

DIRECTORS' REPORT

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 2002 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 72

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. Mr Phillips is Chancellor of the University of Western Sydney and Chairman of the Australian Charities Fund. Formerly Deputy Governor and Deputy Chairman of the Reserve Bank of Australia.

M R G Johnson LLB MBA – Deputy Chairman, Age 61

A non-executive Director since 1988 and appointed Deputy Chairman in October 1996. Member of the Nomination, Remuneration and Health, Safety and Environmental Committees. Mr Johnson's other appointments include Deputy Chairman of Macquarie Bank Limited and Chairman of Macquarie Infrastructure Group. He is also Chairman of the Advisory Board to Axiss Australia.

G J W Martin BEc LLB – Managing Director, Age 42

Appointed Managing Director from 1 March 2001. Member of the Health, Safety and Environmental Committee. Mr Martin has been with AGL for twenty-one years. Prior to his present appointment he was Group General Manager Infrastructure Management & Services. He is also Chairman of Natural Gas Corporation Holdings Limited of New Zealand.

Sir Ronald Brierley, Age 65

A non-executive Director since 1987 and a member of the Health, Safety and Environmental Committee. Sir Ronald is also a director of Tooth & Co. Limited. His offices overseas include Chairman of Guinness Peat Group plc.

G J Reaney BCom CPA, Age 59

A non-executive Director since 1988, Chairman of the Audit & Risk Management 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, Queensland Cement Limited and So Natural Foods Limited.

D C K Allen AO MA MSc, Age 66

A non-executive Director since October 1996 and a member of the Audit & Risk Management and Health, Safety and Environmental Committees. Mr Allen is Chairman of the National Australia Bank Limited and a director of 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 47

A non-executive Director since October 1996, a member of the Audit & Risk Management and Health, Safety and Environmental Committees, and Chairman of Trustees of the AGL Superannuation Funds. Mrs Hewson is a director of CSR Limited and a member of the Economic Development Board (South Australia). Her community involvement includes board or advisory roles with the St George Foundation, the Royal Humane Society of New South Wales and the Australian Charities Fund.

A B Daniels OAM, Age 67

A non-executive Director since August 1999. Member of the Audit & Risk Management and Health, Safety and Environmental Committees. His other directorships include the Commonwealth Bank of Australia and Orica Limited. 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 205G of the Corporations Act 2001, at the date of the Report is as follows:

THE AUSTRALIAN GAS LIGHT COMPANY ORDINARY SHARES	
M J Phillips	64,164
M R G Johnson	107,993
G J W Martin	527,526
Sir Ronald Brierley	30,502
G J Reaney	37,822
D C K Allen	37,324
C J Hewson	15,800
A B Daniels	9,752

No options have been granted over any securities or interests of the Company or the consolidated entity.

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 & RISK MANAGEMENT COMMITTEE		NOMINATION & REMUNERATION COMMITTEES		HEALTH, SAFETY AND ENVIRONMENTAL COMMITTEE	
	A	B	A	B	A	B	A	B	A	B
M J Phillips	11	11	3	3	—	—	3	3	2	2
M R G Johnson	10	11	3	3	—	—	3	3	2	2
G J W Martin	11	11	3	3	—	—	—	—	2	2
Sir Ronald Brierley	7	11	—	3	—	—	—	—	1	2
G J Reaney	11	11	2	3	4	4	3	3	1	2
D C K Allen	10	11	2	3	3	4	—	—	1	2
C J Hewson	9	11	3	3	4	4	—	—	2	2
A B Daniels	11	11	2	3	3	4	—	—	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
- Ownership and operation of natural gas and electricity distribution networks and operation of natural gas transmission pipelines
- Extraction and sale of LPG
- Power generation and energy processing infrastructure
- Investments in international energy businesses
- Realisation of property and property-related assets
- Investments in telecommunications enterprises

REVIEW AND RESULTS OF OPERATIONS

The consolidated profit for the year after income tax attributable to Proprietors was \$192.1 million (\$115.4 million in 2000/2001). A review of the operations and of the results of those operations of the consolidated entity during the financial year are contained in pages 13 to 33 of this Report.

DIVIDENDS

The following dividends have been paid or recommended by the Directors since 30 June 2001:

Final dividend of 27 cents per share (59.3% franked) referred to in the previous Directors' Report and paid on 16 October 2001 (Note 1.) \$97.1 million

Interim dividend of 25 cents per share (76% franked) out of profits for the six months ended 31 December 2001 paid on 11 April 2002 (Note 2.) \$92.9 million

Final dividend of 27 cents per share (59.3% franked) recommended by Directors for payment on 16 October 2002 (Note 3.) \$103.2 million

Notes:

1. Under the Dividend Reinvestment Plan, Proprietors who elected to receive additional shares in the Company in lieu of receiving the 2000/2001 cash final dividend totalled 36,081.
2. Under the Dividend Reinvestment Plan Proprietors who elected to receive additional shares in the Company in lieu of receiving the 2001/2002 cash interim dividend totalled 37,105.
3. 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 record date. Meanwhile, the full amount of the 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 shares pursuant to the Dividend Reinvestment Plan, including the underwriting of the October 2001 final dividend and the April 2002 interim dividend.

DIRECTORS' REPORT

ENVIRONMENTAL REGULATION

The consolidated entity's operations are subject to various Commonwealth, State and Territory environmental legislation in relation to energy (gas and electricity) operational and construction activities, LPG production, cogeneration (electricity, steam and desalinated water) and land remediation works.

The Board meets as the Health, Safety and Environmental Committee in order to review the effectiveness of the environmental management system. Environmental management performance is monitored on an on-going basis by way of Life Guard audits conducted by the Company using internal accredited auditors. In addition, the consolidated entity has its own management Health, Safety and Environment Committee which meets regularly to review the Company's environmental performance in detail.

Operational and Construction Activities

Gas and electricity activities were undertaken throughout Australia during the financial year. There have been two infringement notices issued by the NSW Environment Protection Authority (EPA) for smoky vehicles. Both vehicles were inspected and found not to be unduly smoky. Health, safety and environment alerts were communicated to personnel to regularly check their vehicles' performance and carry out any preventative maintenance.

LPG Production (NSW)

Specific licence conditions under the NSW Protection of the Environment Operations Act 1997 (POEO Act). There have been no instances of non-compliance in relation to this licence 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 POEO Act 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.

During February there were two infringement notices issued at the Breakfast Point site.

An infringement notice was issued for inadequate dust suppression. Management at the site have since increased resources to combat the excessive dust, including the use of hydro-mulching (a fast-growing grassing technique).

A second infringement notice was issued after it was found that sediment was being washed into the river adjacent to the site, after large volumes of rainfall. The Company has installed a 200 metre sea boom parallel to the sea wall to stop the spread of sediment charged waters. An action plan has been developed in conjunction with the EPA to address the issue long term.

EVENTS SUBSEQUENT TO BALANCE DATE

Apart from matters discussed elsewhere in the Annual Report and detailed below, the Directors are not aware of any other matter or circumstance which has arisen since 30 June 2002 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.

On 31 July 2002 AGL acquired the Victorian businesses Pulse Energy Pty Ltd, Utili-Mode Pty Ltd and EdgeCap Pty Limited for a total cost of \$880 million. On 3 July 2002 AGL raised \$380 million by way of a placement of 41.1 million fully-paid ordinary shares to various institutions at \$9.25 per share. AGL also issued on 15 August 2002 \$95.2 million fully-paid shares at \$9.25 per share by way of a Share Purchase Plan to Australian and New Zealand Proprietors.

The funds will be used to reduce debt associated with the acquisition of the Victorian businesses.

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 the 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 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. Through the existing plans all senior managers may receive a bonus and qualify for participation in 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.

This year the Remuneration Committee has considered a comprehensive review of the current bonus plans and share plans offered to senior managers in light of Australian and international best practices. External expert advice has assisted the Remuneration Committee which proposes to introduce some changes in the design of the arrangements. For the coming year the focus of performance under the new plans is economic profit with partial bonus deferment through the issue of equity rights. The Managing Director will also participate in the changed plans.

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 of entities of the consolidated entity 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.

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 emoluments are:

Emoluments of Non-Executive Directors of The Australian Gas Light Company:

	DIRECTORS' FEES INCLUDING COMMITTEE FEES (EXCLUDING AGL SHARE PURCHASE PLAN) \$	SUPERANNUATION CONTRIBUTIONS* \$	VALUE OF SHARES ISSUED UNDER AGL SHARE PURCHASE PLAN \$	TOTAL \$
M J Phillips	139,876	14,920	46,624	201,420
M R G Johnson	—	9,040	113,000	122,040
Sir Ronald Brierley	—	5,600	70,000	75,600
G J Reaney	49,000	6,720	35,000	90,720
D C K Allen	—	6,080	76,000	82,080
C J Hewson	41,250	6,600	41,250	89,100
A B Daniels	60,000	6,400	20,000	86,400

* 8% Superannuation Guarantee only

DIRECTORS' REPORT

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

	POSITION	BASE SALARY \$	SUPERANNUATION CONTRIBUTIONS \$	INCENTIVE \$	TOTAL \$
G J W Martin	Managing Director	790,657	148,750	128,333	1,067,740
L J Fisk	Group Manager Corporate Services & Company Secretary	375,272	65,896	60,913	502,081
J A Fletcher	Chief Financial Officer	610,485	3,375	84,975	698,835
M A Fraser	Group General Manager Energy Sales & Marketing	584,399	111,563	96,250	792,212
I C K Woodward	Group Manager Strategic Projects	418,213	82,078	70,813	571,104
J L Barton	Former Chief Executive, NGC	540,698*	9,102	–	549,800

* Includes eligible termination benefit and contractual arrangements

PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied for leave of the Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings. The Company was not a party to any such proceedings during the year.

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 Act 2001 does not require disclosure of the information in those circumstances.

ROUNDING

The Company is an entity to which ASIC Class Order 98/100 applies 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-second day of August 2002.



M J Phillips AM
Chairman