9201 7000

Facsimile 03 9629 1878

AGL is  
proudly  
an Australian  
company  
trading in  
natural gas,  
electricity  
and LPG.

The Company, originally formed in 1837 to light the streets of Sydney, is the oldest Australian company trading under its original name. AGL has business interests in seven of the eight Australian States and Territories, and also in New Zealand, Chile, China and Poland. In the last twelve months assets have grown by 21% to \$3.6 billion and capital and reserves by 9.7% to \$1.5 billion. In terms of market capitalisation, AGL is among Australia's 50 largest public companies.

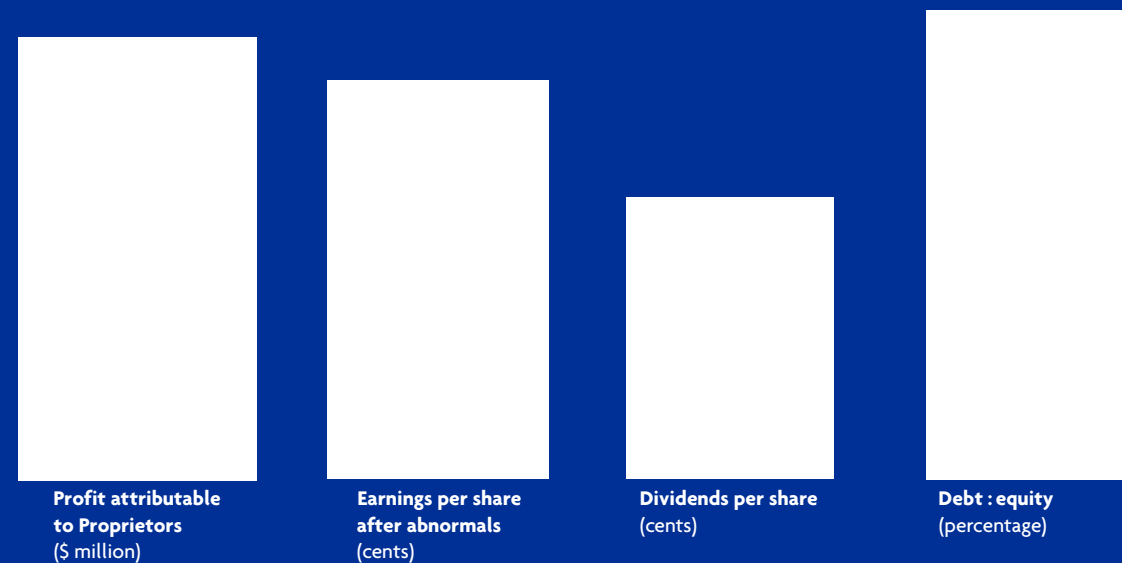
AGL's vision for the future is to:

- be the leading Australian energy asset management, energy marketing and energy investment organisation pursuing growth in Australia and internationally;
- deliver superior returns to Proprietors, outstanding performance for customers and growth opportunities for its people;
- be recognised for quality service, market leadership, professional management and adherence to the highest standards of corporate ethics and conduct.

## Highlights

During the year we:

- Achieved a profit attributable to Proprietors of \$221.3 million.
- Recommended a final dividend of 24 cents per share, franked to 4 cents (16.7% of dividend), taking the full year dividend to 45 cents, franked to 16 cents (35.6% of full dividend).
- Commenced the acquisition process for an additional 38.2% of Natural Gas Corporation Holdings Limited (NGC) in New Zealand, taking AGL's shareholding to 71.6%.
- Acquired a relevant interest in 15.8% of the electricity company TrustPower Limited, New Zealand.
- Acquired a 26,000-customer gas distribution network in the Hutt Valley, near Wellington, as part of AGL's strategy to become a major competitor in the New Zealand energy market.
- Expanded AGL's investment in transmission pipelines and power generation assets, particularly in Western Australia, with investment in the Goldfields Gas Transmission pipeline (GGT) and four power stations along the GGT.
- Acquired a 21.5 MW cogeneration facility supplying power and steam to the Centaur Nickel project at Cawse, 60 km north-west of Kalgoorlie.
- Completed construction of a 365 km pipeline from the Dampier to Bunbury pipeline to the Windimurra vanadium project near Mt Magnet, Western Australia.
- Successfully completed the first phase of a brand campaign to reposition AGL as an Australian gas and electricity company.
- Achieved record growth in customer connection numbers, increasing gas customers by 5% and electricity customers by 2.3%, taking the total number of energy customers to 1,079,880.
- Sold 108.8 PJ into the NSW and ACT gas markets, 5.8 PJ into Victoria, 0.2 PJ into South Australia and 0.3 PJ into Western Australia, reflecting our active entry into new markets.
- Received recognition for our Health, Safety and Environment management system when AGL was awarded the National Safety Council of Australia's Environmental Safety Systems and Projects Award for 1998. In addition, AGL received top honours for the Keep Australia Beautiful/Environment Australia, Environment Policy and Planning category.
- Achieved a 25.9% reduction in our Lost Time Injury Frequency Rate (LTIFR) from 5.8 to 4.3.



## Financial Summary

Year ended 30 June 1999 (\$ million unless indicated)	1999	1998	Change %
Revenue	<b>1,675.8</b>	1,339.7	+25
Operating profit before borrowing costs, tax and abnormal items			
Continuing operations	<b>351.1</b>	287.6	+ 22
Property operations	<b>(2.2)</b>	1.1	—
	<b>348.9</b>	288.7	+ 21
Net borrowing costs	<b>(77.8)</b>	(41.2)	+ 89
Income tax expense before abnormal items	<b>(63.2)</b>	(69.4)	-9
Operating profit after borrowing costs, tax and before abnormal items	<b>207.9</b>	178.1	+ 17
Profit on abnormal items after tax	<b>13.5</b>	18.4	-27
Profit before outside equity interests	<b>221.4</b>	196.5	+ 13
Outside equity interests	<b>(0.1)</b>	(0.1)	—
Profit attributable to Proprietors	<b>221.3</b>	196.4	+ 13
Total assets	<b>3,616.0</b>	2,982.2	+ 21
Total liabilities	<b>(2,091.7)</b>	(1,589.5)	+ 32
Net assets	<b>1,524.3</b>	1,392.7	+ 9
Proprietors' equity	<b>1,524.1</b>	1,392.5	+ 9
Outside equity interests	<b>0.2</b>	0.2	—
Total equity	<b>1,524.3</b>	1,392.7	+ 9
Cash flow from operating activities	<b>297.2</b>	264.4	+ 12
Capital expenditure	<b>433.7</b>	252.9	+ 71
Net borrowings	<b>1,316.0</b>	881.0	+ 49
Earnings per share after abnormals (c)	<b>68.0</b>	65.7	+ 4
Dividends per share (c)	<b>45.0</b>	41.0	+ 10
Earnings on Proprietors' equity after abnormals (%)	<b>15.2</b>	17.2	- 12
Debt: equity (%)	<b>86.3</b>	63.3	+ 36
Net borrowing costs cover (times)	<b>4.5</b>	7.0	- 36
Net tangible assets per share (\$)	<b>2.81</b>	2.44	+ 15
Net assets per share (\$)	<b>4.64</b>	4.31	+ 8

**Dear Proprietor,**

Two words which best describe the past year for AGL are **Challenge** and **Achievement**.

Many of the challenges have come from the process of converting state-based gas and electricity markets, many monopolistic, into a national energy market; from growing competition; and from highly intrusive official regulation. Others have come from the expectations of our customers, our Proprietors, our staff and the general community. It is right that these expectations should be high. It is essential that we continue to rise to the challenges they present.

In this challenging environment, AGL's achievements have been pleasing. It has been a year of solid performance and considerable business expansion. The increase in customer numbers was an all-time high, with higher average gas and electricity sales in the residential market.

In my letter to you last year, I said we were pushing ahead on two fronts:

- further enhancing the efficiency of our existing operations; and
- building future growth prospects through acquisitions and international joint ventures.

As you will see from the details in this Annual Report, we have made significant progress in both areas.

You will be pleased to know that this has been accompanied by another increase in profits. Profit attributable to Proprietors in 1998/99 was \$221.3 million, a 12.7% increase on the previous year.

Earnings before borrowing costs, abnormal items and tax were \$348.9 million, an increase of 20.9%, whilst earnings per share including abnormal items rose from 65.7 cents to 68 cents.

Net borrowing costs were higher than in 1997/98, \$77.8 million against \$41.2 million. This arose mainly from the financing of AGL Electricity Limited, the Goldfields Gas Transmission pipeline (GGT), power generation assets and an investment in Gas Valpo in Chile. Tax expense of \$63.2 million was \$6.2 million less than in the previous year, largely because of an over-provision in prior periods. There was only one abnormal item. The Company was successful in its application to the Development Allowance Authority, allowing it to claim an additional 10% tax deduction for development of the gas network. This resulted in an improvement of \$13.5 million in net profit after tax.

The Board is recommending a final dividend of 24 cents per share, franked to 4 cents (16.7% of dividend). An interim dividend of 21 cents per share, franked to 12 cents (57%), was paid on 15 April 1999.

The proportion of the dividend covered by franking credits is tending to decline. As we have been expanding the range of our business, we have been spending significant amounts of capital to buy or build pipelines or other energy assets, or to upgrade information systems. These expenditures qualify for accelerated tax deductions for depreciation and thus reduce the amount of tax the Company might otherwise pay. Less tax paid means less franking credits.

As I write this letter, the Government is considering the recommendations of the Ralph Committee on Business Tax. Accelerated depreciation and franking credits were just two of the matters reviewed by that Committee. Final decisions on these and many other issues will be critical to future financial arrangements by Australian companies and, in some cases, could influence the feasibility of particular capital projects.

Some Proprietors have expressed their disappointment that AGL was not successful in acquiring one of the privatised gas operations in Victoria. The Board shares their disappointment. Such an acquisition, at the right price, would have improved the core operational base of the Company considerably. At the wrong price, of course, it could have diluted Proprietor value and damaged our competitive position.

We were keen, but unsuccessful, bidders. That presents us with the challenge of finding other ways to grow the business and continue to generate increasing value for Proprietors.

Acquisitions in Australia and elsewhere remain part of that strategy, provided the value equation is right. In 1998/99 we were active investors in transmission pipelines and natural gas-fired power generation assets. That included a \$309 million investment, through a consortium, in the GGT and associated power generation facilities in Western Australia.

We have also reorganised and expanded our operations in New Zealand. Our flagship investment, in Natural Gas Corporation Holdings Limited (NGC), has been increased from 33.3% to 71.6% through purchases of Fletcher Challenge Limited's one-third interest and a further 4.9% on-market. During the year, we have acquired a 9.9% direct interest in the New Zealand electricity company TrustPower Limited, control over the voting rights in a further 4.2% and entered a put option in respect of a further 1.7%, giving us a total relevant interest in 15.8%. In addition, we purchased a gas distribution network in the Hutt Valley and Porirua near Wellington.

These acquisitions are part of AGL's strategy to become a major competitor in the New Zealand energy market. Since 1 July 1998, we have invested more than NZ\$470 million in energy infrastructure and marketing in New Zealand.

Our acquisitions and other capital investments in 1998/99 were financed mainly from cash flows or from borrowings. The only new capital injection came from proceeds of the Dividend Reinvestment Plan and AGL Employee Share Loan Plan. At the end of June 1999, the Company's ratio of net debt to equity was 86.3%, compared with 63.3% a year earlier.

During the year there was some speculation that the Company might be contemplating a capital raising. Proprietors may be interested to know the Board's general approach to equity issues. They will be considered when the combined effects of the

issue and returns from the use of the proceeds are such that there is no lasting dilution of Proprietor value or diminution of returns through dividends. In such circumstances, Proprietors would benefit from such an issue and would be expected to welcome it.

The interests of Proprietors, including their longer-term interests, underly all strategic decisions taken by the Board. AGL now has more than 65,000 Proprietors, ranging from large institutional investors to small individual holdings. This is an increase of 152% over the past five years.

Most of those Proprietors will be pleased to know that the Dividend Reinvestment Plan will again be available for the 1998/99 final dividend which should be payable on 19 October 1999, however the discount rate has been reduced from 5% to 2.5%.

Last year I mentioned the work being done within the Company to prepare for the Year 2000. The dawning of Y2K is almost upon us and, on the basis of the work done and contingency plans made, the Board believes AGL is fully prepared for the event. The costs involved in replacing or amending systems to reach that position have been substantial.

One might have hoped that the passing of Y2K would allow companies to 'take a breather' on the systems front. Regrettably, that will not be possible. Work to encompass the requirements of the new Goods and Services Tax (GST) is already underway with very tight timetables. Presumably, when that is completed, perhaps earlier, work to provide for the new business tax regime will be required.

Meanwhile the process of 'energy deregulation' moves on. For consumers, it is a genuine process of deregulation, providing greater choice and a wider range of services. For those who are part of the industry, the degree of regulation accompanying the deregulation is considerable. AGL remains firmly committed to truly free and fair trade and market flexibility in the energy sector. We also support the concept of competitive neutrality between government-owned and privately-owned businesses, as endorsed by Australian governments in their historic agreements on competition policy.

To-date, progress towards these ideals leaves something to be desired. The timing of customer contestability currently mandated by governments is a matter of concern to energy industry participants. Anomalies seem likely to persist for some time yet between electricity and gas on the one hand, and between different states on the other. Non-aligned timetables do not accord with the goal of a truly national energy market.

There are still some unanswered questions in the regulatory field. For instance, the costs of implementing contestability in the lower volume market segments will require significant investment in information technology and systems. Until there is some clarity from regulators that companies will be able to recover such costs, there is little incentive to undertake the expenditure. Hopefully, remaining uncertainties will be clarified soon.

The Oxford English Dictionary defines a watershed as "A turning point in affairs; a crucial time or occurrence." There is little doubt that events of the past couple of years have been a watershed for AGL. Much has already been done to adjust to the changed conditions. Our basic businesses have been performing well, with strong earnings in the new environment. However, much more will be needed as the situation evolves and is better understood. We are committed to seeking to stay ahead of the game.

Despite the many challenges, your Directors remain confident about the future of AGL and its ability to compete effectively. Over recent years, the Company has adjusted to evolving circumstances, transforming itself from a NSW gas business into a national energy business, disposing of non-core non-synergistic activities and expanding into complementary business areas. We will continue to be flexible, seeking opportunities, through acquisitions, joint ventures, management agreements or corporate restructuring, to grow both our business and the inherent value to our Proprietors.

Mr E F Herbert, a Director since 1 November 1989 and Chairman of the Audit Committee since 5 September 1990, retired from the Board on 23 August 1999. The Company has benefited greatly from Mr Herbert's efforts in both capacities and his thoughtful contributions to Board discussions will be missed. On a personal basis, I would like to thank him for his support and his enthusiastic commitment to AGL's interests.

Mr A B Daniels OAM joined the Board on 24 August 1999 as replacement for Mr Herbert. Mr Daniels' experience both as a corporate executive and a non-executive director complements the skills already available among Board members. His fellow Directors look forward to working with him. As required, Mr Daniels will offer himself for re-election at the Annual General Meeting of the Company on 19 October 1999.

It will be obvious from the Managing Director's Review of Operations that the past year has been a very busy one, amply provided with challenges to be met and problems to be solved. The pressures on the management team and all the employees have been substantial. On behalf of the Board, I would like to thank them for their commitment and their perseverance, and to congratulate them on their long list of achievements.



*M John Phillips*  
M John Phillips  
Chairman  
26 August 1999

	Overview	Resources	Goals for 1998/1999	Achievements for 1998/1999	Goals for 1999/2000
<b>Energy Infrastructure</b>	Gas Networks owner of natural gas distribution pipeline systems in NSW and ACT	AGL net investment \$765.8 million 24,877 km of distribution network 828,139 supply points 574 employees	Maintain GJ/km mains above 1,300 GJ/km Lay 750 km of new mains Maintain unaccounted-for gas at 2% of total issue	\$156.8 million profit contribution Increased GJ/km by 3% to 1,338 782 km of new mains laid Unaccounted-for gas maintained at 2.1% of total issue	Maintain GJ/km of mains above 1,325 GJ/km Lay 750 km of new mains and increase supply points by 40,000 Maintain unaccounted-for gas below 2% of total issue Extend gas supply to additional cities, towns and regional centres, including Emu Plains, Kiama, Cooma and the Central Ranges (NSW)
	Management of Natural Gas Corporation NZ (NGC) gas utility operations	66,793 customers 134 AGL employees	Increase customer numbers by 7% Complete 46 km of mains within the Whangaparaoa project Lay a total of 150 km of new mains	42% increase in customer numbers (includes acquisition of Powerco customers) 95 km mains completed in the Whangaparaoa project 188 km of new mains laid	Refer to International Business section
	Pipelines owner and/or operator of: • Moomba to Sydney (51%) • Central West pipeline, NSW • Wodonga to Wagga Wagga (51%) • Roma to Brisbane (85%) • Carpentaria Gas pipeline to Mt Isa (70%) • Cannington lateral, QLD • Amadeus Basin to Darwin (96%) • Darwin distribution system (96%) • Three lateral pipelines in NT • Goldfields Gas pipeline to Kalgoorlie (39.7%) • Mid West pipeline (50%) • Several smaller lateral pipelines in WA	AGL net investment \$419.2 million 8,746 km of transmission pipelines owned/operated 275 employees	Commence construction of Central Ranges pipeline (NSW) Complete and obtain approval of associated major project agreements Complete construction of Cannington pipeline Complete stage 4 looping of Roma to Brisbane pipeline	\$52.8 million profit contribution Central Ranges pipeline centre line pegged 1 March 1999  Cannington pipeline commissioned September 1998 Stage 4 looping underpinned by Bulwer Island project  TJ/employee increased by 8% to 725 TJ	Complete construction of Central Ranges pipeline Continue planning and preparatory engineering work for the PNG to Queensland pipeline  Complete stage 4 looping AGL Construction to grow revenues derived from third parties No interruptions to supply Reduce operating cost/TJ by 5% Increase TJ/employee by 5%
	Electricity Networks owner of a distribution network covering an area of 950 square km in north-west greater Melbourne	AGL net investment \$1,024.5 million 6,684 km of distribution network 251,060 electricity customer supply points 264 employees	Expand electricity market share in contestable market tranches by 2% Maintain controllable costs per kWh delivered Maximise use and return on distribution system  Full integration of electricity networks into Energy Infrastructure Reduce Customer Minutes Off Supply by 2.8% to 102 minutes	\$68.4 million profit contribution 2.6% growth of network load  Fully integrated Customer Minutes Off Supply of 104.7 minutes (adversely affected by uncharacteristic storm activity)	Grow network load by 2.4% Reduce controllable costs per kWh delivered  Establish Braybrook zone substation to enhance system reliability and support load growth in Footscray and surrounding areas Complete Phase 1 of the programme to upgrade system capacity in the Preston area Develop 'beyond-the-meter' service offerings to customers Reduce Customer Minutes Off Supply to an average of 100 minutes per customer
<b>Energy Sales &amp; Marketing</b>	Retailer and wholesaler of natural gas, electricity and related services	AGL net investment \$108.2 million 828,139 gas customers 251,844 electricity customers 446 employees	Increase average residential natural gas consumption to 25.1 GJ/customer Maintain customer satisfaction rate Increase natural gas customer numbers by 5% Full integration of electricity sales into Energy Sales & Marketing	\$50.8 million profit contribution Average residential consumption increased to 25.1 GJ/customer Customer satisfaction rate maintained Natural gas customer numbers increased by 5% Fully integrated	Increase average residential natural gas consumption to 25.5 GJ/customer Maintain customer satisfaction rate Increase natural gas customer numbers by 4.5%  Grow franchise electricity load by 2% Maintain contestable electricity market share
	<b>LPG</b>	50% of Elgas Limited AGL net investment \$73.8 million 550,000 customers 437 employees	Progress cavern to pressure testing stage  Review gas supply contracts	\$9.2 million profit contribution Excavation completed  Completed review of gas supply contracts	Complete pressure testing December 1999 quarter Commence cavern operations  Finalise new international gas-buying arrangements Develop LPG market for heavy vehicles
	H C Extractions Pty Limited	AGL net investment \$0.8 million 15 employees	Maintain full production days Maintain LPG production level	\$1.3 million profit contribution Achieved 338 full production days 33,892 tonnes LPG production achieved	Achieve 340 full production days Achieve 39,000 tonnes LPG production
<b>Power Generation</b>	Owner and operator of facilities in WA: • Cawse power station • Eastern Goldfields power assets (15%) • Windimurra power station (50%)	AGL net investment \$64.3 million 3 employees	Invest in and develop power generation assets Further develop and expand expertise in power generation	\$1.3 million profit contribution AGL's first power generation assets acquired and developed Generation energy successfully delivered to customers from new plants	Continue to invest in and develop power generation assets Enhance performance from existing generation assets
<b>International Business</b>	New Zealand: • 71.6% of Natural Gas Corporation Holdings Limited • Acquired relevant interest in 15.8% of TrustPower Limited • Natural gas distribution network, Hutt Valley and Porirua	AGL net investment \$238.9 million 2,619 km of transmission pipelines owned/operated	Seek additional large wholesale gas sales Undertake detailed review of company structure in light of electricity reforms Expand retail gas, electricity and LPG businesses	\$16.9 million profit contribution No major change in wholesale gas sales Review of company structure completed  Integrate energy retail and wholesaling activities	Integrate energy infrastructure management activities Rationalise LPG interests
	50% of Gas Valpo, Chile	AGL net investment \$61.5 million	Progress rehabilitation and conversion to natural gas Connect 1,100 new customers to natural gas in Region V	\$0.5 million profit contribution 7,764 customers converted to natural gas 2,141 new customers connected to natural gas	Convert 6,500 customers to natural gas Connect 12,000 new customers to natural gas Establish energy services capability in industrial/commercial market
	Industrial Pipe Systems Pty Limited manufacturers and distributors of plastic pipe in Australia, China, Chile and Poland	AGL net investment \$22.1 million 116 employees	Improve sales by 14% Establish South American business development office  Seek further international expansion to improve contribution to earnings	\$3.8 million profit contribution Sales improved by 15% AGL office in South America opened in Santiago, November 1998	Improve sales by 6%  Establish new factory in Albury, NSW Continue improvement in dividend receipts from operations in China
<b>Property</b>		AGL net investment \$61.5 million 17 employees	Continue orderly withdrawal from property  Obtain deposit for sale of Breakfast Point land Complete rehabilitation of Breakfast Point first sub-division	(\$2.2) million loss Continued according to plan: • Last property Central Park, Thornleigh, sold • Remaining cottages at Mt Eymard sold Agreement for sale exchanged Rehabilitation proceeding according to plan	Sell Lane Cove industrial lots and construct infrastructure  Settle first stage of Breakfast Point sale Maintain rehabilitation schedule
<b>Group</b>	Safety Performance		Achieve lost-time injury frequency rate below 4 days per million hours worked	25.9% reduction in lost-time injury frequency rate from 5.8 to 4.3 days per million hours worked Pipelines staff in Queensland achieved 11 years without a lost-time injury	Achieve lost-time injury frequency rate of 3.8 days per million hours worked

This was a year of record growth in many of AGL's areas of business. We sold more gas and electricity than ever before, saw a record increase in customer numbers and expanded the business in a number of key areas, all of which bodes well for our ability to compete successfully as energy markets become fully contestable.

Given the new investments made by the Company and the intensity of competition in many of our markets, the results for the year are very pleasing. Almost 40,000 natural gas customers were added to the NSW and ACT networks, representing a 29% increase in the rate of growth over the previous year, while electricity customers in Victoria and NSW total 251,844, reflecting a 2.3% increase in numbers over the twelve months. This brings the total number of AGL customers in the energy market to 1,079,880.

Undoubtedly, from an external point of view, the major news of the year was the privatisation of the Victorian natural gas assets. AGL tendered for every one of these privatisation sales but regrettably was unsuccessful in all of them. Whilst we were disappointed that we did not acquire at least one, we are not - as we have stated many times - in the business of growth for growth's sake.

All developments and acquisitions are rigorously examined to ensure that they will be in the long-term interests of the Company and our Proprietors. We are not willing to pay prices for assets that will not provide an acceptable return or could weaken the financial substance of the Company - a position for which we have been given credit, with Standard & Poor's increasing our long-term credit rating from A to A+ as a direct result of our financial discipline.

AGL continues to grow nationally and therefore an acquisition was not critical. In the increasingly global energy market, size is becoming more of an important factor. It provides economies of scale and the ability to spread overheads over a larger customer base. It is important to note however that, in terms of customer numbers, AGL remains the second largest energy company in Australia.

The Victorian bids took time and received a significant amount of press attention. However, we should not lose sight of the fact that the remaining 95% of the AGL community were not only running the business every day but were also concentrating on growth. This growth is an important element in our response to the increasing level of competition in the marketplace.

Despite our many investments outside NSW, the perception still lingers that AGL is tied to the NSW natural gas market and that our position will be threatened when competition is introduced. There is no question that when one has 100% of a market, competition will result in some loss in AGL's traditional market. What is generally forgotten is that the market is continuing to grow and we do not envisage, in overall terms, a substantial loss of our current market. Another reality is that all markets in Australia are opening up and just as competitors will enter our traditional markets, so AGL will enter theirs.

As a case in point, in Victoria over the twelve-month period under review AGL sold 5.8 PJ of gas, the equivalent of 5.3% of our total volume in NSW and the ACT. A smaller but a strategically significant sale in terms of entry into the South Australian market was made to Terra Gas Trader. In Western Australia contracts were entered into for new load of 2 PJ, which again is around 1.8% of our total NSW and ACT market. These sales add up to something in the order of 7-8% of the total NSW and ACT load, demonstrating that even at this early stage we are already on the front foot and selling into other markets.

An important highlight this year was our entry - in a major way - into power generation, both in our own right and in joint ventures with TransAlta Corporation, a Canadian company, and with the Western Australian Government through Western Power Corporation.

In November 1998, we acquired a 21.5 MW cogeneration facility supplying power and steam to the Centaur Nickel project at Cawse, 60 km north-west of Kalgoorlie for \$28.1 million. The plant is fully operational and fuelled by

natural gas delivered through the GGT and produces electricity, desalinated water and steam for use by the mine.

A month later AGL (45%) in partnership with CMS Energy Corporation (45%) and TransAlta (10%), acquired through a newly-formed consortium company, Southern Cross Pipelines Australia Pty Limited, 62.7% of the GGT from WMC Limited. This 1,400 km pipeline delivers 25 PJ of natural gas from the Northwest Shelf gasfields to the many gold and mineral-processing facilities in Western Australia, mainly for power generation. Subsequently, the consortium purchased a further 25.5% share of the pipeline from Normandy Mining, bringing the total acquisition to 88.2%. AGL's investment in the consortium amounted to \$246 million.

Attached to the GGT were four power stations. Since AGL did not have the operating expertise, we combined with our joint venture partner, TransAlta, to purchase WMC's power generation assets in Western Australia for \$230.2 million. The four 40 MW power generation facilities and associated networks, of which AGL owns 15% and TransAlta 85%, have 15-year supply contracts to WMC's nickel and gold mining operations.

A further step in our entry into power generation during the year was the 50/50 joint venture with Western Power Corporation, a government-owned electricity organisation in Western Australia, to build, own and operate a pipeline that takes gas into the mid-west region. The 365 km pipeline connecting the existing Dampier to Bunbury pipeline to Windimurra will supply gas and enable power generation for the Windimurra vanadium project near Mt Magnet. The pipeline was completed in August 1999. Known as the Mid West project, the new pipeline will initially supply a 13 MW gas-fired power station (owned by the joint venture) with the opportunity to extend further as additional customers are secured. The Mid West project involves the construction of pipelines, power stations and gas trading activities which collectively represents a good example of integrated energy services being provided to meet customer needs.

The PNG to Queensland natural gas project continues to build momentum. A number of regulatory hurdles have been cleared, sufficient gas reserves have been committed to the project, very competitive tariffs on the pipeline have been offered and support from the PNG, Queensland and the Federal Government is strong. All that awaits the construction of the proposed 2,100 km gas pipeline, to be built in conjunction with AGL's joint venture partner Petronas (Malaysia), is the commitment of foundation customers and final regulatory approvals. To this end the Queensland Government announced that a preliminary agreement had been reached between Energex and the PNG gas producers on a 20-year supply contract for up to 130 PJ per year to a number of industrial, commercial and domestic customers in south eastern Queensland. Similarly, a preliminary agreement has been entered into with Ergon Energy for a 20-year gas supply contract for up to 50 PJ per

year for power projects and industrial customers in northern Queensland.

Integration has been an important driver in much of our activity during the year. For instance, a highlight for our Energy Infrastructure division was the establishment of Australia's only genuine multi-energy asset management team. AGL's portfolio of businesses comprise electricity and gas networks, high-pressure gas pipelines in Australia, New Zealand and, to a lesser extent, Chile. Up until now these have been run largely as separate businesses with their own functional management streams. What the Energy Infrastructure division has done over the past twelve months is to reposition itself as a team of asset managers with expertise in managing energy assets. This has meant knitting together the similar activities in different parts of the business to achieve synergy benefits and improvements in the operation of those assets for the benefit of both customers and Proprietors.

This has led not only to a more efficient operation but also to a real move to establish within those businesses separate entities that will bid for third party work. In last year's Annual Report reference was made to the establishment of a business called AGL Construction. Over the past twelve months this separate construction and engineering services business has been successful in selling its expertise and services to other pipeliners in the country.

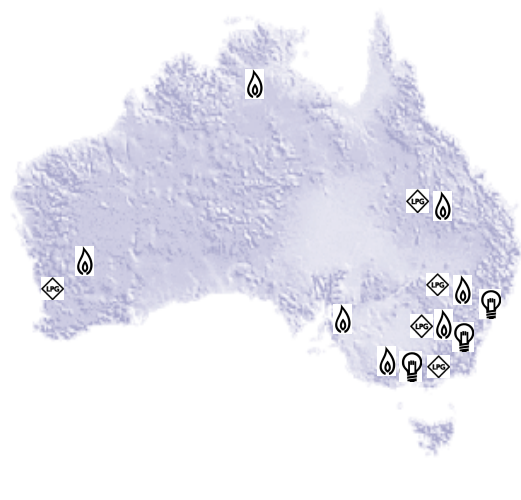
Another important strategy in AGL's future growth is the positioning of the AGL energy brand. The campaign to promote the brand has been undertaken in two phases. The first phase sought to emphasise that AGL was Australian and in the business of both gas and electricity. This message was communicated through the use of pictograms of Australia, a gas flame and an electric light bulb, with the slogan 'Your Australian gas and electricity company'.




Evidence of the success of this phase of the campaign was reflected in the excellent results achieved in advertising awareness surveys. In NSW there was a 99% recall of the brand from business customers and a 94% recall from residential customers, while the ACT recorded a 98% recall from residential customers. In Victoria, within the franchise region, where AGL is a new brand the recall was 90% and 89% respectively, a result envied by most marketing companies.

The second phase of the brand campaign was launched recently. It focuses on AGL's promise of delivering outstanding service 'everytime' and seeks to reinforce trust in the AGL brand. The power of trusted and respected brands - linked as they always are to value and excellent service - should not be underestimated.

Market research has shown time and again that the most important thing for domestic customers is reliability of supply. AGL's 'everytime' campaign therefore is not only an expression of what customers can expect from AGL but also represents a service imperative for our employees. It is another point of difference that sets AGL apart from our competitors.

**AGL's Australasian Markets**



-  **Natural Gas**  
AGL retails and wholesales natural gas to over 828,000 customers in all mainland states and territories
-  **Electricity**  
AGL retails electricity to over 250,000 customers in the Melbourne region, NSW and the ACT
-  **LPG**  
Elgas distributes LPG across the eastern states and Perth to over 550,000 customers, 50% owned by AGL
- New Zealand**  
NGC retails to over 66,790 natural gas and 69,690 electricity customers, 71.6% owned by AGL

A further aspect of our future growth is the range of products and services offered by AGL Energy Services. While some other companies around Australia sell both gas and electricity, few have AGL's level of technical expertise. This was amply demonstrated when AGL was selected by SOCOG to be the energy consultant for the design and construction of the Olympic Flame for the Sydney 2000 Olympics. The prototype developed put AGL ahead of both local and overseas competition.

In the future we intend to capitalise further on this expertise, particularly with our industrial and commercial customers. These customers are increasingly looking for total energy solutions for their businesses, which we will provide.

Consistent with this strategy is our intention to also pursue more 'build, own and operate' and 'build, own, operate and transfer' opportunities, which provide greater returns than our traditional regulated business. During the year two such contracts were won, the first being to build, own, operate and transfer compressor stations and cylinders for a fleet of 150 natural gas-powered buses for the NSW State Transit Authority, while the second is to build, own, operate and ultimately transfer a power generation project for Melbourne Water at the Werribee Sewage Plant in Victoria.

Activity in our home markets has been matched abroad. In New Zealand, the centre of our major international investments, there have been a number of developments. AGL first invested in New Zealand in 1992 as a one-third shareholder of NGC. The remainder of the company was owned one-third by Fletcher Challenge and one-third by public shareholders. In July this year we increased our total shareholding in NGC to 71.6%.

By increasing our ownership in NGC, AGL is now in a better position to pursue energy initiatives and expand our activities in New Zealand. Our intention is to build a gas and electricity business of sufficient size and scale to be a major competitor in that energy market. During the year, we also acquired in total, a relevant interest in 15.8% of TrustPower Limited, a New Zealand electricity retail, trading and generation company with more than 220,000 customers. We also acquired the natural gas distribution network system servicing the Hutt Valley and Porirua, near Wellington, from TransAlta New Zealand Limited. This gas network is New Zealand's third largest and has 26,000 customers.

NGC has added substantially to its customer base over the last twelve months. It acquired 16,400 gas retail customers from Powerco Limited and 69,692 electricity retail customers from WEL Energy Group Limited. This takes its combined energy retail customer base to 66,793 gas and 69,692 electricity customers, spread across a wide range of markets in the North Island.

NGC also purchased BP's LPG forecourt interests, including 193 outlets, and BP's 35% interest in Liquigas Limited. NGC now has a 60% interest in Liquigas which supplies wholesale LPG.

In the same period NGC entered into an agreement to provide customer information and billing services through a combined call centre at Hamilton for another energy retailer, Genesis Energy Limited. This takes the call centre customer base for NGC and Genesis to over 288,000. Overall, AGL now has an association with around 350,000 customers in the New Zealand energy market.

A major area of management effort over the past twelve months has been the preparation of the review of access arrangements and the terms and conditions under which third parties can use AGL's gas pipeline and network systems. This regulatory change will shape the future environment for all Australian infrastructure businesses.

Australian governments have agreed to implement the National Third Party Access Code for Gas Pipeline Systems. This establishes the principles under which gas will be transported through pipelines covered by the Code. The Code requires that access arrangements be submitted to the appropriate national and state regulators for approval. Access arrangements set out the terms and conditions, including price, for transporting gas for all parties.

During the year, we submitted access arrangements for the NSW and ACT gas networks, the Central West pipeline in NSW and the Moomba to Sydney trunk transmission pipeline. Decisions on these submissions are expected from the regulators in the latter part of 1999. The prices for gas transportation negotiated under Queensland law for the Roma to Brisbane and Carpentaria pipelines have been deemed to comply with the national code, as have prices for the projected PNG to Queensland pipeline.

Another activity during the year was AGL Electricity's participation in the review being conducted by the Victorian regulator, which will set electricity distribution prices from January 2001. A key item in regulatory reviews is the rate of return attributable to the regulated business.

### Energy Infrastructure

During the year under review the Energy Infrastructure division continued to build on the competitive advantage derived from its expertise in energy asset management, and its position as a leader in energy transportation in Australia.

Despite increasingly rigorous regulatory changes and the advent of competitive energy markets, the division continued to advance. In particular, AGL has seen increased investment returns from the Carpentaria Gas pipeline. In the Western Australian energy market, AGL strengthened its position significantly with the addition of our interest in Southern Cross Pipelines and construction of the 365 km Mid West pipeline to Windimurra.

The division's \$278 million contribution to AGL's earnings before borrowing costs and tax was achieved through strong operational management, the integration of asset management activities and first-time contributions from the GGT in Western Australia. In all its activities, the division has maintained its focus on the core business requirements of safety, system delivery and reliability.

**Gas Networks** Gas Networks in NSW and the ACT contributed \$156.8 million to earnings before borrowing costs and tax. Total natural gas transported for the year of 107.8 PJ was a 0.3 PJ increase on the previous year, despite a 1.2 PJ decrease in the contract market.

The natural gas distribution networks were extended a further 782 km. Major areas of mains laying activity were the Blue Mountains, the Central West consisting of Forbes, Parkes, Dubbo and Wellington, and the southern NSW towns of Holbrook and Culcairn. In the case of southern NSW, natural gas will be supplied by Great Southern Energy, illustrating the advent of third party access to AGL's reticulated network.

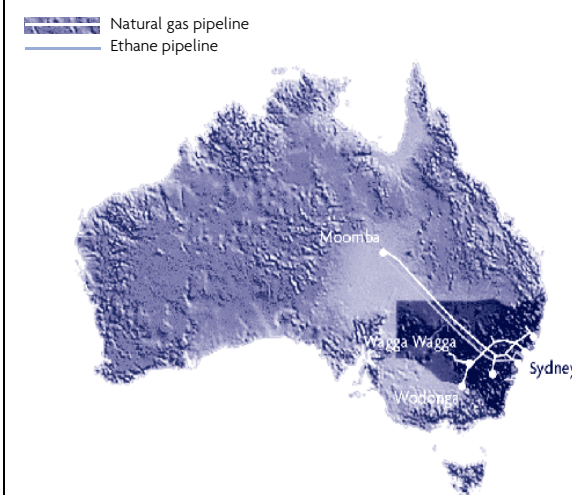
During the year, major system enhancement work was undertaken to improve the quality and security of supply to our Sydney customers. This included the continuation of programmed rehabilitation and the commencement of work to loop the Sydney primary main to enhance security of supply to our customers.

Operating capital expenditure increased 22.8% to \$91.5 million, of which \$60.3 million was used to expand the network to a new high of 24,877 km. A continuing focus on operating efficiency resulted in a 2.7% reduction in operating cost per km of main and a 3.9% drop in operating cost per customer site.

**Pipelines** AGL Pipelines is Australia's largest owner/operator of high pressure gas pipelines with responsibility for operating 8,746 km of pipelines in NSW, Queensland, Northern Territory and Western Australia. It contributed \$52.8 million to earnings before borrowing costs and tax. Total national throughput of 1995 PJ was 11% higher than last year's volume of 180 PJ and represents a 21% growth over two years.

**New South Wales** The 146 km Wodonga to Wagga Wagga interconnect pipeline, a joint venture between East Australian Pipeline Limited (EAPL) (51% AGL) and GPU Gasnet (GPU) carried natural gas into Victoria for the first time in September 1998. Since then, GPU has initiated the installation of additional compression on the Moomba to Sydney pipeline system, lifting the capacity to the interconnect to 90 TJ a day, which is almost 15% of Victoria's daily demand.

### New South Wales Pipeline map



### AGL's Australasian Infrastructure

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|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><b>1 Westtime lateral</b><br/>Owned and operated by AGL</p> <p><b>2 Mid West pipeline</b><br/>50% owned by AGL, to be operated by AGL</p> <p><b>3 Wiluna lateral</b><br/>Owned and operated by AGL</p> <p><b>4 Goldfields Gas Transmission pipeline</b><br/>39.7% owned by AGL, operated by AGL</p> <p><b>5 Plutonic lateral</b><br/>Operated by AGL</p> <p><b>6 Jundee lateral</b><br/>Operated by AGL</p> | <p><b>7 Murrin Murrin lateral</b><br/>Operated by AGL</p> <p><b>8 Cawse lateral</b><br/>Operated by AGL</p> <p><b>9 Amadeus Basin to Darwin pipeline</b><br/>AGL 96% owner of NT Gas, operated by AGL</p> <p><b>10 McArthur River lateral</b><br/>Operated by AGL</p> <p><b>11 Mataranka lateral</b><br/>Owned and operated by AGL</p> <p><b>12 Mt Todd lateral</b><br/>Owned and operated by AGL</p> | <p><b>13 Darwin City Gate to Berrimah pipeline</b><br/>Owned and operated by AGL</p> <p><b>14 Cannington lateral</b><br/>Owned and operated by AGL</p> <p><b>15 Carpentaria Gas pipeline</b><br/>70% owned by AGL, operated by EAPL</p> <p><b>16 Moomba to Sydney pipeline</b><br/>51% owned by AGL, operated by EAPL</p> <p><b>17 Moomba to Sydney ethane pipeline</b><br/>Operated by EAPL</p> <p><b>18 NSW and ACT gas distribution networks</b><br/>Owned and operated by AGL</p> <p><b>19 Central West pipeline</b><br/>Owned and operated by AGL</p> <p><b>20 Elgas LPG storage cavern</b><br/>Under construction, 50% owned by AGL</p> <p><b>21 Wodonga to Wagga Wagga pipeline</b><br/>Culcairn to Wagga Wagga; 51% owned by AGL, operated by EAPL</p> <p><b>22 Melbourne electricity distribution network</b><br/>Owned and operated by AGL</p> <p><b>23 Roma to Brisbane pipeline</b><br/>85% owned by AGL, operated by AGL</p> <p><b>24 NZ gas pipelines</b><br/>NGC owns and operates most NZ gas pipelines, 71.6% owned by AGL</p> |
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**Queensland** Queensland operations contributed 38.8% of the overall Pipelines result, reflecting the first full year of operation of the Carpentaria Gas pipeline and early completion of the 98 km lateral to the BHP Minerals mine at Cannington. AGL has also signed a Heads of Agreement to carry an annual 6.1 PJ of natural gas for Boral Energy Limited to the BP Bulwer Island project near Brisbane. This new haulage contract will underpin the next stage of enhancement to the existing Roma to Brisbane pipeline. Construction of further looping is expected to commence during 2000.

**Western Australia** As previously mentioned, AGL is now a major energy player in Western Australia. This development represents real growth in AGL's pipeline business and will be a significant contributor to profitability.

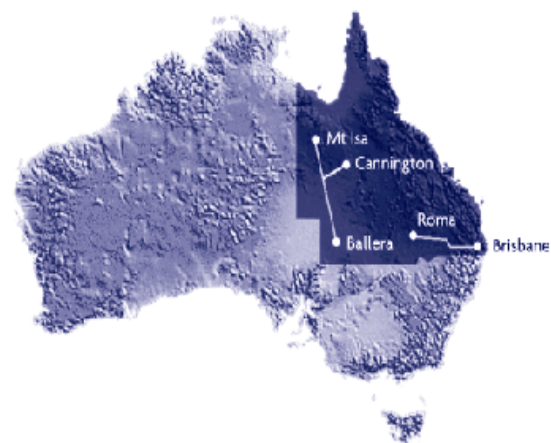
**Electricity Networks** AGL's electricity distribution network covers approximately 950 square km of north-west greater Melbourne. The area includes the city's international airport and major transport routes such as the Hume Highway, the Western Ring Road and part of the City Link system. Easy access to transport corridors is a feature of the area and therefore attractive for further industrial development.

Electricity Networks contributed \$68.4 million profit before borrowing costs and tax. During the year a total of 3,873 GWh was delivered to 251,060 sites within the distribution territory, a 2.6% increase in energy throughput on the previous year. As part of the overall growth of the electricity network, an additional 4,793 sites were connected during the year. The network now comprises 6,684 km of distribution network and over 95,000 electricity poles.

In respect of load growth initiatives, we have continued to build growth through the attraction of businesses to our service territory, and in partnership with local, state and federal stakeholders, we have attracted industry from the USA, UK, Taiwan and Europe. AGL is proactively targeting overseas businesses that wish to relocate to Australia. For example, during the past twelve months Royalpac Glass of Taiwan has relocated its business to our distribution area in Melbourne. In a similar vein, Electricity Networks facilitated discussions between the Victorian State Government, local councils and developers to progress development of the Tullamarine Global Business Park which opened in December 1998. The Business Park provides an attractive business location specifically aimed at value-adding importers.

Operating capital expenditure of \$373 million was invested in the network during the year. In recognition of both customer and Office of the Regulator General (ORG) expectations for improved network performance, a significant portion of this was directed towards major system enhancements to maintain and further develop system reliability requirements. This expenditure included

Queensland Pipeline map



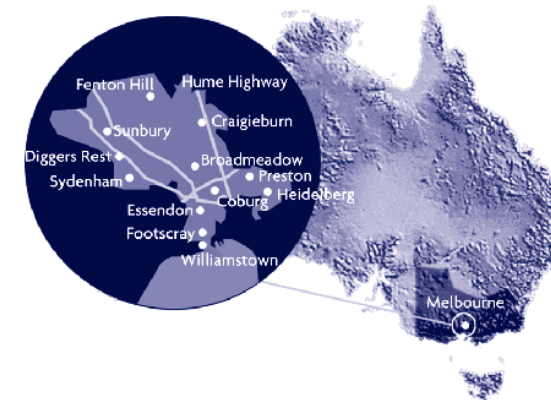
Western Australia Pipeline map



Northern Territory Pipeline map



Victoria Electricity map



installation of a fourth transformer at the Airport West zone substation, a new 66 kV feeder to Airport West from Keilor Terminal Station and a number of 22 kV feeder upgrades. At the request of AGL, to ensure that supply reliability is maintained in the Thomastown area, a fifth 220 kV/66 kV transformer was commissioned by GPU Powernet. Capital expenditure also included completion of the auto-re-close programme, automation of selected switching points on the electrical network and asset replacement.

In addition, information technology based initiatives were taken to develop further productivity and targeted system maintenance, through implementation of a Works Management system and the development of a Reliability Centred Maintenance system. Both of these initiatives also support improved customer service. A comparative performance report, issued by the ORG in July 1999 on the performance of the five Victorian electricity distribution businesses, confirmed AGL's position as the best performing electricity network business of the four predominantly overhead Victorian network businesses.

Regulatory requirements saw the ORG and the Office of the Chief Electrical Inspector conduct audits of the business during the year. Areas reviewed included network safety, Y2K readiness and the long-term reliability and security of the distribution system. The audits confirmed that we are following an asset management strategy consistent with best industry practice.

**Energy Sales & Marketing**

The Energy Sales & Marketing (ES&M) division is responsible for the sale and marketing of natural gas, electricity and energy services to AGL's one million plus customer base. During the twelve months ended 30 June 1999, the division contributed \$50.8 million to operating profit before borrowing costs and tax.

**Natural Gas** AGL achieved record natural gas sales during the twelve-month period with national sales of 115.1 PJ, 5.6% higher than the previous year. This excellent result was

achieved as a consequence of continued growth in the residential and small business sectors, together with sales to the Victorian and South Australian markets. Natural gas competition has seen a small number of customers move to alternative suppliers.

Gas consumption by business and wholesale contract customers totalled 83.2 PJ, up 5.3% on last year's figure. This included sales to Energy 21 and Gascor in Victoria, via the Wodonga to Wagga Wagga interconnect and sales into South Australia to Terra Gas Trader.

While the Sydney metropolitan area experienced normal weather conditions, regional NSW and the ACT were generally warmer than average. Despite this, we achieved higher average consumption of 25.1 GJ per customer together with increased customer numbers and higher appliance penetration into new and existing homes, resulting in gas sales volumes to residential customers increasing 7.6% to 19.6 PJ.

Trading was excellent at AGL-branded 'Energy Shop' franchises and agencies throughout the Sydney metropolitan and country regions of NSW. These retail outlets have replaced the AGL-owned and operated stores.

The AGL Natural Gas Customer Charter, which sets out the rights and obligations of both AGL and our customers, was distributed to all tariff customers during the second half of the financial year.

In Western Australia, AGL continued to expand its gas retailing activities with agreements reached on the sale of an additional 2 PJ a year which includes the supply to the Windimurra vanadium project in conjunction with Western Power Corporation.

**Electricity** AGL's electricity retail business passed the milestone of 250,000 customers nationally. Retail electricity sales grew strongly with the total load supplied at 4,295 GWh, a 17.6% increase over the corresponding period last year.

Residential load grew by 4.2% mainly as a result of increased average consumption, with new residential connections totalling 3,088. The bulk of the increase in sales was achieved in the contestable market in Victoria, where AGL is now the second largest retailer. Sales into NSW totalled 510.4 GWh with revenues totalling \$26 million for the year. An outstanding win was the contract to supply a major new customer in NSW, the proposed Doral Minerals silicon plant at Lithgow. This sales agreement will see AGL supplying 390 GWh a year over a ten-year period from January 2001, and will represent our single largest retail electricity customer.

A new service, AGL Response, was launched during September 1998, offering beyond-the-meter electrical installations and services to customers in Victoria. This launch followed the establishment in July 1998 of a new Business Service Centre for small business customers, which offers specialist advice and assistance.

**Energy Services** AGL Energy Services, a relatively new business unit, performed extremely well, providing a wide range of value-added benefits for customers and winning and completing a number of requests for project management work. These included a cogeneration facility at Sydney Water's Malabar Sewerage Treatment Plant, a project with the Sustainable Energy Development Authority promoting efficient energy consumption, and projects with the Department of Immigration & Multicultural Affairs and the Australian Institute of Sport.

**LPG**

AGL's investment in LPG is mainly through our 50% shareholding in Elgas Limited, the largest LPG distributor in Australia. Our other interest is the wholly-owned H C Extractions Pty Limited LPG/Naphtha extraction plant at Kurnell in Sydney, which processes refinery off-gases from the adjacent Caltex refinery.

**Elgas** Trading conditions improved during the year helped by reduced volatility in world LPG prices. The Saudi LPG price, upon which Elgas' cost price in Australia is based, ranged from US\$105 per tonne in July 1998 to US\$195 per tonne in December 1998 and US\$148 per tonne in June 1999. Although still large, these swings were lower than in the previous year and this, combined with a lower than average cost, enabled greater stability in selling prices.

In September 1998 the Longford gas explosion in Victoria reduced Elgas' LPG supply. However, by making rapid sourcing and haulage arrangements Elgas was able to move LPG supplies from interstate so that there was little interruption in supply to customers.

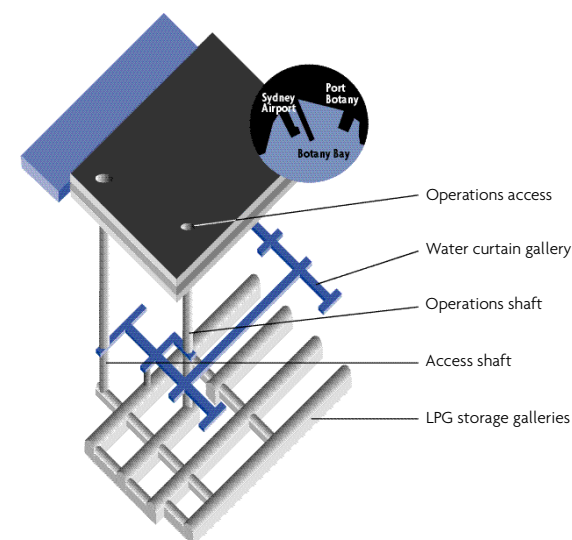
Profit contribution for the year improved from \$8.1 million last year to \$9.2 million this year, an increase of 13.6%. The outlook for the coming year is less certain as world LPG prices are increasing due to OPEC oil output cut-backs and rising demand from China.

The underground excavation phase of the construction of Elgas' Cavern storage facility at Port Botany was completed in June 1999. The installation of above-ground equipment, pipework, control and safety systems is over 90% complete and systems testing has already started. The final phase of the project is the cleaning, sealing, testing and commissioning of the Cavern to allow it to commence operation in early 2000. Subject to meeting this timetable the estimated final cost is \$170 million. Whilst this is higher than forecast the project is anticipated to achieve a satisfactory rate of return.

An area of growth for LPG has emerged due to the incentives for clean fuels included in the amended tax package agreed between the Federal Government and the Australian Democrats.

**H C Extractions** H C Extractions produced 33,892 tonnes of LPG compared with 41,331 tonnes last year, down 18%, due to

**LPG Storage Cavern** located at Port Botany



reduced feed stock from the Caltex refinery. Average sale prices declined over the year due to low world LPG prices, with net profit contribution before borrowing costs and tax of \$1.3 million, down \$0.9 million on the previous year.

**International Business**

International Business comprises AGL's interests in New Zealand and Chile, as well as the wholly-owned international pipe manufacturer Industrial Pipe Systems Pty Limited (IPS). IPS manufactures a range of polyethylene and nylon pipe and associated fittings in Australia, with plants in Sydney and Mackay. It also manufactures plastic pipe in Poland, China and Chile.

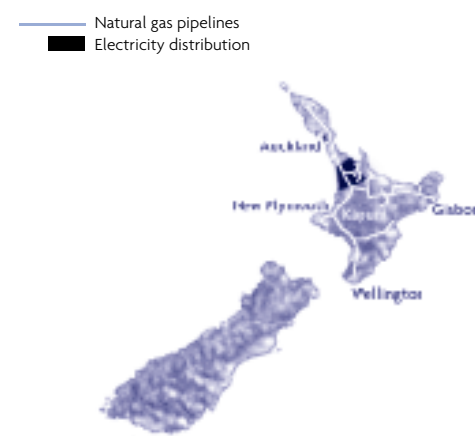
In New Zealand, AGL now has a 71.6% shareholding in NGC, a gas pipeline and network owner. During the year we acquired a relevant interest in 15.8% of TrustPower Limited, an electricity retail, trading and generation company. We also have recently acquired the natural gas distribution network system servicing the Hutt Valley and Porirua, near Wellington, which is the country's third largest.

**NGC** NGC's profit before borrowing costs and tax was NZ\$60.2 million, a 14.7% improvement on last year. The profit included several 'one-off' items: the profit from the sale of the gas loan (NZ\$13.7 million), residual revenue from the Kapuni arbitration (NZ\$1.6 million) and profit on asset sales (NZ\$2.8 million); offset by acquisition and reorganisation costs (NZ\$2.1 million). Sales of gas were less than the previous year following the loss of a significant customer, Orion Limited.

NGC's contribution to AGL was \$16.9 million.

**Gas Valpo** In Chile, AGL has a 50% interest in Empresa de Gas de la V Region S.A. (Gas Valpo), a gas company based in Santiago that owns the gas distribution network businesses in the coastal cities of Valparaiso and Vina del Mar. In November 1998 Australia's then Deputy Prime Minister Mr Tim Fischer officially opened our office in Santiago.

**New Zealand Pipeline and Electricity map**



During 1998/99 external funding for Gas Valpo was secured. AGL is active in the management of Gas Valpo and specifically provides expertise to support the current programme of gas network rehabilitation and conversion to natural gas. In conjunction with local management we have agreed upon a new aggressive Business Plan. Above-budget numbers of customers have been converted or connected to natural gas in accordance with the Plan. Gas Valpo made a profit contribution to AGL of \$0.5 million for the year.

**IPS** IPS' contribution to profit before borrowing costs and tax was \$3.8 million, an increase on the previous year of 20.2%. IPS continues to maintain its competitive position in the Australian market and in the coming year will complete the construction of a new factory in Albury, NSW. This will provide a manufacturing location close to growth markets. In overseas operations, IPS continues to serve AGL well, realising an improvement in dividend receipts from operations in China and underpinning AGL's continued interest in evolving opportunities in Poland.

**Property**

Sale of properties held or acquired as mortgagee in possession for loans to developers realised a further \$5.5 million. The remediation of AGL's major property asset at Breakfast Point, Mortlake, is well advanced, with completion anticipated for early 2002. The magnitude of this task is demonstrated by the need to extract in excess of one million cubic metres of contaminated soil and rock to ensure that the site is suitable for residential and commercial use after over 100 years of operation as a gasworks facility. Following gazettal of the rezoning of the land by the State Government, the property was offered to the market for sale by public tender. On 9 August 1999 the Company and the Rosecorp consortium signed an agreement for the sale of the site at a price in excess of \$152 million. The agreement is in the form of a series of call options for the purchase of the property in stages up until 2006. The Rosecorp consortium has submitted a 'Master Plan' to Concord Municipal Council and the agreement is

presently conditional on satisfactory 'Master Plan' approval and development consent.

Approval was granted by Lane Cove Municipal Council for the subdivision of the Company's Mars Road, Lane Cove site into a 25-lot industrial subdivision. Contracts have been exchanged for the sale of seven lots.

The sale of all real estate at Mt Eymard Retirement Village, Bowral, originally acquired as mortgagee in possession, has now been finalised. It is pleasing to report that there are no longer any properties being held or acquired as mortgagee in possession resulting from failed loans to developers.

**People**

AGL's people policies and strategies are designed to support our values of Accountability, Growth and Leadership. We continue to build on a performance-based, results-oriented organisation, allowing people to perform and develop to their full potential and we have been recognised as an industry leader for our effective strategies in attracting and retaining exceptional employees.

The cornerstone of our people management development is our ongoing Review and Development programme. Along with the continual improvement and monitoring of effective leadership skills, it provides the framework by which performance is managed throughout the Company. This year a leader's induction programme was held to give all new leaders a better understanding of the Company and of their obligations and responsibilities from a leadership, regulatory and legal point of view.

Potential leaders continue to be developed through the Introduction to Management programme, presentations of papers at overseas conferences and participation in international study tours. A focus on senior management development led to the implementation of a Shareholder Value programme and a Regulatory Capability programme.

AGL's formal Mentoring Scheme continues to be a successful development tool within the Company. In addition, over 40 employees studied under the distance-learning programme established with Deakin University. A number have continued with further study through involvement in this programme.

**Health, Safety and Environment**

AGL remains committed to pursuing best practice in health, safety and environmental performance in accordance with our values. A strong focus on such issues as driving and contractor management were initiated and continued commitment resulted in a reduction in lost time injuries by 22%. Several successful promotions were undertaken during the year including a blood donor challenge, an employee needs survey and a vaccination programme.

The AGL Health, Safety and Environment Committee remains the Company's peak body for the administration and leadership of health, safety and the environment, providing clear management visibility, leadership and commitment. Our Life Guard management system was significantly enhanced over the year. Each business unit developed an audit protocol or 'footprint', with which to measure its health, safety and environment management performance.

The National Safety Council of Australia recognised AGL for its environment programme which involved a significant commitment to environmental protection covering different states, community and indigenous groups, and country environs, awarding AGL with the Environmental Safety Systems and Projects Award for 1998. Additionally, AGL received a highly commended award in the category for Company-wide Occupational Health and Safety systems and projects. Top environmental honours were awarded from the Keep Australia Beautiful/Environment Australia's 1998 Vision for Australia Awards, where AGL won the Environmental Policy and Planning category. The pinnacle event of the year was the inaugural Life Guard Excellence Awards where individuals and teams throughout the Company were recognised for their health, safety and environment initiatives.

AGL is participating in the Sustainable Energy Development Authority's (SEDA) Energy Smart Business programme within NSW. This involves energy efficiency upgrades in several business premises. It is expected that these initiatives will save more than \$23,500 and 1,500 tonnes of CO<sup>2</sup> each year. In addition, as part of the Greenhouse Challenge programme, we implemented the accelerated household natural gas programme, under which greenhouse gas emission savings of 196,000 tonnes of CO<sup>2</sup> were achieved for 1998.

**Outlook**

AGL's outlook for the future is positive despite the heightened competition. One only need look back on what the Company has achieved in the past decade to appreciate how successful AGL has been at adapting to changing environments. Our track record in refocusing and reforming the Company to meet new challenges has proved to be timely and appropriate.

Our existing businesses are well positioned. We achieved more out of them again this year, increasing our profit for the ninth year in a row. Importantly, the average gas consumption per residential customer grew by 2.9% to 25.1 GJ. The potential for growth on our existing infrastructure also remains. As a case in point, gas networks in the Sydney metropolitan area has a penetration rate of 56% compared with a 90% penetration rate in Victoria. A substantial growth opportunity we have yet to achieve in connecting more customers to our existing asset base.

A most encouraging sign is the Company experiencing the highest sales enquiries we have ever had in the history of our Company. More new customers are connecting to our system than ever before. Our total sales are at new records and we expect this to continue.

Our national approach to marketing and doing business generally will assist in offsetting any losses which we may suffer as a result of competition. We no longer have a single fuel approach to doing business, and we are now operating in every mainland state of Australia. In addition, new initiatives are being pursued over and above our traditional regulated businesses, both in Australia and internationally.

AGL is an Australian energy company, competing in a rapidly changing market against more than 30 other competitors, some of which are global operators in the energy business. Notwithstanding, we are confident that through: strategic investments both here and overseas; our technical expertise, which is second to none; the value and trust invested in the AGL brand; and building on our existing business, we will continue to be an energy market leader, delivering superior returns to Proprietors.

Over 99% of AGL employees are shareholders. Collectively they rank as the 16th largest shareholder. Their commitment to improving continuously shareholder returns is self-evident and I would like to take this opportunity to thank them all for their great effort during the year.



L F Bleasel  
Managing Director  
26 August 1999



Left to right from the top:

- Len Bleasel** Managing Director
- Bill Armitage** Chief General Manager Commercial Development
- Paul Beeren** Chief General Manager Information Technology
- Peter Blackband** Divisional General Manager Gas Networks
- John Cooper** Group Manager Personnel
- Les Fisk** Group General Manager Corporate Services and Company Secretary
- John Fletcher** Group General Manager Finance
- Michael Fraser** Group General Manager Energy Sales & Marketing
- Greg Martin** Group General Manager Energy Infrastructure
- Jim McDonald** Divisional General Manager Pipelines
- Bill McLaughlin** Group Manager Corporate Affairs
- James Pullar** Chief General Manager Business Development Victoria
- Ian Woodward** Group General Manager Corporate Development

This statement outlines the main Corporate Governance practices which were in place throughout the financial year.

### Board of Directors and its Committees

The Board is accountable to Proprietors for the business and affairs of the Group. Specifically the Board: sets the strategic direction of the Group; establishes goals for management; reviews the performance of the Managing Director and senior executives; and ensures that Proprietors' funds are prudently safeguarded. The responsibility for implementing the strategic direction and the day-to-day affairs of the Group is delegated to the Managing Director.

The Board is supported by several committees of its members. The main continuing committees are a Nomination Committee, a Remuneration Committee, an Audit Committee and a Health, Safety and Environmental Committee.

### Composition of the Board

The Board of The Australian Gas Light Company consists of eight Directors. Seven of these Directors, including the Chairman and Deputy Chairman, are non-executive Directors and the other is an executive Director. Any Directors appointed by the Board are subject to election by Proprietors at the next Annual General Meeting, and re-election at regular intervals in accordance with the Company's Constituent Documents. The Chairman and Deputy Chairman are elected annually by the full Board. The names of the Directors and their attendance at meetings during the financial year are set out in the Directors' Report on pages 24 to 28.

Non-executive Directors are remunerated by fees determined by the Board within the aggregate limit of \$700,000 approved by Proprietors in October 1998. External professional advice is sought when Directors' fees are being determined to ensure their compatibility with fees paid to directors of other major corporations. Directors may also apply part or the whole of their remuneration to the purchase of the Company's shares under the AGL Employee Share Purchase Plan. Directors are entitled to retirement benefits in accordance with arrangements approved by Proprietors in 1985. Further details of Directors' remuneration and superannuation are set out in the Directors' Report on page 27.

### Nomination Committee

The Nomination Committee, comprising three non-executive Directors, Mr M J Phillips (Chairman), Mr M R G Johnson and Mr G J Reaney, met once during the year. The terms of reference of the Nomination Committee are:

- review and make recommendations to the Board on the appropriateness of the size and composition of the Board and the criteria for Board membership;
- ensure that a proper succession plan is in place and consider and nominate a panel of candidates with appropriate expertise and experience for consideration by the Board;

- where considered necessary, recommend to the Board the terms of appointment of the proposed new non-executive director;
- review the membership of other Board Committees and make recommendations to the full Board; and
- perform other related tasks as directed by the Board.

### Remuneration Committee

Three non-executive Directors, Mr M J Phillips (Chairman), Mr M R G Johnson and Mr G J Reaney, form the Remuneration Committee. The primary functions of the Committee are to:

- review the remuneration of the Managing Director and his direct reports;
- review the remuneration policies for the AGL Group;
- review proposals for issues under, or changes to, the AGL Share Reward Plan;
- review proposals for issues under, or changes to, the AGL Share Loan Plan;
- review proposals for other reward initiatives;
- periodically review succession plans for Executive Management; and
- undertake other related tasks as directed by the Board.

The Managing Director, Mr L F Bleasel, is invited to the Remuneration Committee meetings as required to discuss his direct reports' performance and remuneration packages.

The Committee can seek independent advice on any matter brought to the Committee's attention for review.

### Audit Committee

Membership of the Audit Committee comprises four non-executive Directors, Mr G J Reaney (Chairman), Mrs C J Hewson, Mr D C K Allen and Mr A B Daniels. Mr E F Herbert retired as Chairman on 1 July 1999 and as a Committee member on 23 August 1999.

The Managing Director, Group General Manager Finance, General Manager Accounting, Manager Group Audit Services and the external auditor attend meetings at the discretion of the Committee. Last year two meetings of the Committee were held. Minutes of the Committee are reviewed by the Board at its next meeting. The responsibilities of the Audit Committee include:

- reviewing the annual audit plan with the external auditors;
- reviewing and approving the annual Group Audit Services' audit plan;
- reviewing the Group's accounting and financial reporting practices, including the effect of changes in accounting standards and practices, Stock Exchange listing requirements and corporate legislation;
- reviewing significant transactions which are not a normal part of the Group's business;

- reviewing half-year and full-year accounts;
- receiving and reviewing significant Group audit reports;
- reviewing assessment of business risks across the Group and ensuring there is appropriate coverage in the Group Audit Services' audit plan;
- reviewing the performance of the external auditor and nominating changes where considered necessary; and
- considering any other financial matters of the Group which the Audit Committee or the Board determines is desirable.

Following the critical review of Group Audit last year by external consultants, the recommendations to align audit services with internal customers' expectations and world's best practices were implemented.

### Health, Safety and Environmental Committee

The full Board meets bi-annually, in Committee, to review the Group's performance and commitment to health, safety and environmental policies. The Committee also reviews the results of environmental facility audits of the various business units.

### Independent Professional Advice

Each Director has the right to seek independent professional advice at the consolidated entity's expense. Prior approval of the Chairman is required, which may not be unreasonably withheld.

### Directors' Share Dealings

To be eligible for election as a Director of the Company a person must hold 2,000 shares. A formal policy for share dealings is in place whereby Directors and senior management may buy or sell the Company's shares only during the four-week periods following the release of the half-year, full-year results and the Annual General Meeting unless exceptional circumstances apply. They are also precluded from buying or selling AGL's shares at any time if they are aware of any price-sensitive information which has not been made public.

The policy reinforces the prohibition on insider trading contained in the Corporations Law.

The current shareholdings of Directors are shown on page 24.

### Internal Control Framework

The Board acknowledges that it is responsible for the overall internal control framework, but recognises that no cost effective internal control options will preclude all errors and irregularities. There are well-established procedures at Board, corporate and business unit levels designed to safeguard the Group's assets and interests and to ensure the integrity of its reporting. These include: accounting, treasury and personnel policies; insurance and risk management programmes including disaster recovery; environmental systems; and a Trade Practices compliance programme.

The Board is acutely aware of the ringfencing obligations under the National Third-Party Access Code, the Gas Pipelines Access Law and equivalent state legislation which applies to entities which own or operate pipelines and networks. Formal ringfencing protocols are in place to ensure the obligations are not breached.

A continuous disclosure regime operates throughout the Group.

### Year 2000 Issues

The Board monitors on a monthly basis the Group's progress in addressing potential Year 2000 issues. As at the date of this report, AGL's identification, testing and rectification of both computer and business systems is substantially in place.

Whilst testing will continue up to and beyond 1 January 2000, emphasis is now being directed to the refinement of contingency plans.

Independent consultants have confirmed AGL's process and methodology and a second report on progress was provided to the Australian Stock Exchange, for public release, in March 1999.

However, it is important to note that AGL, like most organisations, is dependent on power, transportation and telecommunications. Significant failure of these suppliers may have a major effect on AGL's ability to deliver services.

This statement is a Year 2000 disclosure statement for the purposes of the Year 2000 Information Disclosure Act 1999.

### Goods and Services Tax (GST)

The Federal Government is proceeding to introduce a new tax system, including a GST, by 1 July 2000.

The introduction of the GST affects most aspects of the Company's business activities and implementation teams have been established to ensure all impacts are identified and addressed.

Internal resources are being used to undertake the bulk of the identification and analysis of the impact of the tax. Additional external tax specialists have been contracted to assist with policy interpretation, compliance requirements, training and other technical requirements.

It is the Board's intention to review progress on a regular basis.

### AGL's Values

Adherence to the highest standards of corporate practice and conduct is an uncompromising requirement of each Director, manager and employee.

AGL's Values define the principal patterns of conduct expected of everyone in the AGL community.



Left to right from the top:

- M J Phillips** Chairman
- M R G Johnson** Deputy Chairman
- L F Bleasel** Managing Director
- Sir Ronald Brierley**
- G J Reaney**
- D C K Allen**
- C J Hewson**
- A B Daniels**

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This Concise Report has been derived from the full Financial Report for the year ended 30 June 1999. The full Financial Report and auditor's report will be sent to Proprietors on request, free of charge. Please call (02) 9922 8259 and a copy will be forwarded to you. Alternatively, you can access both the full Financial Report and the Concise Report via the Internet at: [www.agl.com.au](http://www.agl.com.au)

The Directors present their report together with the concise financial report of The Australian Gas Light Company and the consolidated financial report of the consolidated entity, being the Company and its controlled entities, for the year ended 30 June 1999 and the auditor's report thereon.

### Directors

The Directors of the Company at any time during or since the financial year are:

**M J Phillips AM BEc – Chairman (Age 69)** A non-executive Director since 1992 and appointed Chairman in October 1996. Chairman of the Nomination, Remuneration and Health, Safety and Environmental Committees. Mr Phillips is Chairman of IBJ Australia Bank Limited and Chairman of the Foreign Investment Review Board. His other directorships include QBE Insurance Group Limited, Woolworths Limited and WMC Limited. Mr Phillips is Hon Treasurer of Caritas Australia and a member of the Pontifical Council 'Cor Unum'. Formerly Deputy Governor and Deputy Chairman of the Reserve Bank of Australia.

**M R G Johnson LLB MBA – Deputy Chairman (Age 58)** A non-executive Director since 1988 and appointed Deputy Chairman in October 1996. Member of the Nomination, Remuneration and Health, Safety and Environmental Committees. His other directorships include Macquarie Bank Limited Group, Pioneer International Limited, and Biota Holdings Limited. He is a Trustee of The Centre for Independent Studies and the Museum of Applied Arts and Sciences and a member of the Australian Wool Industry Future Directions Task Force. Mr Johnson is Joint Chairman of Macquarie Corporate Finance in Macquarie Bank Limited.

**L F Bleasel AM – Managing Director (Age 56)** An executive Director since 1990 and a member of the Health, Safety and Environmental Committee. Mr Bleasel is Chairman of Natural Gas Corporation Holdings Limited of New Zealand and Elgas Limited. He is also a director of St George Bank Limited and Gas Valpo, Chile. His other interests include Chairman of the Zoological Parks Board of New South Wales, and a member of the Business Council of Australia, The Salvation Army NSW Advisory Board and Mary McKillop Foundation Advisory Board. Mr Bleasel has worked for the Company for forty years.

**Sir Ronald Alfred Brierley (Age 62)** A non-executive Director since 1987 and a member of the Health, Safety and Environmental Committee. Sir Ronald's directorships include Mid-East Minerals Limited, Adsteam Marine Limited and Tooth & Co Ltd. His offices overseas include Founder President of Brierley Investments Limited and Chairman of Guinness Peat Group plc.

**G J Reaney BCom CPA (Age 56)** A non-executive Director since 1988, Chairman of the Audit Committee and a member of the Nomination, Remuneration and Health, Safety and Environmental Committees. Mr Reaney is also a director of St George Bank Limited, Australian Rural Group Limited, Metalcorp Limited and AAPT Limited.

**E F Herbert BA (Hons) (Age 67)** A non-executive Director since 1989, member of the Audit and the Health, Safety and Environmental Committee. Mr Herbert is Chairman of Hydrogen Technology Limited, Powercoal Pty Ltd, Elcom Collieries Pty Limited and Newcom Collieries Pty Limited. He is also a director of National Foods Limited, Huntley Colliery Pty Limited, The Asthma Foundation NSW and he is a Councillor of The Sydney Institute. Mr Herbert retired as a Director on 23 August 1999.

**D C K Allen AO MA MSc (Age 63)** A non-executive Director since October 1996 and a member of the Audit and Health, Safety and Environmental Committees. Mr Allen is Chairman of the CSIRO and a director of National Australia Bank Limited, Amcor Limited, Earthwatch Australia and Air Liquide Australia Limited. Mr Allen retired as Managing Director of Woodside Petroleum Limited in 1996.

**C J Hewson BEc MA (Age 44)** A non-executive Director since October 1996 and a member of the Audit and Health, Safety and Environmental Committees. Mrs Hewson's other directorships include CSR Limited, South Australian Water Corporation and AMP Limited. Her community involvement includes board or advisory roles with The St George Foundation, YWCA of Sydney, Breast Cancer Research Foundation, Flinders Medical Centre, Neurosurgical Research Foundation, Fred Hollows Foundation Executive Committee Advisory Forum and the Royal Humane Society of New South Wales.

**A B Daniels OAM (Age 64)** A non-executive Director since 24 August 1999. Member of the Audit and Health, Safety and Environmental Committees. His other directorships include Capral Aluminium Limited, Orica Limited, Pacific Dunlop Limited, Pasminco Limited and IBJ Australia Bank Limited. Mr Daniels is also a member of the Trade Policy Advisory Council and honorary trustee of the Committee for Economic Development of Australia (CEDA). Mr Daniels retired as Managing Director of Tubemakers Limited in December 1995.

### Directors' Interests

The relevant interest of each Director in the share capital of the companies within the consolidated entity, as notified by the Directors to the Australian Stock Exchange in accordance with Section 235(1) of the Corporations Law, at the date of the report is as follows:

The Australian Gas Light Company Ordinary Shares	
M J Phillips	30,092
M R G Johnson	58,016
L F Bleasel	673,483
Sir Ronald Brierley	8,882
G J Reaney	21,364
D C K Allen	13,668
C J Hewson	4,740
A B Daniels	2,000

### Directors' Meetings

The number of Directors' meetings (including meetings of Committees of Directors) and number of meetings attended by each of the Directors of the Company during the financial year were:

Director	Regular Meetings		Special Meetings		Audit Committee		Nomination and Remuneration Committees		Health, Safety and Environmental Committee	
	A	B	A	B	A	B	A	B	A	B
M J Phillips	11	11	4	4	-	-	1	1	2	2
M R G Johnson	10	11	3	4	-	-	1	1	2	2
L F Bleasel	11	11	4	4	-	-	-	-	2	2
Sir Ronald Brierley	8	11	1	4	-	-	-	-	2	2
G J Reaney	11	11	3	4	2	2	1	1	2	2
E F Herbert	10	11	4	4	2	2	-	-	1	2
D C K Allen	10	11	2	4	-	-	-	-	1	2
C J Hewson	11	11	2	4	2	2	-	-	2	2

**A** - Number of meetings attended

**B** - Number of meetings held during the time the Director held office during the year

### Principal Activities

- Sale of gas and electricity.
- Operation of natural gas and electricity distribution systems and natural gas transmission pipelines.
- Extraction and sale of LPG.
- Investments in gas industries (including overseas).
- Realisation of property and property-related assets.

### Review and Results of Operations

The consolidated profit for the year after income tax attributable to Proprietors was \$221.3 million (1997/98 \$196.4 million). A review of the operations and of the results of those operations of the consolidated entity during the financial year are contained in pages 6 to 18 of this Report.

### Dividends

The following dividends have been paid or recommended by the Directors since 30 June 1998:

Final dividend of 22 cents per share (77% franked) referred to in the previous Directors' Report and paid on 20 October 1998 (Note 1)	\$71.0 million
Interim dividend of 21 cents per share (57% franked) out of profits for the six months ended 31 December 1998 paid on 15 April 1999 (Note 2)	\$68.4 million
Final dividend of 24 cents per share (16.7% franked) recommended by Directors for payment on 19 October 1999 (Note 3)	\$78.9 million

### Notes:

- Under the Dividend Reinvestment Plan, Proprietors who elected to receive additional shares in the Company in lieu of receiving the 1997/98 cash final dividend totalled 14,952.
- Proprietors who elected to receive additional shares in the Company under the Dividend Reinvestment Plan in lieu of receiving the 1998/99 cash interim dividend totalled 16,926.
- The proportion of the final dividend which Proprietors will elect to take in the form of further shares in the Company will depend upon their participation in the Dividend Reinvestment Plan at books closing date. Meanwhile, the full amount of the recommended final dividend has been provided.

### State of Affairs

In the opinion of the Directors, there were no significant changes in the state of affairs of the consolidated entity that occurred during the financial year other than:

- those included in the front section of the Annual Report; and
- the issue of 6,153,725 shares primarily pursuant to the Dividend Reinvestment Plan.

### Environmental Regulation

The consolidated entity's operations are subject to various Commonwealth, State and Territory environmental regulations in relation to plastic pipe manufacturing, LPG production, energy (gas and electricity) operational and construction activities, and land remediation works. Applicable legislation and requisite environmental licences are specified in the entity's 'Environmental Legislative Overview' manual.

The consolidated entity has an Environmental Management Committee that reviews the effectiveness of the environmental management system and formally reports to the Board on a bi-annual basis. Environmental compliance performance is monitored on an on-going basis by way of environmental audits

conducted by the Company using internal accredited auditors and external resources.

The Directors are not aware of any significant environmental breaches during the financial year.

#### Operational and Construction Activities

Gas and electricity activities were undertaken throughout Australia during the financial year. There has been one instance of minor non-compliance. An Environmental Infringement Notice was issued by the NSW Environment Protection Authority (EPA) for \$500 for failing to submit to the EPA a Certificate of Compliance within time in relation to a Pollution Control Licence. Action has been taken to address this matter to prevent a recurrence.

AGL has been liaising with the EPA and local councils to ensure that contractors working for AGL meet the standard of environmental compliance which AGL requires.

#### Plastic Pipe Manufacturing (NSW and Queensland)

There are no specific environmental licence conditions required for these facilities. However, the consolidated entity regularly monitors its environmental management system relating to these activities. There have been no fines imposed or instances of breach of environmental regulations during the reporting period.

#### LPG Production (NSW)

Specific licence conditions arise under the NSW Pollution Control Act 1970, Clean Air Act 1961, Clean Waters Act 1970 and Noise Control Act 1975. All of the aforementioned Acts will be repealed and replaced by the Protection of the Environment Operations Act 1997 from 1 July 1999. There have been no instances of non-compliance in relation to these licences during the reporting period.

#### Land Remediation

Remediation works currently proceeding at the Breakfast Point site are subject to environmental regulation under various NSW legislation, including the Contaminated Land Management Act 1997, the Pollution Control Act 1970 and the Environmental Planning and Assessment Act 1979.

Compliance performance is audited by the Company and by external accredited auditors as well as by the relevant environmental regulators. The Company is not aware of any significant breaches of environmental regulation, nor has it received any notices of non-compliance from any regulator. No fines for non-compliance have been imposed and no prosecutions instituted in the reporting period.

#### Events Subsequent to Balance Date

Apart from matters discussed elsewhere in the Annual Report the Directors are not aware of any other matter or circumstance which has arisen since 30 June 1999 that has significantly affected or may significantly affect the operations of the consolidated entity in subsequent financial years, the results of those operations, or the state of affairs of the consolidated entity in future financial years.

#### Likely Developments

The consolidated entity will continue to pursue new opportunities in Australia and overseas which show promise in adding value. Further information about likely developments in the operations of the consolidated entity and the expected results of those operations in future financial years has not been included in this report because disclosure of such information would be likely to result in unreasonable prejudice to the consolidated entity.

#### Directors' and Senior Executives' Emoluments

The Remuneration Committee of the Board of Directors is responsible for making recommendations to the full Board on remuneration policies and packages applicable to Board members and senior management of the Company.

The broad remuneration policy is determined by reference to relevant employment market conditions and set to ensure that the remuneration is competitive in attracting, retaining and motivating the highest quality Board and management team.

The Remuneration Committee also links senior management's remuneration to the consolidated entity's financial and operational performance. All senior managers may receive a bonus and qualify for participation in the AGL Share Reward Plan and the AGL Share Loan Plan provided specific performance targets relating to earnings per share and other measures are met. The Board sets the performance targets annually.

All permanent employees, including senior managers, are entitled to participate in the AGL Share Reward Plan. The Plan was approved by Proprietors on 21 October 1997. Depending on the performance of the consolidated entity the issue of shares is made in the form of a gift of shares in the Company, with a market value of up to \$1,000 to each eligible employee.

Senior managers who are nominated from time to time by the Directors of the Company are offered participation in the AGL Share Loan Plan. The Plan was approved by Proprietors on 21 October 1997.

Provided performance measures are met, the issue of fully-paid shares is made on the basis of:

- an optional discount of up to 5% on current market value;
- the purchase price financed by way of an interest-free limited-recourse loan provided by the Company repayable out of the proceeds from dividends on the Plan shares with any outstanding balance repayable at the expiration of ten years from the issue date; and
- a restriction on dealing in the shares for a period of three years from the issue date, with the shares being held by the Trustee of the Plan until the shares are free from restriction or the loan is fully paid, whichever last occurs.

Directors of the Company and all permanent employees nominated from time to time, are entitled to participate in the AGL Share Purchase Plan which was also approved by Proprietors on 21 October 1997. Directors and employees can obtain fully-paid shares in the Company out of their remuneration entitlements, subject to certain limitations as to the maximum level of remuneration entitlements which may be applied to the purchase of shares. Other conditions relating to the acquisition of shares pursuant to the Plan are:

- shares are acquired at market value on the date of acquisition;

- shares may only be acquired at specific times during the year; and
- there is a restriction on dealing in the shares for a period of up to ten years from the date of acquisition, with the holding statements being held by the Trustee of the Plan until the shares are free from restriction.

Details of the nature and amount of the emoluments of each Director of the Company and of the five named officers of the Company and the consolidated entity receiving the highest emolument are:

Emoluments of Directors of The Australian Gas Light Company:

	Fees Base Salary paid (excluding AGL Share Purchase Plan) \$	Incentive \$	Super Contributions \$	Value of Shares issued under AGL Share Purchase Plan \$	Total \$
M J Phillips	62,362		11,447	101,163	174,972
M R G Johnson	-		6,882	98,308	105,190
L F Bleasel	1,092,812	80,400	207,188	-	1,380,400
Sir Ronald Brierley	-		4,299	61,417	65,716
G J Reaney	51,587		4,815	17,196	73,598
E F Herbert	69,983		4,899	-	74,882
D C K Allen	-		4,299	61,417	65,716
C J Hewson	52,080		4,557	13,020	69,657

Emoluments of the five most highly paid officers of the Company and the consolidated entity:

Position	Base Salary \$	Super Contributions \$	Incentive \$	Total \$	Number of shares issued under AGL Share Plans	Issue Price \$
L J Fisk Group General Manager Corporate Services & Company Secretary	323,475	56,525	23,500	403,500	* 84 + 8,000	11.90 11.24
J A Fletcher Group General Manager Finance	447,212	84,788	33,000	565,000	* 84 + 14,500	11.90 11.24
M A Fraser Group General Manager Energy Sales & Marketing	387,528	73,472	28,500	489,500	* 84 + 12,500	11.90 11.24
G J W Martin Group General Manager Energy Infrastructure	546,406	103,594	40,200	690,200	* 84 + 17,500	11.90 11.24
I C K Woodward Group General Manager Corporate Development	306,450	53,550	22,300	382,300	* 84 + 7,500	11.90 11.24

\* AGL Share Reward Plan + AGL Share Loan Plan

The terms 'director' and 'officer' have been treated as mutually exclusive for the purposes of this disclosure.

### Indemnification and Insurance of Directors and Officers

The Company's Constituent Documents indemnify, to the extent permitted by law, officers of the consolidated entity when acting in their capacities in respect of:

- liability to third parties (other than related entities) when acting in good faith; and
- costs and expenses of successfully defending legal proceedings and ancillary matters.

The Directors named earlier in the Report and the Company Secretary, L J Fisk, have the benefit of the indemnity, together with any other person concerned in or who takes part in the management of the consolidated entity.

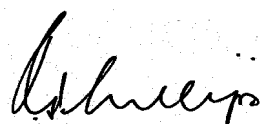
During the year the Company paid a premium in respect of a contract insuring all Directors of the Company as listed earlier, all Directors of related bodies corporate of the Company, secretaries and other officers of the consolidated entity against liabilities incurred in their capacity as Director or Officer, as the case may be, of the consolidated entity.

The contract prohibits disclosure of the nature of the liabilities and the amount of premium paid and the Corporations Law does not require disclosure of the information in those circumstances.

### Rounding

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, amounts in the financial report and the Directors' Report have been rounded off to the nearest tenth of a million dollars, unless otherwise stated.

This report is made in accordance with a resolution of the Board of Directors and is signed for and on behalf of the Board this twenty-sixth day of August 1999.



**M J Phillips**  
Chairman

**L F Bleasel**  
Managing Director

### Consolidated Profit and Loss Statement

for the year ended 30 June 1999

	Note	1999 \$m	1998 \$m
<b>Revenue</b>			
Continuing operations		1,671.9	1,329.9
Property operations		3.9	9.8
	4	1,675.8	1,339.7
<b>Operating profit before borrowing costs, abnormal items and income tax</b>			
Continuing operations		351.1	287.6
Property operations		(2.2)	1.1
		348.9	288.7
Net borrowing costs		(77.8)	(41.2)
<b>Operating profit before abnormal items and income tax</b>		271.1	247.5
Abnormal items		0.0	22.2
Operating profit before income tax		271.1	269.7
Income tax attributable to operating profit before abnormal items		(63.2)	(69.4)
Income tax attributable to abnormal items		13.5	(3.8)
Income tax attributable to operating profit		(49.7)	(73.2)
<b>Operating profit after income tax before abnormal items</b>		207.9	178.1
Profit on abnormal items after income tax		13.5	18.4
<b>Operating profit after income tax</b>		221.4	196.5
Outside equity interests in operating profit after income tax		(0.1)	(0.1)
<b>Operating profit after income tax attributable to Proprietors of the Chief Entity</b>		221.3	196.4
Retained profits at the beginning of the financial year		363.9	275.7
Adjustment resulting from a change in accounting policy		0.0	18.2
Total available for appropriation		585.2	490.3
Dividends provided for or paid	5	(147.3)	(126.4)
Retained profits at the end of the financial year		437.9	363.9
<b>Earnings per share</b>			
Basic earnings per share			
Including abnormal items (cents)		68.0	65.7
Excluding abnormal items (cents)		63.9	59.6
Weighted average number of ordinary shares on issue used in the calculation of basic earnings per share (millions)			
		325.5	298.9
Diluted earnings per share is the same as basic earnings per share.			

## Consolidated Balance Sheet

as at 30 June 1999

	1999 \$m	1998 \$m
<b>Current assets</b>		
Cash	20.0	5.8
Receivables	296.6	251.5
Inventories	27.5	29.8
Investments	0.1	0.0
Property, plant and equipment	10.8	10.7
Other	8.9	7.7
<b>Total current assets</b>	<b>363.9</b>	<b>305.5</b>
<b>Non-current assets</b>		
Receivables	63.8	48.7
Inventories	2.4	2.4
Investments	567.3	318.5
Property, plant and equipment	1,723.4	1,491.8
Intangibles	601.3	605.6
Deferred expenditure	233.2	163.0
Other	60.7	46.7
<b>Total non-current assets</b>	<b>3,252.1</b>	<b>2,676.7</b>
<b>Total assets</b>	<b>3,616.0</b>	<b>2,982.2</b>
<b>Current liabilities</b>		
Accounts payable	215.8	157.3
Borrowings	96.1	15.7
Provisions	114.9	154.3
Unearned revenue	32.3	26.8
<b>Total current liabilities</b>	<b>459.1</b>	<b>354.1</b>
<b>Non-current liabilities</b>		
Accounts payable	19.1	22.3
Borrowings	1,239.9	871.1
Provisions	345.5	291.3
Unearned revenue	28.1	50.7
<b>Total non-current liabilities</b>	<b>1,632.6</b>	<b>1,235.4</b>
<b>Total liabilities</b>	<b>2,091.7</b>	<b>1,589.5</b>
<b>Net assets</b>	<b>1,524.3</b>	<b>1,392.7</b>
<b>Equity</b>		
Share capital	1,064.1	322.7
Reserves	22.1	705.9
Retained profits	437.9	363.9
<b>Equity attributable to Proprietors of the Chief Entity</b>	<b>1,524.1</b>	<b>1,392.5</b>
Outside equity interests in controlled entities	0.2	0.2
<b>Total equity</b>	<b>1,524.3</b>	<b>1,392.7</b>

## Consolidated Statement of Cash Flows

for the year ended 30 June 1999

	inflows (outflows) 1999 \$m	1998 \$m
<b>Cash flows from operating activities</b>		
Receipts from customers	1,396.1	1,103.6
Payments to suppliers and employees	(1,028.3)	(799.3)
Proceeds from property mortgage repayments	2.5	3.8
Dividends received	39.2	28.3
Interest received	17.0	19.8
Borrowing costs paid	(81.7)	(45.7)
Income taxes paid	(47.6)	(46.1)
Net cash provided by operating activities	297.2	264.4
<b>Cash flows from investing activities</b>		
Payments for property, plant and equipment	(441.0)	(259.4)
Payments for investments	(355.6)	(28.8)
Payments for acquisition of controlled entities	0.0	(222.9)
Loans advanced	(39.6)	(3.4)
Proceeds from sale of property, plant and equipment	8.0	6.4
Proceeds from disposal of investments	140.9	59.4
Proceeds from loan repayments	26.3	12.3
Net cash used in investing activities	(661.0)	(436.4)
<b>Cash flows from financing activities</b>		
Proceeds from issue of shares	65.2	376.9
Proceeds from borrowings and hedge receipts on foreign currency borrowings	565.5	635.6
Repayment of borrowings and hedge payments on foreign currency borrowings	(103.6)	(738.0)
Dividends and other distributions paid	(139.7)	(113.9)
Net cash provided by financing activities	387.4	160.6
<b>Net increase (decrease) in cash held</b>	<b>23.6</b>	<b>(11.4)</b>
<b>Cash at the beginning of the financial year</b>	<b>(4.2)</b>	<b>7.2</b>
<b>Cash at the end of the financial year</b>	<b>19.4</b>	<b>(4.2)</b>

## 1 Consolidated Profit and Loss Statement

The Company has restructured its business as a consequence of the new regulatory environment and the acquisition of the outstanding 50% interest in Solaris Power now renamed AGL Electricity Limited. No prior year comparisons for two components of the business, namely Energy Infrastructure and Energy Sales and Marketing, can therefore be made.

The Company adopted equity accounting for associates in the 1997/98 financial year.

### (a) Revenue

Sales revenue has grown from \$1,136.3 million to \$1,459.6 million, a 28.5% increase over the previous year. The main reasons for this increase in revenue arise from the ownership of AGL Electricity for a full year compared to the prior year, the increasing penetration of the gas networks, and the increasing size of the pipeline business.

### (b) Operating Profit

Group profit before borrowing costs and tax increased by 20.9% to \$348.9 million. Whilst the ratio of profit before borrowing costs and tax to sales revenue remained essentially the same, the ratio of profit before borrowing costs and tax to funds employed decreased as a result of significant capital expenditure over the course of the year, mainly in the Pipelines division.

- **Natural Gas Networks (EBIT contribution \$156.8 million)** This division, which includes the medium to low pressure distribution system, services both tariff and contract customers in most major centres in NSW and the ACT. Whilst financial comparisons with the prior year are not possible, contract volumes have declined, particularly as a result of certain large customers reducing gas consumption in Newcastle. These volumes have been partly offset by tariff customer growth including nearly 40,000 new sites connected during the year. This division is seasonally affected with 57% of profits earned in the first half of the year compared to 43% earned in the second.

- **Natural Gas Pipelines (EBIT contribution \$52.8 million)** The Pipelines profit reflects the first full year of operating the Carpentaria Gas pipeline from south west Queensland to Mt Isa and the acquisition of an indirect 39.6% interest in the Goldfields Gas Transmission pipeline in Western Australia in the second half of the financial year. Total gas transported through operated or owned and operated pipelines increased by 10.7% to 199.5 PJ per annum.

- **Electricity Networks (EBIT contribution \$68.4 million).** Earnings remained in line with general economic growth in Victoria with total energy delivered increasing by approximately 2.6%. Significant funds were spent on IT systems to improve efficiencies and, in particular, to allow for the introduction of contestability in the various energy markets. This business is not as seasonal as gas networks as there is a significant cooling load in summer.

- **Energy Sales & Marketing (EBIT contribution \$50.8 million)** The Energy Sales & Marketing division combines both gas and electricity sales to customers across Australia for the first time. Prices charged to customers include both the network and the transmission charges whether AGL owns the infrastructure or

not. Branding is promoted on a national basis for both energy types with a weighting to the last six months of the financial year. No split between these two energy types will be provided for competitive reasons.

- **Power Generation (EBIT contribution \$1.3 million).** This is a new division for AGL and, as such, the EBIT contribution is not for a full year. The division includes the Company's investment in the power generation and desalination plant at Centaur Mining's Cawse Nickel deposit and a 15% interest with TransAlta, a Canadian based energy group, in generation plant supplying electricity to Western Mining Company along the route of the Goldfields Gas pipeline in Western Australia. The total investment to date is \$64.3 million.

- **LPG (EBIT contribution \$10.4 million)** This division, which includes the Company's 50% investment in Elgas, marginally improved profitability over the previous year, mainly from reduced LPG costs.

- **International Business (EBIT contribution \$19.0 million)** The largest contributor to group profits in this division was the equity accounted share of The Natural Gas Corporation (NGC) in New Zealand. Included in AGL's share of their result was \$3.7 million arising from the securitisation of a loan.

No contribution was received from the Company's investment in TrustPower Limited, a New Zealand electricity generation and retail sales company, as no dividends were received during the financial year. The Company also invested \$89.9 million in acquiring a distribution network in Lower Hutt and Porirua in New Zealand and contributions from this activity amounted to \$1.6 million.

The only other contributor to this division is the equity accounted share of the Group's 50% investment in Gas Valpo, a natural gas distribution company in Chile.

- **Property (EBIT loss \$2.2 million).** There was no significant change between this year and last year to the operating result from the property division. No major disposals occurred during the year. Negotiations were concluded in August 1999 on the sale of the Breakfast Point site.

- **Other (EBIT loss \$6.4 million)** This division includes the Group's investment in the plastic pipe manufacturing concern and other activities, including business development. The previous year's result included a non-recurring profit on sale of an investment in Allgas Energy Ltd.

### (c) Net Borrowing Costs

Net borrowing costs increased materially reflecting the significant capital expenditure during the course of the year including a number of pipeline initiatives, market expansion costs for both electricity and gas, and information technology upgrades. Net debt increased from \$881.0 million to \$1,316.0 million over the course of the year. Interest rates, however, remained stable. The Group's borrowing costs coverage ratio declined to 4.5 times as a result of this increase in debt.

### (d) Income Tax

Income tax attributable to operating profit before abnormal items fell from 28.0% last year to 23.3% this year. The reduction

was mainly due to higher equity accounted profits, environmental rehabilitation expenditure and non-assessable revenue, lower non-allowable expenditure, the inclusion of a claim for development allowance and over-provisions in respect of prior years.

### (e) Operating Profit after Tax before Abnormal Items

Operating profit after tax before abnormal items improved by 16.7% over the previous year, to \$207.9 million.

### (f) Abnormal Items

There were no pre-tax abnormal items during the year. However, the Company was advised during the year by the Development Allowance Authority that its application to claim an additional 10% tax deduction for certain expenditure was successful. This amounted to \$13.5 million.

### (g) Net Profit attributable to Proprietors

Profit attributable to Proprietors improved by 12.7% to \$221.3 million over the previous year. However, earnings per share only increased by 3.5%, reflecting the increase in Proprietors equity arising out of the AGL Dividend Reinvestment Plan and the full year effect of the 10% private placement made in March 1998.

### (h) Dividends

A partially franked interim dividend of 21 cents (12 cents franked) was paid on 15 April 1999 compared to 19 cents (12 cents franked) for the same period last year. Directors have recommended a final dividend of 24 cents (4 cents franked) be approved at the Annual General Meeting by Proprietors. This compares with the final dividend paid in the prior year of 22 cents (17 cents franked). Total dividends for the year will be 45 cents (16 cents franked) up 9.8% on the previous year.

As advised to Proprietors at the time of paying the interim dividend, the level of franking would drop considerably from on average 55% to approximately 10% franking. This has arisen from the high level of capital expenditure on capital items that attract accelerated tax depreciation deductions and the approval of the Development Allowance Authority claim.

## 2 Consolidated Balance Sheet

The main features of this year's consolidated balance sheet indicate a substantial growth in non-current assets, up 21.5% over the prior year arising from significant capital expenditure. This has been funded by operating cash flow, bank debt and the continued use of dividend reinvestment plan monies.

The only major change to managing the Group's borrowing position over the year was the establishment of a \$500 million medium term note programme. Under that programme an issue of \$250 million was made with the proceeds used to repay standby facilities provided by a number of local and international banks.

The introduction of a no par value shares regime has led to the transfer of balances in the share premium reserve and the capital redemption reserve to share capital. A direct comparison with the share capital of the prior year is therefore not possible. At 30 June 1999 there were 328.8 million issued shares, compared with 322.7 million shares at 30 June 1998.

The AGL Dividend Reinvestment Plan was in operation during the year with 41% and 48% of dividends being reinvested by Proprietors for the final dividend for 1997/98 year and interim dividend for 1998/99 year respectively. A total of 2.6 million and 3.0 million shares were issued at an average price of \$11.04 per share and \$10.66 per share, respectively.

Net tangible assets per share improved from \$2.44 per share to \$2.81 per share, largely attributable to an increase in capital expenditure funded partly by retained earnings and the Dividend Reinvestment Plan. In addition, the Group's net debt to equity ratio increased from 63.3% to 86.3% over the course of the year. Notwithstanding this increase in gearing, the Company's long term credit rating by Standard & Poor's was increased to A+. Moody's Investor Services, however, retained their long term rating at A2 which is equivalent to A from Standard & Poor's.

## 3 Consolidated Statement of Cash Flows

### - Operating Cash Flows

Operating cash flows include the full year impact of AGL Electricity compared to the prior year. Net borrowing costs paid reflects the cost of funding the significant capital expenditure during the year and the acquisition of the outstanding 50% of AGL Electricity in 1997/98.

### - Investing Cash Flows

During the year, the Company incurred significant capital expenditure on a number of items including:

- \$109.1 million to acquire a 39.6% indirect share in the Goldfields Gas Transmission pipeline.
- \$56.0 million acquiring the assets of a "goldline operating lease" which constitute part of the Sydney gas distribution system.
- Approximately \$116.0 million on general gas and electricity system upgrades and market expansion activities including expenditure in the Blue Mountains and the Central West region of NSW.
- \$28.1 million on the Cawse Nickel cogeneration plant.
- \$52.0 million to acquire a 9.8% interest in TrustPower Limited of New Zealand.
- \$89.9 million to acquire gas distribution assets from TransAlta, located at Lower Hutt and Porirua in New Zealand.
- \$34.9 million to acquire a 15% interest in power generation assets from Western Mining Limited in Western Australia.

In addition to this expenditure, the Group spent significant amounts on information technology systems to replace legacy systems and improve its competitive position.

### - Financing Cash Flows

No unusual features marked the Group's financing activities. Bank standby facilities were partially repaid to be replaced by borrowings under a \$500 million medium term note facility and a further \$61.4 million was raised under the AGL Dividend Reinvestment Plan.

## Notes to the Consolidated Financial Statements

for the year ended 30 June 1999

**Note 1 - Basis of concise financial report**

The concise financial report relates to the economic entity consisting of The Australian Gas Light Company (the Chief Entity) and each of its controlled entities. The report has been prepared in accordance with the requirements of the Corporations Law and Accounting Standard AASB 1039 "Concise Financial Reports".

The financial statements and specific disclosures included in this concise financial report have been derived from the full financial report of the economic entity. The concise financial report cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the economic entity as the full financial report.

The accounting policies applied in the preparation and presentation of the concise financial report are consistent with those applied in respect of the year ended 30 June 1998.

**Note 2 - Change in accounting estimates**

The useful life of a computer system was reassessed during the year. The financial effect was a reduction of \$1.5 million (1998 \$1.4 million) in amortisation of deferred expenditure for the year.

**Note 3 - Rounding of amounts**

Unless otherwise specified, amounts in the concise financial report are shown to the nearest tenth of a million dollars in accordance with ASIC class order 98/100 issued 10 July 1998. The Chief Entity is an entity to which the class order applies.

	1999	1998
	\$m	\$m
<b>Note 4 - Revenue</b>		
Sales revenue	1,459.6	1,136.3
Other revenue	216.2	203.4
	<b>1,675.8</b>	<b>1,339.7</b>

**Note 5 - Dividends**

Interim dividend paid 15 April 1999 (1998 - 16 April 1998)

Franked amount (12 cents per share (1998 12 cents per share))	39.1	35.0
Unfranked amount (9 cents per share (1998 7 cents per share))	29.3	20.4
Total amount (21 cents per share (1998 19 cents per share))	68.4	55.4

Final dividend proposed to be paid 19 October 1999 (1998 - 20 October 1998)

Franked amount (4 cents per share (1998 17 cents per share))	13.1	54.9
Unfranked amount (20 cents per share (1998 5 cents per share))	65.8	16.1
Total amount (24 cents per share (1998 22 cents per share))	78.9	71.0
	<b>147.3</b>	<b>126.4</b>

The franking rate applicable to all franked dividends is 36%.

## Notes to the Consolidated Financial Statements

for the year ended 30 June 1999

	Revenue		Operating result		Total assets	
	1999	1998	1999	1998	1999	1998
	\$m	\$m	\$m	\$m	\$m	\$m
<b>Note 6 - Segment information</b>						
<b>Industry segments</b>						
Energy						
Infrastructure						
Natural gas networks	380.2		156.8		1,035.3	
Natural gas pipelines	327.8		52.8		500.0	
Electricity networks	172.7		68.4		1,100.0	
	<b>880.7</b>		<b>278.0</b>		<b>2,635.3</b>	
Sales and marketing	1,178.2		50.8		278.8	
Less network charges	469.7		0.0		0.0	
	<b>708.5</b>		<b>50.8</b>		<b>278.8</b>	
	<b>1,589.2</b>	1,129.0	<b>328.8</b>	263.8	<b>2,914.1</b>	2,577.2
Power generation	3.0	0.0	1.3	0.0	68.6	0.0
LPG	21.3	23.0	10.4	10.3	75.7	76.0
International business	20.7	63.9	19.0	21.2	383.0	171.7
Change in accounting policy	0.0	61.6	0.0	10.5	0.0	0.0
	<b>1,634.2</b>	1,277.5	<b>359.5</b>	305.8	<b>3,441.4</b>	2,824.9
Property	3.9	11.0	(2.2)	1.1	69.5	91.1
Other	36.9	47.7	(6.4)	6.6	36.7	30.5
Segment totals	<b>1,675.0</b>	1,336.2	<b>350.9</b>	313.5	<b>3,547.6</b>	2,946.5
Unallocated items	4.3	5.8	(2.0)	(2.6)	68.4	35.7
	<b>1,679.3</b>	1,342.0	<b>348.9</b>	310.9	<b>3,616.0</b>	2,982.2
Less: inter-segment revenue	3.5	2.3	0.0	0.0	0.0	0.0
net borrowing costs	0.0	0.0	77.8	41.2	0.0	0.0
	<b>1,675.8</b>	1,339.7	<b>271.1</b>	269.7	<b>3,616.0</b>	2,982.2

Inter-segment revenue was derived as follows:

Energy	1.1	0.0
Property	0.3	1.2
Other	2.1	1.1
	<b>3.5</b>	<b>2.3</b>

Inter-segment pricing is on an "arms-length" basis.

Revenue is principally derived from:

- (i) Energy
- Infrastructure
    - Natural gas networks - distribution of natural gas.
    - Natural gas pipelines - transportation of natural gas and management of gas pipelines.
    - Electricity networks - distribution of electricity.
  - Sales and marketing - sale of natural gas and electricity.
  - Power generation - generation and sale of electricity.
  - LPG - extraction and sale of LPG and investment in an associate involved in the LPG industry.
  - International business - distribution of natural gas and investments in foreign associates involved in the gas and electricity industries.
- (ii) Property - sale and rental of properties.
- (iii) Other - sale of nylon pipe and related products and revenue from other activities.

**Geographical segments**

Australia	1,651.4	1,273.3	330.4	287.8	3,216.9	2,799.3
New Zealand	20.2	63.9	18.4	21.4	321.5	146.0
Other	4.2	2.5	0.1	1.7	77.6	36.9
	<b>1,675.8</b>	1,339.7	<b>348.9</b>	310.9	<b>3,616.0</b>	2,982.2

There was no material inter-segment revenue.

for the year ended 30 June 1999

**Note 7 - Events occurring after reporting date and not recognised in the financial report**

On 14 July 1999, the economic entity acquired an additional one-third interest in Natural Gas Corporation Holdings Limited (NGC) for \$213.4 million. The acquisition increased the economic entity's interest in NGC from 38.3% to 71.6%. NGC, previously equity accounted by the economic entity as an associate, will be consolidated as a controlled entity as from the date of acquisition.

**Independent Audit Report to the Proprietors of The Australian Gas Light Company**

**Scope**

We have audited the concise financial report of The Australian Gas Light Company for the financial year ended 30 June 1999 as set out on pages 29 to 36, in order to express an opinion on it to the Proprietors of the company. The concise financial report includes the consolidated financial statements of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year. The company's directors are responsible for the concise financial report.

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the concise financial report is free of material misstatement. We have also performed an independent audit of the full financial report of The Australian Gas Light Company for the year ended 30 June 1999. Our audit report on the full financial report was signed on 26 August 1999, and was not subject to any qualification.

Our procedures in respect of the concise financial report included testing that the information in the concise financial report is consistent with the full financial report, and examination on a test basis, of evidence supporting the amounts, discussion and analysis, and other disclosures which were not directly derived from the full financial report. These procedures have been undertaken to form an opinion whether, in all material respects, the concise financial report is presented fairly in accordance with Accounting Standard AASB 1039 "Concise Financial Reports".

The audit opinion expressed in this report has been formed on the above basis.

**Audit Opinion**

In our opinion, the concise financial report of The Australian Gas Light Company complies with Accounting Standard AASB 1039 "Concise Financial Reports".



DELOITTE TOUCHE TOHMATSU

G Couttas *G. Couttas*  
Partner  
Chartered Accountants

Sydney, 26 August 1999

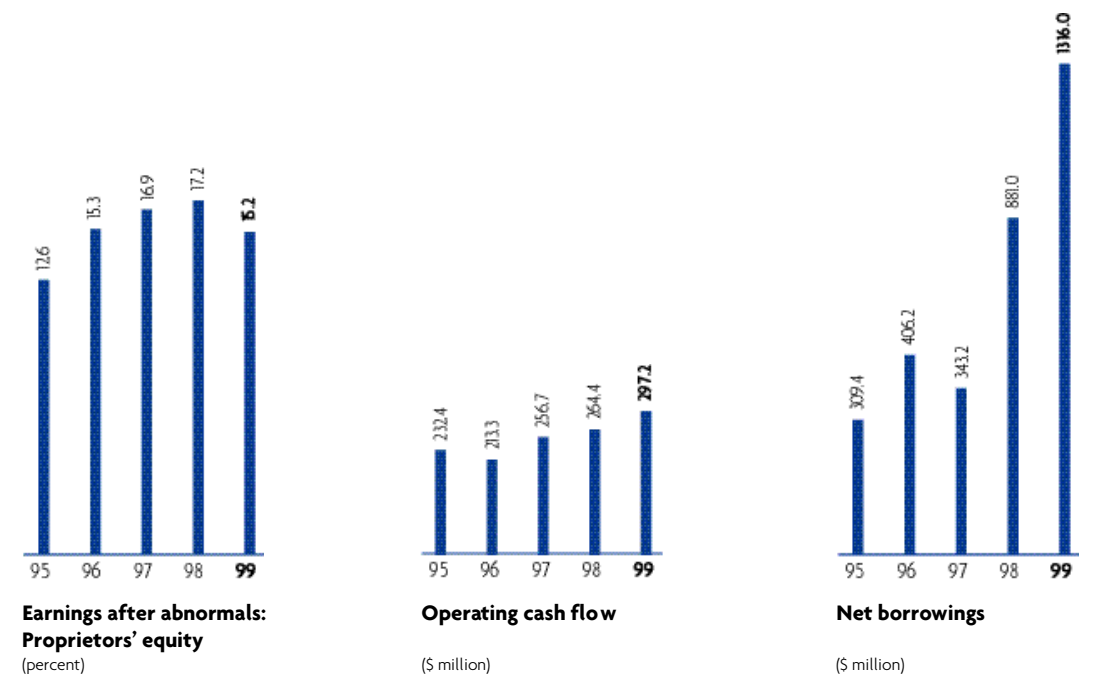
The liability of Deloitte Touche Tohmatsu, is limited by, and to the extent of, the Accountants' Scheme under the Professional Standards Act 1994 (NSW).

**Value Added Statement**

Source	1999		1998	
	\$m	%	\$m	%
Sales of goods and provision of services	1,459.6	100	1,136.3	100
Purchases of materials and services	(838.0)	(57)	(582.9)	(51)
<b>Total value added available for distribution</b>	<b>621.6</b>	<b>43</b>	<b>553.4</b>	<b>49</b>
<b>Distribution</b>				
Wages, salaries and benefits to employees	132.9	21	120.0	22
Taxes and imposts to governments	80.7	13	109.5	20
Net borrowing costs to providers of loan funds	77.8	13	41.2	7
Distributions to Proprietors	144.0	23	126.4	23
Reinvested in the business:				
• Depreciation and amortisation	108.9	18	86.3	15
• Retained earnings	77.3	12	70.0	13
<b>Total</b>	<b>621.6</b>	<b>100</b>	<b>553.4</b>	<b>100</b>

**Associated Companies**

	Natural Gas Corporation Holdings Limited	East Australian Pipeline Limited	Elgas Limited	Empresa de Gas de la V Region S.A.	SCP Investments (No. 1) Pty Limited
Principal Activity	Transmission, distribution and sale of natural gas	Transmission of natural gas and ethane	Distribution and sale of LPG	Distribution and sale of natural gas	Transmission of natural gas
Partner	Fletcher Challenge of New Zealand	Nova Corporation of Canada and Petronas of Malaysia	BOC Gases of the United Kingdom	Lipigas S.A. of Chile	CMS Energy of United States and TransAlta of Canada
	\$m	\$m	\$m	\$m	\$m
AGL Funds Employed	145.1	73.9	73.8	61.5	113.7
Share of Profits	16.2	17.8	6.9	(1.3)	4.6
Interest Revenue	-	-	2.3	1.8	-
Other Contributions	0.7	1.3	-	-	-



	1999	1998	1997	1996	1995
<b>Statistics</b>					
Revenue (excluding abnormal items) (\$m)	<b>1,675.8</b>	1,263.4	1,074.3	967.9	869.2
Depreciation and amortisation (\$m)	<b>108.8</b>	86.3	72.3	62.2	59.6
Profit before borrowing costs, tax and abnormal items (\$m)	<b>348.9</b>	288.7	234.5	205.0	167.9
Net borrowing costs (\$m)	<b>77.8</b>	41.2	30.1	33.7	29.8
Tax expense (\$m)	<b>63.2</b>	69.4	56.2	46.8	35.5
Profit after tax and before abnormal items (\$m)	<b>207.9</b>	178.1	148.2	124.5	102.6
Profit attributable to Proprietors (\$m)	<b>221.3</b>	196.4	148.1	124.3	94.0
Proprietors' equity (\$m)	<b>1,524.1</b>	1,392.5	897.2	850.9	771.5
Net borrowings (\$m)	<b>1,316.0</b>	881.0	343.2	406.2	309.4
Total assets (\$m)	<b>3,616.0</b>	2,982.2	1,822.3	1,799.2	1,607.6
Funds employed (\$m)	<b>2,860.3</b>	2,279.6	1,249.0	1,398.3	1,220.3
Net assets (\$m)	<b>1,524.3</b>	1,392.7	897.5	985.9	906.0
Operating cash flow (\$m)	<b>297.2</b>	264.4	256.7	213.3	232.4
Capital expenditure (\$m)	<b>433.7</b>	252.9	191.7	108.5	103.1
Number of employees	<b>2,115</b>	2,096	1,794	2,123	2,272
Issued shares (\$m)	<b>328.8</b>	322.7	291.0	290.5	281.3
Number of Proprietors	<b>57,600</b>	41,738	34,419	29,338	26,112
Market capitalisation (\$m)	<b>3,021.7</b>	3,258.8	2,269.7	1,536.8	1,254.5
<b>Performance Indicators</b>					
Net tangible assets attributable to Proprietors/share (\$)	<b>2.81</b>	2.44	3.07	2.91	2.72
Net assets attributable to Proprietors/share (\$)	<b>4.64</b>	4.31	3.08	2.93	2.74
Earnings/share <sup>(1)</sup>					
- before abnormal items (c)	<b>63.9</b>	59.6	51.0	43.4	37.0
- after abnormal items (c)	<b>68.0</b>	65.7	51.0	43.4	33.9
Dividends/share(c)	<b>45.0</b>	41.0	36.0	30.0	26.0
Operating cash flow/share (c) <sup>(2)</sup>	<b>91.3</b>	88.6	88.4	74.4	83.9
Profit before borrowing costs, tax and abnormal items/ revenue (excluding abnormal items) (%)	<b>20.8</b>	22.9	21.8	21.2	19.3
Profit before borrowing costs, tax and abnormal items (average funds employed) (%)	<b>13.6</b>	16.4	17.7	15.7	13.4
Earnings on Proprietors' equity <sup>(3)</sup>					
- before abnormal items (%)	<b>14.3</b>	15.5	16.9	15.3	13.7
- after abnormal items (%)	<b>15.2</b>	17.2	16.9	15.3	12.6
Debt : equity (%) <sup>(4)</sup>	<b>86.3</b>	63.3	38.2	41.2	34.2
Net borrowing costs cover (times) <sup>(5)</sup>	<b>4.5</b>	7.0	7.8	6.1	5.6
Current ratio <sup>(6)</sup>	<b>0.79</b>	0.86	0.81	1.24	0.82
Revenue (excluding abnormal items)/employee (\$000)	<b>795.9</b>	649.6	548.5	440.5	368.8
Profit before borrowing costs, tax and abnormal items/employee (\$000)	<b>165.7</b>	148.4	119.7	93.3	71.2

(1) Profit after tax and outside equity interests; shares weighted for issues and adjusted for bonus elements.

(2) Net cash provided by operating activities; shares weighted for issues and adjusted for bonus elements.

(3) Profit after tax and outside equity interests; Proprietors' equity averaged for movements during the year.

(4) Net borrowings as a percentage of total capital and reserves.

(5) Net borrowing costs related to profit before borrowing costs, tax and abnormal items.

(6) Liquidity was supported by \$445 million of unused credit facilities at 30 June 1999 (refer Note 42(b) to the financial statements).

The following information with respect to 328,805,759 fully paid ordinary shares on issue as at 17 August 1999 reflects the Share Register at that date.

- There were 63,214 holders of ordinary shares. Voting rights in the case of a poll are:  
one vote for every 5 shares up to 100 shares,  
one vote for every 10 shares between 101 and 200 shares,  
one vote for every 25 shares in excess of 200 shares up to one fourth of the total number of shares issued (but see Note below).
- The 20 largest holders represented 45.04% of the total issued capital.
- The distribution of holders was:

1 - 1,000 shares	34,490
1,001 - 5,000 shares	23,189
5,001 - 10,000 shares	3,379
10,001 - 100,000 shares	1,991
100,001 shares and over	165
	<u>63,214</u>
- There were 3,050 holders of less than 100 shares.
- Holders by address and class of holder were:

Addresses	No. holders	%	No. shares	%
Australia	59,531	94.1	322,090,228	97.9
USA and Canada	547	0.9	416,094	0.1
United Kingdom	382	0.6	493,348	0.2
New Zealand	2,387	3.8	4,844,506	1.5
Others	367	0.6	961,583	0.3
	<u>63,214</u>	<u>100.0</u>	<u>328,805,759</u>	<u>100.0</u>

Class of holder	No. holders	%	No. shares	%
Individuals	44,688	70.7	85,747,060	26.1
Companies and other	18,526	29.3	243,058,699	73.9
	<u>63,214</u>	<u>100.0</u>	<u>328,805,759</u>	<u>100.0</u>

Twenty largest Proprietors as at 17 August 1999	Fully paid ordinary shares	Percentage of total issued shares
Westpac Custodian Nominees Limited	27,863,151	8.47
National Nominees Limited	22,000,662	6.69
Chase Manhattan Nominees Limited	21,385,687	6.50
BT Custodial Services Pty Limited	11,017,040	3.35
ANZ Nominees Limited	10,928,819	3.32
AMP Limited	9,562,413	2.91
National Mutual Trustees Ltd	6,664,150	2.03
MLC Limited	5,296,812	1.61
Citicorp Nominees Pty Limited	5,005,568	1.52
Queensland Investment Corporation	4,516,650	1.37
Permanent Trustee Australia Limited	4,074,018	1.24
UBS Nominees Pty Ltd	3,700,000	1.13
Perpetual Trustee Company Limited	3,492,345	1.06
NRMA Investments Pty Limited	3,384,000	1.03
Mercantile Mutual Life Insurance Company Limited	2,359,510	0.72
The National Mutual Life Association of Australasia Ltd	1,742,530	0.53
Australian Foundation Investment Co Ltd	1,459,836	0.44
UBS Nominees Pty Ltd (Warrant A/c)	1,451,420	0.44
Labrador Pty Limited	1,263,150	0.38
Argo Investments Limited	926,786	0.28
	<u>148,094,547</u>	<u>45.04</u>

#### Note

The Gas Supply Act 1996 (formerly the Gas Industry Restructuring Act 1986) prohibits any shareholding entitlement in excess of 5% of the Company's issued capital except where the Minister for Energy has given written approval to such a holding with the Company's consent.

Westpac Custodian Nominees Limited, National Nominees Limited and Chase Manhattan Nominees Limited hold the shares registered in their names as bare trustees.

## Proprietor Information

### Enquiries

Proprietors with enquiries about any aspect of their shareholdings should contact the Company's Share Registry as follows:

Share Registry	Telephone: (02) 9922 8259 (within Australia)
The Australian Gas Light Company	(612) 9922 8259 (international)
PO Box 944	Facsimile: (02) 9922 8465 (within Australia)
North Sydney NSW 2059	(612) 9922 8465 (international)
Australia	

Enquiries of a general nature should be directed to the Manager Investor Relations on (02) 9922 8576.

### The Final Dividend

Subject to formal approval at the Annual General Meeting to be held on Tuesday 19 October 1999, the final dividend will be 24 cents per share and will be paid on that day. This dividend is a class C franked dividend to the extent of 4 cents per share (16.7%).

### Direct Payment to Proprietors' Accounts

Proprietors who currently receive their dividends by cheque may wish to take advantage of the direct deposit system which is available to anyone who has an account with a bank, building society or credit union within Australia. The direct deposit system is prompt and secure. Proprietors who wish to have their dividends paid directly to their account should contact the Share Registry.

### Dividend Reinvestment Plan

The Plan offers Proprietors the alternative of receiving shares in lieu of a cash dividend. Shares are issued at a 2.5% discount on the weighted average market price of the Company's shares over the five business days up to and including the record date and no brokerage or stamp duty is payable. A booklet explaining the AGL Dividend Reinvestment Plan can be obtained from the Share Registry.

### Stock Exchange Listing

The Company's shares are listed on the Australian Stock Exchange. Details of share transactions and prices are published in the financial pages of daily capital city newspapers under the code 'AGL'.

### Issuer Sponsorship

AGL converted to Issuer Sponsorship in January 1998 which means that AGL is totally uncertificated. Each Issuer Sponsored Proprietor has been given a unique shareholder reference number (SRN) to facilitate share trading by telephone. Any movement of shares on a Proprietor's shareholding is reflected in a statement issued to them at month end.

### CHESS (Clearing House Electronic Sub-register System)

CHESS is the centralised electronic clearing, settlement and transfer system for trading securities on the Australian Stock Exchange. Today's buy/sell timing is described as T+3 (transaction date plus 3 days).

The Company's shares are 'CHESS Approved' and all 'on market' transactions in AGL shares are processed electronically through CHESS.

### Change of Name/Address

Proprietors who are Issuer Sponsored should advise the Share Registry promptly of any change of name and/or address so that correspondence with them does not go astray. **All such changes must be advised in writing and cannot be accepted by telephone.**

Proprietors who are in CHESS and Broker Sponsored, should instruct their sponsoring broker **in writing** to notify the Share Registry of any change of name and/or address.

In the case of all name changes the written advice must be supported by documentary evidence.

### Tax File Number (TFN)

Whilst not compulsory, most Australian resident Proprietors prefer to quote their TFN so as to avoid withholding tax being deducted from dividends which are unfranked.

Proprietors who are Issuer Sponsored should advise the Share Registry of their TFN.

Proprietors who are Broker Sponsored can either advise their sponsoring broker or the Share Registry of their TFN.

TFN application forms can be obtained from the Share Registry on request.

### Consolidation of Shareholdings

Proprietors who wish to consolidate their separate shareholdings into one account should write to the Share Registry or their sponsoring broker, whichever is applicable.

### Removal from Annual Report mailing list

Proprietors who do not wish to receive the AGL Annual Report should advise the Share Registry **in writing** to remove their names from the mailing list. Those Proprietors will continue to receive all other Proprietor information.

### Registered Office

AGL Centre	Telephone (02) 9922 0101 (within Australia)
Cnr Pacific Highway and Walker Street	(612) 9922 0101 (international)
North Sydney NSW 2060	
Australia	

### Company Secretary

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