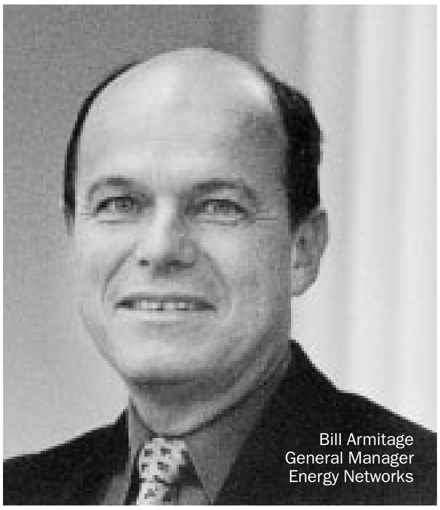
Expanding the networks and maintaining reliability of supply

The Infrastructure Management & Services division continues to successfully implement AGL's strategy of increasing revenue from unregulated operations and managing regulated assets to maximise return to Proprietors.

The division, which comprises our Gas and Electricity Networks and Agility businesses, contributed $321.1 million to operating profit (including significant items) before borrowing costs and tax, a decrease of $131.8 million over the corresponding previous year period.



Bill Armitage
General Manager
Energy Networks

The figure reflects the sale of most of our natural gas transmission pipeline assets to the Australian Pipeline Trust (APT) and the sale of our Australian Capital Territory gas networks into the ActewAGL joint venture.

In addition the Company received an operating profit contribution (including significant items) of $10.5 million from its 30% investment in APT.

Gas Networks

Gas Networks contributed $222.0 million to operating profit (including significant items) before borrowing costs and tax. The result included $49.3 million profit from the sale of the ACT gas network assets into the ActewAGL joint venture. The tariff market continues to be our most important market sector, contributing in excess of 79% of total revenue. NSW tariff sales grew by 1.2 PJ, reflecting a growth in the underlying residential segment of 1.0 PJ. This growth was a result of an increase in customer sites and in the average consumption per domestic customer site.

The number of new sites connected to the NSW gas network, 38,870, equalled last year's record increase of 5%. The total number of sites connected is now 827,191.

In October 2000 AGL transferred its ACT gas network assets into a joint venture with the Actew Corporation. Returns from these assets are now derived from AGL's 50% equity interest in the joint venture.

> **"The tariff market continues to be our most important market sector, contributing in excess of 79% of total revenue."**

Total natural gas transported for the year of 103.2 PJ was an 8.1 PJ reduction on the previous year, principally as a result of the Smithfield cogeneration plant now being supplied directly from the Eastern Gas Pipeline and the gas now being transported by the ActewAGL joint venture in the ACT and Queanbeyan from October 2000. We have retained all other contract load and are currently transporting approximately 23.2 PJ per annum of natural gas under third party transportation contracts.

"The most significant area of growth continues to be the new home and medium density market in Sydney."

Gas reticulation continues to expand across NSW. The five-year Blue Mountains project, west of Sydney, was completed with a total of 607 km of mains and 9,393 residential connections. Project work continued in the towns of Narromine, Wellington, Kiama and the regional city of Dubbo. The LPG network in Parkes was connected to natural gas. The most significant area of growth continues to be the new home and medium density market in Sydney with 21,448 connections during 2000/2001. To support this increased growth, our operating capital expenditure was $73.4 million, of which 78% was used to expand the network by 465 km to 22,534 km.

Work continued to secure the necessary foundation load for the 303 km extension of natural gas to Tamworth and surrounding townships in the Central Ranges of NSW.

Gas Networks is subject to a regulated business environment and a revised Access Arrangement for the transportation of gas through the NSW network was approved by the Independent Pricing and Regulatory Tribunal (IPART) of NSW and commenced in October 2000. This Arrangement will prevail until 30 June 2004.

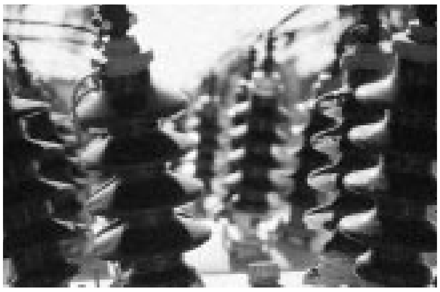
A key feature of the decision was the establishment of an initial capital base for the NSW network as at 1 July 1996 of $1.55 billion, which means that at 1 July 2000 the network capital base, including working capital, is approximately $1.67 billion. IPART has approved a formula for pricing based on a pre-tax real weighted average cost of capital of 7.75%.

In December 2000 Gas Networks became a founding member of the Gas Retail Market Company, which has been established in NSW to develop and administer the market rules and systems for full retail competition. As part of this organisation we are working with other participants to implement arrangements which will enable retail competition in the gas tariff market from 1 January 2002.

Electricity Networks

Our Electricity Networks cover an area of approximately 950 sq km of north-west greater Melbourne. This area includes some of the major growth corridors of Melbourne. Several large customers have moved into our area of operation, such as Delphi and Roxburgh Park Shopping Centre.

Electricity Networks contributed $70.7 million to operating profit before borrowing costs and tax. During the financial year, we delivered 4,026.4 GWh to 260,926 sites within the distribution territory, a 0.2% increase in energy throughput on the previous year, with 4,668 new sites being connected to the network.



The marginal increase in energy throughput resulted from the larger customers experiencing an economic downturn. The year also saw us investing $35.2 million to improve the network and to deliver reliable supply. A significant amount of capital was spent on improving safety, as well as quality of supply. For example, extra transformers were installed in the Sunbury and Yarraville zone substations and in the Keilor terminal station to reduce the risk of power failure in summer and avoid load shedding. New equipment was installed in the Somerton zone substation, increasing its capacity to facilitate further customer growth.

Other efforts included installing 20 automatic circuit reclosers which will help improve the reliability of supply performance, and augmenting the Tullamarine to Somerton 66 kV line to remove the risk of load shedding.

Several severe storms hit north-west Melbourne during the year. However due to the new investment made on the network, we were able to contain and minimise their negative impact. Customers Minutes Off Supply (CMOS) increased slightly to 102.5 minutes from 93.4 minutes in the previous year, but after taking the storm factors into consideration, CMOS fell to 87.1 minutes, a significant improvement of 6.7% over the previous year.

Having recognised and acknowledged community concern about the proposed construction of the Tullamarine terminal station, we were pleased to announce the station's deferral and the construction of the Somerton power station which will provide more reliable service to customers in peak periods. Community response to this initiative has been extremely positive.

"The year also saw us investing $35.2 million to improve the network and to deliver reliable supply."

The Office of the Regulator General (ORG) finalised its review of distribution prices for the five-year period commencing January 2001. Key features of the decision, which was based on a post-tax real weighted average cost of capital of 6.8%, are that AGL Electricity will be allowed to increase prices each year by a factor of CPI, less an 'X' factor determined by the ORG and there are opportunities for AGL to receive additional revenue if it is able to exceed reliability targets. Initially, the Determination required Electricity Networks to reduce prices by 14.8% from January 2001 and, in future, by CPI minus 1% in each of the remaining four years.

Securing an attractive new revenue stream for the AGL Group

An agile infrastructure operator

Agility's significant achievements in a short period of time highlight its ability to contribute to AGL's bottom-line profit by delivering project benefits to asset owners within a very competitive market.

The continued evolution of the energy industry will see infrastructure owners recognising the opportunities offered by the separation of ownership from management and operation. As a result there will be an increasing tendency to contract-in these services from organisations which have specialised in the necessary skills.

It was with this in mind that AGL realised the potential of offering our enormous wealth of management, commercial and technical expertise to other asset owners. Consequently, in June 2000 we consolidated our bank of skills into one group and launched Agility, an infrastructure management and services business which provides a 'whole of life' portfolio of infrastructure services, from concept and design, through to construction, commissioning, management and operation.

The establishment of Agility has provided AGL with many benefits. As well as providing an attractive economic alternative to all infrastructure owners, Agility has leveraged its relationship with AGL and its related entities, securing asset management and services contracts with APT, ActewAGL, AGL Gas Networks, AGL Electricity Networks and Country Energy. These contracts provide both cost savings for AGL-owned infrastructure and significant recurring revenues for the AGL Group.

"Agility is proactively building on the capabilities necessary to strengthen its competitive advantage in the market place."

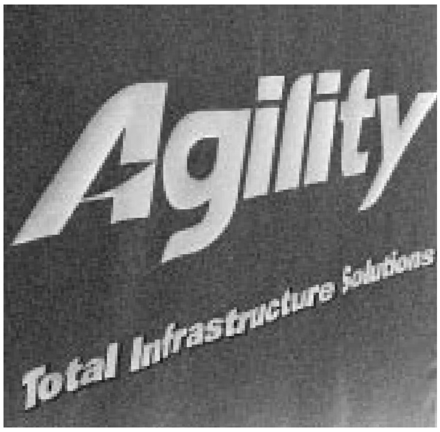
In October 2000 Agility contracted its services to the ActewAGL joint venture, representing another milestone in the diversification of AGL into a multi-utility operation. Agility manages the ActewAGL gas network, ensuring reliable and incident free operation, and provides support in the areas of electricity network systems with technical know-how and knowledge. In June 2001 Agility completed and commissioned 22.2 km of pipeline that allows delivery of gas into ActewAGL's gas network from the

Mark Harper
General Manager
Agility

Eastern Gas Pipeline. This investment provides for the long-term future growth of ActewAGL's gas business, with the additional benefits of security of supply and access to multiple gas sources.

Another exciting milestone in AGL's diversification into a multi-utility operation was Agility's achievement of its first non-gas construction contract. The contract, awarded by TransACT, was for the roll out of fibre-optic cable in Canberra.

In addition to servicing AGL-owned assets, Agility's ability to develop innovative project structures and meet customers' needs at lower cost has seen it securing a number of new energy, telecommunications and water infrastructure projects. It now has service delivery



contracts with clients in most Australian states and territories. These new contracts considerably enhance Agility's ability to contribute to AGL's bottom line. Indeed, in its maiden year of operation, Agility delivered a significant $28.4 million contribution to operating profit before borrowing costs and tax.

"The establishment of Agility has provided AGL with many benefits."

To enhance its already substantial list of growth initiatives (see below), Agility is proactively building on the capabilities necessary to strengthen its competitive advantage in the market place.

Growing the business

During its first year of operation, Agility completed several other projects and established arrangements for future growth prospects.

These included:

- successfully completing a number of construction projects, including:
  - the 111 km Peat lateral connecting into the Roma to Brisbane pipeline,
  - the NSW section of the Canberra primary mains extension,
  - the Camden pipeline for transportation of coal-bed methane into the Sydney gas network,
  - 35.7 km polyethylene lateral pipeline from Rutherford to Singleton in NSW,
  - the Wiluna pipeline compressor project in Western Australia,
  - construction of the 15 km Mt Magnet lateral in Western Australia, and
  - construction of the Temora and Cooma gas networks in NSW;
- formalising arrangements with Aurora Energy for the joint pursuit of the Tasmania gas project;
- establishing a relationship with Country Energy, to service the towns of Tumut and Gundagai;
- registering interest as a developer of infrastructure to supply water to the Kalgoorlie – Esperance region of Western Australia;
- providing consulting services to APT in relation to the development, management and operation of infrastructure, to deliver Timor Sea gas from Darwin to Moomba and Queensland; and
- providing regulatory and technical services to Somerton power station including interfacing with the Regulator and integration of the power generation system into the electricity network.

Keeping satisfied customers delivers profits

At year end AGL had a total of 1.835 million customers in south-eastern Australia buying either natural gas or electricity or both, making it the largest energy retailer in the country both by customer numbers and by units of energy sold.

The Energy Sales & Marketing (ES&M) division is responsible for the sale and marketing of gas, electricity and energy services to AGL's customer base across Australia.

These businesses comprise a large wholesaling and trading arm buying both gas and electricity to ensure we have well-priced and reliable supplies of both fuels. There is also a large energy services business meeting the needs of industry and commerce and offering a suite of products and services covering not just the supply of energy but a range of associated services related to the efficient use of energy.

The third arm is the very large retail market with around 825,000 gas customers in NSW, 746,000 electricity customers in South Australia, 264,000 electricity customers in Victoria and over 136,000 gas and/or electricity customers in the ACT being serviced by the joint venture company ActewAGL.

Highlights of the ES&M year were:

- the acquisition of its one millionth electricity customer;
- several awards for outstanding customer service by our call centres, including our Sydney centre being named the best call centre in NSW in the 50+ operator category;
- an increase in contracted sales to contestable electricity customers for future years of 94% in NSW and 23% in Victoria;
- the successful completion of a $1.3 billion electricity sales campaign to business customers in South Australia;
- the continued expansion of our energy shop network in NSW and the ACT; and
- the fit-out of a new call centre in Canberra in November, as part of AGL's regional development commitments under the ActewAGL joint venture.

For the twelve months to 30 June 2001 the division contributed $115.4 million to operating profit (including significant items) before borrowing costs and tax, compared with $58.5 million for the previous year. Included in the result is a profit of $5.0 million arising out of the sale by the Company of its ACT gas retail business to the ActewAGL joint venture.

The increased profitability is due to: a strong performance in contestable electricity markets in NSW and Victoria; the inclusion of results, for a full year, from AGL South Australia (the former business of ETSA Power), which was acquired by AGL in January 2000; and a strong performance in the residential gas market.

Natural Gas

Total natural gas sales were 12.6 PJ lower than the previous year's 106.7 PJ. This was a result of the completion of the Eastern Gas Pipeline which now supplies gas into NSW, and increased competition from other energy retailers for industrial and commercial business.

Sales of natural gas to the residential market increased over the level of the prior corresponding period by 1.6 PJ to 35.1 PJ. This was primarily due to the cold end of winter 2000, with strong sales in the months of July and August, as well as successful endeavours in connecting new customers, with 38,823 new customers added during the year. This increase was achieved even though the ACT/Queanbeyan customers were transferred to the ActewAGL joint venture from October 2000.

Sales to Victorian retailer Origin, via the NSW to Victoria interconnect pipeline, totalled 5.0 PJ under a five-year 5.0 PJ per annum contract signed in 1998. Sales in the twelve months also included 9.0 PJ to Incitec, 1.8 PJ to Country Energy and 6.5 PJ to National Power in South Australia.

Natural Gas is still at the core of AGL

AGL has continued to position itself as one of the largest purchasers of natural gas in the country. While we have major contracts in place to cover our gas wholesaling and retailing activities, we will need to source additional quantities of gas as markets continue to grow and as existing contractual arrangements begin to wind down.

> **"Australia is very fortunate in having many possible supply sources for natural gas."**

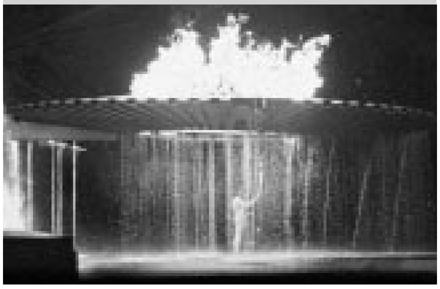
Australia is very fortunate in having many possible supply sources for natural gas. It is in the country's interest to have new sources of supply coming on-stream and we are confident that in coming years these new sources will supplement existing and newly found gas reserves in South Australia, Queensland and Victoria. We are equally confident that AGL will continue to be a major gas retailer, well able to work with the various gas producers to provide competitively priced natural gas to our customers.

Electricity

The milestone of our one millionth electricity customer was achieved during the year. Our combined share of gas and electricity customers is currently around 18% nationally.

An historic moment for AGL

The Sydney Olympics provided us with a high-profile opportunity to showcase our capabilities. AGL was commissioned to design and install the spectacular 'Ring of Fire' which was incorporated in the Olympic flame cauldron. The design and operation of the flame was greatly complicated by its operation within cascading streams of water, the risk to the safety of Cathy Freeman who lit the flame whilst standing in the centre of the ring, and the distance travelled between the place where it was lit and its final position within the cauldron. Our engineers excelled in the challenges of this project and provided a highly memorable result for the opening ceremony's huge international audience.



Outside of South Australia, retail electricity results in Victoria and NSW demonstrated strong growth levels, with 5.8% (236 GWh) and 47.5% (409 GWh) growth, respectively, in total load supplied over the prior period.

> **"AGL is focused on providing customers with the best solution to their energy needs and superior service."**

During December 2000 a comprehensive demand-side management programme was implemented in South Australia, involving press, radio and outdoor advertising, supported by a comprehensive public relations campaign. The programme asked customers to conserve electricity during periods of high temperatures and was designed to reduce the potential for blackouts. It was very successful, especially during January and February 2001, achieving reductions of up to 8% in customer demand during one of the hottest summers recorded in the last 100 years in South Australia. This was the equivalent of approximately 11,000 houses switching off all power for an entire day.

The balance of energy supply and demand in South Australia has been further improved by the full commissioning of National Power's gas turbine generator at Pelican Point, South Australia, during January 2001. The Pelican Point plant has a capacity of approximately 470 MW.

Energy Services
AGL is focused on providing customers with the best solution to their energy needs and superior service. This includes value adding products and services that go beyond the straight sale of energy. Examples include real-time energy usage monitoring, programmed maintenance, power factor correction, power quality analysis and energy management advisory services. This also extends to building, owning and operating energy plant and equipment for customers.

AGL is carrying out its first Energy Performance Contract (EPC) with the Greater Murray Area Health Service. This contract is one of the first EPCs to be executed under the NSW Government's Greenhouse Gas Reduction Program, administered by the Sustainable Energy Development Authority (SEDA).

AGL continued to promote the use of natural gas as an environmentally friendly fuel for vehicles. The NSW State Transit Authority has committed to increasing the number of its buses using the fuel to 404, equivalent to approximately 24,000 residential customers' average gas usage.

> "The Energy Sales & Marketing (ES&M) division is responsible for the sale and marketing of gas, electricity and energy services to AGL's customer base across Australia."



Choosing your energy partner

AGL has been preparing itself to succeed in an open energy market over a number of years. To date we have seen the gradual introduction of competition for industrial and commercial customers of both gas and electricity in most states. The Company has flourished in those markets. We now have a robust retailing, wholesaling and trading business in energy operating in all mainland states of Australia.

Whilst we recognise there will be other effective competitors offering their services, we believe we are well positioned to grow successfully as the remainder of the market opens up.

> **"We now have a robust retailing, wholesaling and trading business in energy operating in all mainland states of Australia."**

We are now only months away from the planned introduction of a competitive retail gas and electricity market in NSW and Victoria. All states – other than South Australia and Queensland – have recommitted to the announced timetables, but there remains a level of uncertainty over the rate at which the markets will be made competitive. There are still information management systems that need to be completed, and some uncertainties about the structure of the national electricity market, so it is possible that some of the timetables may slip.

There is in the marketplace the misconception that retail energy prices will continue to fall. In the early stages of market deregulation of the energy industry, the larger industrial customers were the first beneficiaries of competition when electricity prices, in particular, fell dramatically.

However, the pendulum is swinging back, demand is growing and there are signals being sent that more generating capacity in the electricity market needs to be built. We are now at a point where small business and domestic electricity users, whilst being given a choice of retailer, may have to pay more for their energy. This is contrary to most people's expectation of what would occur with the introduction of a competitive marketplace. Such a rise would not be related to the introduction of a competitive energy market, but rather to the increasing demand for power driving up the cost of generation, particularly at times of peak demand.

AGL makes good contacts

AGL NSW Call Centre

- Best utilities centre
  Jan - Mar 2001
  Apr - Jun 2001 Call Centre of the Year 2000

AGL Canberra Call Centre

- Joint 1st place Apr - Jun 2001
- Voted No. 1 by Today Tonight

AGL SA Call Centre

- Consistently in the Top 5

ActewAGL Call Centre

- One of the Top 5

ActewAGL – Australia's first multi-services utility

In a unique private/public partnership, ActewAGL was established on 3 October 2000 as Australia's first multi-services utility, through a 50/50 partnership between public company AGL and ACT Government business enterprise the Actew Corporation. The business provides electricity, gas, water and sewerage services and has over 136,000 customers. At least 62% of these customers are billed by ActewAGL for all four services. Net assets as at 30 June 2001 totalled $781.4 million.

AGL's share of equity profits from the joint venture was $26.3 million. AGL also earns additional revenue from the joint venture through our Agility business.

Because of the strength of both brand names the decision was taken to create ActewAGL as a combination brand. The business was quickly established in the ACT under the new name and has achieved extremely high recognition. The smooth transition to the joint venture structure has meant that the high standards of customer service previously offered by both AGL and Actew have been maintained. The strong emphasis on customer service quality was demonstrated when during the year, AGL's new customer call centre was rated as one of the top performing call centres in the utilities sector Australia-wide. Good progress was made in preparation for a fully-competitive retail market in both electricity and gas and the joint venture was pleased to retain a very high proportion of customers moving from franchise to contract during the nine months.

ActewAGL offers a 'Greenchoice' product range and its customer base for energy sourced from renewables increased to more than 3,700 customers by 30 June 2001. ActewAGL continued to be an important corporate citizen of the ACT and the region, the establishment of the joint venture led to a number of flow-on advantages for the Territory. In addition to the ActewAGL facilities, AGL's new call centre in Canberra brought 42 jobs to the ACT and to AGL, and Agility Team Build established its headquarters in the ACT.

More power for a growing electricity market

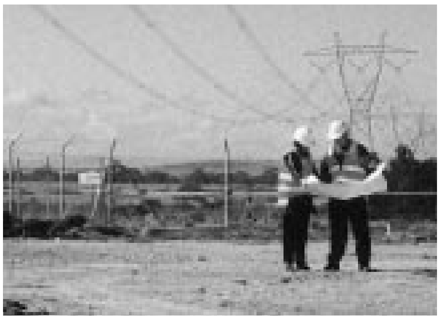
As the largest electricity retailer in Australia AGL recognised that the best way to ensure availability of necessary electricity volumes and a level of price certainty during peak demand times was to control its own peaking generation.

AGL's move into power generation highlights the close relationship between producing power and selling it to the end-consumer.

In a normal year AGL sells over 16,000 GWh of electricity in Australia, servicing the needs of almost all homes and businesses in South Australia, 264,000 customers in the Victorian market and a growing number of large consumers in NSW.

We buy power from a number of independent generators, via a series of forward contracts to ensure that wholesale prices are kept in line with the demands of the retail market place. In general terms we carry forward contracts covering over 90% of the forecast demand from our entire Australian customer base.

However as the demand for electricity grows, and with the expansion of AGL's electricity interests, the time is now right for the Company to look at projects that will support the retail side of our business by providing peak power generation during periods of high consumer demand. In May this year we announced that we



"AGL's move into power generation highlights the close relationship between producing power and selling it to the end-consumer."

would build two gas-fired peak generation plants – one in Victoria and one in South Australia. These two states have seen significant price rises in the wholesale electricity market over the last two years. The Somerton power generation plant, north-west of Melbourne, will be a gas-fired peaking power station, while the Hallett power generation plant 170 km north of Adelaide will be a dual fuelled plant operating on natural gas whenever possible and liquid fuel at times when there is a lack of natural gas available through the Moomba to Adelaide pipeline.

Both plants are planned to be in service during next summer and will supply 150 MW and up to 250 MW into the Victorian and South Australian markets respectively. Apart from providing additional energy supplies when electricity demand approaches the total capacity of generation available in the market, the generators will facilitate greater price stability and more reliable service to customers during peak demand periods.

Our focus in power generation is to support our customer base. We currently have six power generation plants, which in the 2000/2001 financial year, made an operating loss of $0.3 million before borrowing costs and tax.

We have a 20 MW plant operating at Cawse, 60 km north-west of Kalgoorlie, that supplies electricity, desalinated water and steam to the Cawse nickel and cobalt mine and mineral processing plant. Earnings from the power plant decreased as a result of the plant's customer being placed in receivership. Despite this the Cawse mine is still considered viable and new contracts have subsequently been negotiated with the Receiver.

There are four power stations, owned by the Southern Cross Energy business, a partnership between AGL (15%) and the Canadian company TransAlta. The four plants,

at Mt Keith, Leinster, Kalgoorlie and Kambalda in Western Australia, supply 250 MW of electricity under long-term agreements to a mixture of gold, nickel and vanadium mining and mineral processing companies.

"Our focus in power generation is to support our customer base."

Another Western Australian 13 MW plant has been operating for over a year at Windimurra, 70 km east of Mt Magnet.

In addition to our Australian programme, AGL through its 66%-ownership of NGC has involvement in over 500 MW of capacity in New Zealand.

Under construction

These two states have seen significant price rises in the wholesale electricity market over the last two years. In April 2001 AGL announced plans to construct a gas-fired peaking power station in the suburb of Somerton north-west of Melbourne. The Company followed this announcement with another to build a second plant at Hallett about 170 km north of Adelaide. AGL has indicated that it is considering a third gas-fired peaking power station of about the same capacity for the ACT.

Somerton Plant (Victoria)

Plant sourced from Holland and Germany

CAPACITY	LAND PROCURED
150 MW	July 2001
EQUIPMENT	COMMENCED CONSTRUCTION
Comprises 4 frame 6 General Electric designed gas turbines each with an output of 34–37 MW.	July 2001
	PLANNED COMMISSION
	December 2001
PLANT CONFIGURATION	LOCATION
Running on natural gas the plant will connect to AGL's 66 kV distribution network.	

Hallett Plant (South Australia)

Plant sourced from Finland, Italy, Chile, Canary Islands and NSW

CAPACITY	LAND PROCURED
250 MW	July 2001
EQUIPMENT	COMMENCED CONSTRUCTION
Comprises 12 frame 5 open cycle General Electric designed gas turbines each with an output of 14–20 MW.	August 2001
	PLANNED COMMISSION
	96 MW in January 2002 and 84 MW beginning February 2002
PLANT CONFIGURATION	LOCATION
Capable of running on both liquid fuel and natural gas the plant will connect into ElectraNet's 275 kV transmission system.	

What happened in New Zealand?

"As a result of this acquisition NGC became the largest electricity retailer in New Zealand and the generating plants provide about 12% of New Zealand's annual electricity demand."

During 2000 NGC, our 66%-owned subsidiary acquired TransAlta New Zealand, a predominantly electricity retail business, with gas-fired and hydro-power generation interests and other infrastructure. As a result of this acquisition NGC became the largest electricity retailer in New Zealand and the generating plants provide about 12% of New Zealand's annual electricity demand. In doing so NGC became a net retailer. In other words, to service its residential, commercial and industrial customers, it faced an excess demand over and above the generation it had within its portfolio. As a consequence to meet its commitment to its customers it had to buy electricity on the spot market.

The market in New Zealand is different from Australia, in that the large predominantly government-owned generators, which generate both hydro and thermal electricity, also compete in the mass customer market as retailers. This meant that NGC had to negotiate to buy power from the generator companies who were also NGC's major competitors in the retail and business markets.

In what has turned out to be a very thin hedge market, NGC was unable to secure adequate commercially acceptable hedging contracts to cover the 2001 winter period. To make matters worse, as a consequence of less than average water inflow into the North and South Island lakes and dams, wholesale electricity prices started to escalate and reached the point where they took a step change in June following the expiry of NGC's existing hedge contracts. Prices increased some five to six times over last year's levels. NGC found itself in a position where it was selling electricity into a competitive retail market at substantially less than the wholesale cost.

"NGC found itself in a position where it was selling electricity into a competitive retail market at substantially less than the wholesale cost."

In the lead-up to winter, NGC had been in negotiations with parties attempting to secure hedge contracts. The odd contract that had been on offer late in 2000 had been at price levels which were significantly

above those prevailing in the market. NGC was of the view late last year that it would be able to either negotiate more favourable terms in the lead-up to winter this year or establish other commercial arrangements to close off future exposures to spot market prices. It transpired that this was not possible and although NGC went out and formally tendered for hedge contracts at the beginning of March, none were offered for the winter period. Even if NGC had taken all of the hedge cover that was on offer during the last twelve months it would still not have been able to fully cover its exposure.

To overcome the problem and rectify the situation, NGC formed the view that, given the way the wholesale electricity market currently operates in New Zealand it would never be competitive in the electricity retail business as a net retailer. On 13 July 2001 NGC sold its South Island retail electricity interests to Meridian Energy and on 1 August its North Island electricity customer base was sold to Genesis Power.

In August 2001 NGC announced that as a result of the continuation of the high wholesale electricity prices, during the period prior to the sale of the electricity retail business, its earnings for the year ended 30 June 2002 would be affected. NGC's net exposure in the period would result in losses for the electricity retail business in the region of NZ$40 million after tax. However, it is expected that the losses will be more than offset by earnings from NGC's electricity generation business over the remainder of the year.

"In contrast with the extremely difficult electricity retail trading conditions in New Zealand, NGC's gas... businesses performed strongly."

Most importantly the fundamental structure of the Australian market is very different from New Zealand. In this country we have been able to secure hedge cover for over 90% of the electricity load that we supply in all major markets in which we do business, at least until the end of calendar year 2002.

Chile

AGL has held a 50% interest in Gas Valpo, the 148-year-old natural gas distributor and owner of gas distribution businesses in Chile's Valparaiso and its twin coastal city Vina del Mar since 1998.

In July 2000 AGL acquired the remaining 50% interest from Lipigas for a purchase price of US$22 million.

During the first six months under review, Gas Valpo completed its rehabilitation of the former towns gas network. By June 2001 Gas Valpo connected its 30,400th customer. It now operates 320 km of mains and distributes 3.5 PJ of gas annually to the second most heavily populated part of Chile.

Gas Valpo operates in a region which contains some of the largest energy users in the country. They include a copper smelter, an oil refinery, a cement plant and the Chilean navy.

All major capital works envisaged under the initial project phase of the development have been completed although the conversion and connection of new customers will continue for several years. In the meantime AGL is assessing its future options for Chile.

AGL's 33.3% investment in AGL Perfeco, which was originally established to manufacture nylon pipe in support of Gas Valpo's rehabilitation project, was sold on 31 May 2001 to the remaining shareholders.

The other New Zealand businesses did well

In contrast with the extremely difficult electricity retail trading conditions in New Zealand, NGC's gas trading (retail and wholesale) infrastructure management and generation businesses performed strongly. Nevertheless, as a result of the loss sustained in the electricity retail business, NGC's contribution (including significant items) to AGL before borrowing costs, tax and outside equity interests was an operating loss of $182.3 million compared with a profit of $92.5 million in the previous year.

NGC's gas businesses, including natural gas and LPG, traded at high volumes due to high thermal generation demand, recent cold weather and the competitive position of these fuels compared with other forms of energy. Gas sales grew by 48.5%. Its generation business includes its Taranaki combined cycle plant (100% owned), Southdown cogeneration plant (50% owned), Kapuni cogeneration plant (50% owned) and Cobb hydro station (100% owned). Generation capacity from these facilities is over 500 MW.

As required by the New Zealand Commerce Commission AGL's 100%-owned Hutt Valley gas network and meter business was sold in July to Powerco for NZ$118 million. In addition, the 20.5% stake in electricity retail and generation business TrustPower contributed NZ$5.5 million to operating profit before borrowing costs and tax.

Exploring new opportunities

During the year AGL made two significant investments in telecommunications. In September 2000 we agreed to invest $40.0 million (20%) in COMindico, a national internet protocol based wholesale network, and in December we acquired Dingo Blue an online retailer of telephony and internet products and services from Cable & Wireless Optus for $21.0 million.

These acquisitions add to the 20% direct investment in TransACT, a Canberra-based company rolling out a broadband fibre-optic telecommunications network throughout the ACT.

For the twelve months ended 30 June 2001, the technology commerce businesses made an operating loss (including significant items) of $33.4 million before borrowing costs and tax.

> **"Dingo Blue was selected as the preferred supplier to provide on-going internet services to One-Net customers, previously part of the One.Tel company."**

As at 30 June 2001 AGL had invested $55.2 million in Dingo Blue, consisting of the original acquisition of $21.0 million, plus loans of $34.2 million advanced to fund operating cash flows and working capital requirements. In June 2001 the Company undertook a comprehensive operational review of its investment including contractual relationships and as a result, a $22.2 million write-down before tax was made primarily relating to goodwill and deferred expenditure.

Since our acquisition of Dingo Blue, we have progressively developed the business, particularly in long distance and internet products. Dingo Blue now provides in excess of 143,000 home phone (local and long distance), mobile and internet services. The ultimate intention is to offer these services to AGL's traditional customer base.

Dingo Blue was selected as the preferred supplier to provide on-going internet services to One-Net customers, previously part of the One.Tel company.

At first glance AGL's foray into telecommunications appears a world away from our traditional energy base. A closer look, however, reveals a logical progression and a modern adaptation of our skills and expertise to develop additional products and services for our customers, as well as seeking information-based solutions to business practices, which improve efficiency.

While the TransACT, COMindico and Dingo Blue investments are relatively small, they position AGL well to deliver a range of innovative services to our customers during the next few years.

TransACT Communications

COMindico
INTELLIGENCE CONNECTED

The LPG businesses

Elgas

Elgas (AGL 50%) made a $4.8 million contribution to operating profit before borrowing costs and tax for the year compared with $9.4 million for the previous year.

The cost of purchasing LPG for resale is determined by the Saudi contract price, shipping and terminal costs, all of which are expressed in US dollars. Large rises in the Saudi contract price at the same time as large falls in the US dollar/Australian dollar exchange rate led to massive rises in the cost of purchasing LPG. The average cost of LPG purchases in 2001 was 38% higher than 2000 and 154% higher than 1999.

As a result of these substantial rises in cost, the downstream LPG business in Australia suffered, and growth in both sales volumes and profit was curtailed.

Elgas managed to recover the cost imposts through price rises and while it was successful in limiting the migration of customers to other fuels, loyal customers tended to conserve their consumption.

At the start of the financial year, the Elgas Cavern underground LPG storage facility had just begun operations. Since then, over 200,000 tonnes of LPG have passed through it. LPG from the Cavern has already been distributed as far north as Cairns, as far south as Melbourne and as far west as Adelaide. The Cavern has proved to be a distribution hub for the Australian east coast and product from it has been supplied to all LPG distributors in the market. Growth in Cavern throughput is expected in the year ahead.

Shortly after the end of the financial year, Elgas merged its autogas business with that of Wesfarmers Kleenheat in all states except Western Australia. This new partnership will trade under the name of Unigas. Broadly, Elgas will supply Unigas with LPG and Wesfarmers Kleenheat will provide transportation services.

The Unigas business will leverage off the capabilities of both partners to achieve economies of scale and lowest cost operations. It will market autogas through a network of 1,000 sites and will provide non-aligned service stations with an independent source of supply.

H C Extractions

H C Extractions had a record year generating operating profit before borrowing costs and tax of $8.8 million, $0.5 million higher than the previous year. This result was achieved predominantly as a result of high LPG prices underpinned by strong world oil prices even though production of LPG decreased by 930 tonnes to 33,451 tonnes.

Property

Remediation of AGL's former gasworks site at Breakfast Point, formerly known as Mortlake, is approximately 95% complete, despite delays experienced in May 2001 due to wet weather. Completion of all site works is scheduled for the end of December 2001.

The purchaser of Breakfast Point, Rosecorp, settled the acquisition of Stage 2 on 24 November 2000 and exercised the call option on 30 April 2001 for the purchase of Stage 3 for the sum of $30.6 million, resulting in a profit of $20.8 million.

Settlement has taken place on all allotments within the industrial land subdivision at Mars Road, Lane Cove.

Contracts have been exchanged for the sale of a property at Singleton for $362,000, with the purchaser being responsible for the remediation of the land.

"H C Extractions had a record year generating operating profit."

Working for our Proprietors, for the community and for the environment

AGL is undertaking environmental projects which have been both earnings and environmentally positive, while at the same time continuing to support broader community and government-led programmes.

This year, for the first time AGL will be publishing a Social and Environmental Responsibility Performance Report. This Report will outline our commitment to developing a sustainable business strategy by assessing our consideration of the environment, the community and social issues in all business decisions we make. In recent years, demand for such a report has increased dramatically.

Bringing together in one publication all the work we do that has an impact on the environment and the community, the Report provides us with an opportunity to communicate the many good things we do. At the same time we recognise that development and implementation of a sustainable business strategy will be a journey of continual improvement. The Report will also help us identify areas of our business where improvements can be made.

Rather than a hard copy production, the inaugural Social and Environmental Responsibility Performance Report will be published on our web site soon after the Annual General Meeting on 16 October 2001.

AGL's Environmental Direction

AGL's Goldline project has dramatically reduced greenhouse gas emissions from the urban low-pressure distribution system in Sydney. The project has cost $375 million, spanned a decade and rehabilitated over 6,000 km of mains and involved over 380,000 customers.

"AGL's Goldline project has dramatically reduced greenhouse gas emissions."

The Goldline project has had a dramatic impact on atmospheric greenhouse gases as it has reduced fugitive emissions of natural gas by the equivalent of about 2.5 million tonnes of CO^2 annually. In December 2000 the importance of this environmental achievement was recognised when the Australian Greenhouse Office awarded AGL the Greenhouse Challenge Award 2000 for the project. This Award, together with the Keep Australia Beautiful Award for the Ballera to Mt Isa pipeline project in 1998, is tangible evidence of AGL's commitment to sustainable development principles.

"AGL played a key role in the development of Australia's first green electricity rights exchange."

During the past twelve months, Stage 1 of the Nowra Landfill Gas Management Project was completed. Stage 1 resulted in the capture and flaring of fugitive emissions of landfill gas from the West Nowra landfill site. It is estimated that Stage 1 will reduce greenhouse gas emissions from the site by about the equivalent of 25,000 tonnes of CO^2 annually. Stage 2 of the Project will consist of the installation of electricity generation equipment that utilises the landfill gas for the environmentally friendly generation of electricity.

Renewable energy

AGL played a key role in the development of Australia's first green electricity rights exchange, the Green Electricity Market (GEM), which commenced in July 2001. GEM will provide renewable energy generators with an electronic market platform that enables the value attached to the 'green nature' of their electricity to be captured. GEM will enable tracking and reporting of Renewable Energy certificates and will facilitate an electronic market for buyers and sellers who wish to trade those certificates. AGL and other members of the Australian electricity industry have worked together to develop the scheme.

Further growth in the GEM is likely to see greater renewable energy resources come online over the next few years. We have regularly reported on renewable purchases and sales as part of our involvement in the National Green Power Program and state-based retail licence conditions.

The National Green Power Program encourages customers to contribute to the collective purchase of renewable electricity, having the effect of reducing greenhouse gas emissions by displacing power sourced from coal-fired generation.

The Program is accredited by the Australian Greenhouse Office. Under the Program we purchase wholesale renewable energy from landfill sites and other sources such as solar in NSW, Victoria and South Australia.

We also participate in the Greenhouse Challenge Program, the NSW Energy Smart Business Program and the Company is one of twelve Australian companies listed on the Dow Jones Sustainability Group Index (DJSGI). The DJSGI consists of more than 200 companies that represent the top 10% of the leading sustainable companies in 68 industry groups across 22 countries.

AGL has also installed a renewable power generation facility at Melbourne Water's Western Treatment Plant. The power generation plant works by capturing methane gas released during the sewage treatment process and using it in gas engines to produce electricity and reduce greenhouse gas emissions. The energy produced is used in the Plant's treatment process. This project is enabling Melbourne Water to reduce greenhouse emissions by more than 20,000 tonnes of CO^2 equivalent per annum.

Sustainable Living Competition

For the third year in a row we supported the AGL Sustainable Living Competition. This national competition encourages secondary students to take on the challenge of environmental sustainability by seeking out new and innovative solutions to common daily problems. Students submit classroom projects that embody creativity, innovation and commercial viability. They benefit from learning team and networking skills as they work side by side with business, educators, local communities and government.

People

With the integration and consolidation of ETSA Power, Dingo Blue and TransAlta into the AGL family, management of our greatest asset has been more crucial than ever in the past twelve months. Ensuring that our people policies and our Company's values are consistent across the Group has been a rewarding challenge. It is also tremendously exciting to welcome into the Company new people who bring a wide range of new skills and capabilities and perspectives.

In line with these changes, our people support systems have continued to evolve this year. Integration of new companies brings with it many challenges, plus opportunities to review the way we operate, and to streamline and improve those processes. For example, compared with running eight payrolls per month in July 2000, we now have more employees, but run just three payrolls per month.

"It is also tremendously exciting to welcome into the Company new people who bring a wide range of new skills and capabilities and perspectives."

The changes to our infrastructure business, along with the prospect of full retail contestability looming ever closer, has meant that everyone within AGL needs to sharpen their competitive edge. A series of training programmes are being undertaken in various parts of the business to advance our sales, negotiation and project management skills.

Development of our people, particularly in the area of leadership, continues to be a priority for us. Our performance in this area is monitored each year with the Company-wide Four Quadrant Leadership survey.

Opportunities for our young people to develop such skills are offered through a number of different initiatives such as the Young Australians Forum (formerly the Queen's Trust). One of our people was selected to attend the Forum in July 2000. The week-long event, attended by 100 young people with demonstrated leadership potential, provides an arena for participants to look beyond themselves and focus their attention, skills and energy on some core issues facing our nation.

Health, Safety and Environment

AGL is continuing to offer a range of services to our people, to ensure that they are not put in any danger in the course of fulfilling their duties.

One of the many initiatives offered over the past twelve months has been the Ergonomics Programme. To date this on-going programme has seen over 300 employees assessed to ensure that their immediate working environment is comfortable and appropriate for the work they are required to do and is not putting them at risk in any way. This programme has been particularly popular and relevant in our call centres.

A series of presentations by the NSW Cancer Council has helped raise skin cancer awareness. In the coming year we hope to be able to be extend this programme to all states, with a particular emphasis for those employees who work outside. Our flu vaccination programme remains very popular, with over 700 employees receiving the vaccine in Autumn 2001. Work/Life Balance sessions have also been conducted, to assist employees in managing stress.

Through its provision of Field Services in the Northern Territory, Agility assisted NT Gas to win the Minister for Resource Development's Award in Resource Development, in the category of workplace safety, for the second year in a row.

Life Guard

Our Health, Safety and Environment Management System, known as Life Guard, provides the framework of legal requirements, standards and guidelines for continuous improvement in our health, safety and environment performance.

Each business unit is required to identify the risks that arise from their activities and to implement controls to ensure the health and safety of their staff, contractors, customers and the public. There is also the need for potentially adverse environmental effects to be remedied or mitigated in order to avoid environmental harm. Each business develops their own Health, Safety and Environment Management System consistent with the framework of AS/NZS ISO 14001:1996 (Environmental Management Systems) and AS/NZS ISO 4804: 1997 (Occupational Health & Safety Management Systems). Regular audits ensure that there is continual improvement in this area.

"Development of our people, particularly in the area of leadership, continues to be a priority for us."

The Lost Time Injury Frequency Rate for the year was 2.5, a 30% improvement on last year's result of 3.6.

It has been particularly rewarding over the past twelve months to introduce the Life Guard system into the New Zealand part of our business. As always the high point in the Life Guard calendar was our annual Life Guard Excellence Awards, held in August 2000. These Awards provide an opportunity to recognise the achievements and successes of individuals, teams and business units who have excelled in implementing health, safety and environment initiatives.