

M John Phillips
CHAIRMAN

Greg Martin
MANAGING DIRECTOR

Chairman's Report

Dear Proprietor,

I feel much happier writing to you this year than I did a year ago. The problems which dogged us in 2001 have been dealt with, though there was some residual effect from the New Zealand difficulties in the early months of the year. Our New Zealand interests, through Natural Gas Corporation Holdings Limited (NGC), have since been operating profitably and have been a valuable source of cash flow.

We also cleaned out some other activities that did not fit with the Company's skills and strategies, and were unlikely to add to Proprietors' returns, including Dingo Blue.

These actions had some impact on profits but put us in a much stronger position for the years ahead.

Profit attributable to Proprietors in 2001/2002 was \$192.1 million compared with \$115.4 million in 2000/2001.

However, to underline the point made above about future strength, profit after tax but before significant items was \$263.6 million, the highest the Company has recorded. This was achieved despite milder winter and summer weather in NSW, Victoria and South Australia, and the full-year negative effect on revenues of revised regulatory determinations in NSW and Victoria.

Operating cash flows improved from \$297.4 million to \$344.3 million.

Your Directors are proposing a final dividend of 27 cents a share, franked to 16 cents (59.3% of final dividend). This will be paid to Proprietors on 16 October 2002, bringing the total dividend for the year to 52 cents (35 cents franked).

There is a Foreign Dividend Account (FDA) credit of 5 cents attached to the final dividend for the year.

The Dividend Reinvestment Plan will again be available with the discount rate unchanged at 2.5%.

Following the end of the financial year, we were successful in acquiring Pulse Energy, which is expected to add to both revenue and earnings per share in the current year. That is an important addition to AGL's

activities and will be a major element in the next chapter of AGL's long history.

Pulse Energy gives us access to gas supplies in Victoria, filling a major gap in our energy portfolio; it propels us to a position of market leadership; and it gives us a dual-fuel footprint and the scale we need in each of the markets in which we compete. Scale will allow us to offer competitively priced retail energy and a range of related products and services, to the mutual benefit of our Company, our customers and, ultimately, our Proprietors.

Importantly, we expect the acquisition to provide a lift in revenues of more than \$1 billion annually.

To allay any concerns about the substantial growth in our number of retail customers, I should tell you that the purchase has been underpinned by a flexible long-term hedge arrangement with a major Victorian generator. That new arrangement, combined with AGL's and Pulse Energy's existing trading books, plus our own electricity generation peaking plants at Somerton in Victoria and Hallett in South Australia, will significantly mitigate our exposure to wholesale electricity market risk.

The Pulse Energy acquisition was obviously well regarded by the market. Strong investor demand allowed us to raise \$380 million through a placement of 41.1 million shares. We also announced a Share Purchase Plan which offered up to \$2,960 worth of shares to existing Proprietors at the placement price of \$9.25 a share. That has raised a further \$95.2 million.

These additional funds are being used to reduce debt associated with the acquisition, allowing us to remain around our target gearing level of 45-50%.

This will probably be the last time I address you as 'Proprietors'. By the time of the Annual General Meeting, I expect we will be operating under our new Constitution. Proprietors approved that step at the Special General Meeting on 3 July 2002 and all but one of the

preconditions have now been met. The last precondition should be cleared up very soon now that the New Zealand elections are over.

Apart from the change in terminology from Proprietors to Shareholders, the most notable change, or at least the most publicised, is the removal of the 5% shareholding limitation. Some of the other significant changes are:

- The scaled voting system has been replaced with a 'one share one vote' regime;
- A proportional take-over offer must be approved by Shareholders;
- A proxy holder need no longer be an AGL Shareholder; and
- Declaration of the final dividend will not have to wait for approval at the Annual General Meeting.

Much is changing at AGL. However, I hope that some things will not change. These are the values that have guided us as an organisation. We strive for high ethical standards in dealing with our staff, our customers, our Proprietors and with the general community. We don't see corporate governance as simply a set of rules to be followed or guidelines to be observed. We expect honesty and openness from all those we deal with; we aim to act honestly and openly in return.

You would be disappointed, I am sure, to receive a report from me that did not mention regulation. AGL's national energy businesses span wholesaling, retailing, distribution and transport, as well as the ownership and operation of gas and electricity infrastructure. We are a national company, seeking to operate on a national basis. Yet, we interact with 14 regulatory bodies, overseeing the industry across Australia. There are also some 2,800 regulatory compliance obligations for which your Board is responsible. It requires a giant leap of faith to believe that can be efficient.

The problem is not just the proliferation of regulators. The system is inconsistent between forms of energy; it pays little attention to national energy objectives; it introduces substantial discontinuity between different parts of the market, particularly in the electricity market; and it fails in its stated aim of balancing the objectives

of consumer protection, competition and the encouragement of investment.

It is encouraging that the defects in our regulatory system are becoming more widely recognised and the calls for change are growing. It is important that we achieve a co-ordinated, even-handed set of rules covering all participants in all states if we are to have, within the next few years, fully competitive wholesaling and retailing of energy across Australia with the interests of energy users being properly balanced against the need for adequate continuing investment in the sector. We will continue to press for that.

The past year has been something of a watershed for AGL. The acquisition of Pulse Energy was a major element in that. However, I would not wish to underrate the importance of our strategic review following the set-backs of 2000/2001. We can now face the future much more optimistically.

That does not mean the job is over. More needs to be done to ensure that the portfolio of activities is right and, most importantly, we need to absorb the Pulse Energy activities smoothly and efficiently so as to gain the available synergies and assure our new customer base of our commitment to their service.

On behalf of the Board and the Proprietors, I would like to thank all AGL staff for their untiring efforts during the year. Thanks to their commitment and dedication, your Company is well placed for the next stage of its development as Australia's paramount energy company. I would also like to add my personal thanks to the Managing Director, Greg Martin, for his leadership in difficult circumstances, and to my fellow Board members for their support.



M John Phillips AM
Chairman

22 August 2002

Board of Directors



M J Phillips AM
CHAIRMAN



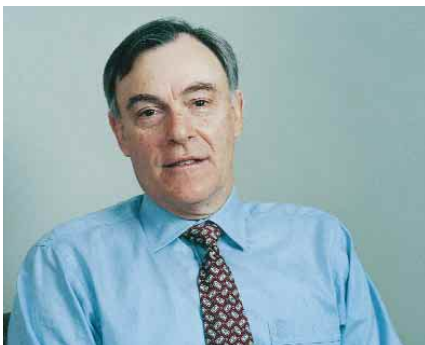
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DEPUTY CHAIRMAN



G J W Martin
MANAGING DIRECTOR



Sir Ronald Brierley



G J Reaney



D C K Allen AO



C J Hewson



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