



The Australian Gas Light Company  
14 October 2003

ADDRESS BY  
M. JOHN PHILLIPS AM, CHAIRMAN  
AUSTRALIAN GAS LIGHT COMPANY

## **ANNUAL GENERAL MEETING 2003**

Good morning Ladies and Gentlemen.

I have much pleasure in declaring open the 164<sup>th</sup> Annual General Meeting of The Australian Gas Light Company.

I extend a particularly warm welcome to those Shareholders who are attending an Annual General Meeting of AGL for the first time.

Last year I mentioned we had 107,000 shareholders. Our numbers have grown by more than 5,000 since then. As far as we can see, 95% of our Shareholders are Australian.

Without being xenophobic about it, we are proudly an Australian company and have been so for the past 166 years. I hope my successors will be able to keep saying that in years to come.

The Annual Report of the Company, the independent Audit Report and the Concise Financial Report for the 12 months ended 30 June 2003 were posted to Shareholders on 12 September.

I hope you will notice that we have finally been successful in having the type size increased to the point at which I, at least, can read it comfortably.

As I have said to you before, I am always happy to receive a note from you if you have any ideas to improve the Annual Report.

Some Shareholders have taken me up on that offer, for which I thank them.

Some of you have asked to receive the full financial report as well as the concise version. If anyone else would like to get the full report, it is available on request or on the AGL internet site.

Operationally, 2002-2003 was a good year for AGL, particularly given the much greater competition in our lines of business.

Profit attributable to Shareholders was up 54%, to \$295 million from \$192 million in 2001/2002.

Earnings per share rose to 67.3 cents, up from 51.6 cents in the previous year.





And importantly, AGL's operating cash flow increased by 57 per cent to \$542.2 million.

Gearing reduced from 51.6 to 38.5% and the major rating agencies, Standard and Poor and Moodys, confirmed our "A" credit rating status.

Profit after tax, but before significant items, was \$320.8 million compared with \$247.1 million in the previous year, clearly demonstrating the underlying strength of the Company's normal operations.

That strength has continued into the current year, all is going well, and I expect a further increase in profits and earnings per share this year. That is not a forecast because as you will recognise more than half the year is yet to unfold.

As foreshadowed, the performance of the Pulse Energy business, acquired in July 2002, made a very positive difference to AGL's earnings last year.

We projected it would be earnings positive from year 1; and it was.

The ongoing reconfiguration of AGL's asset portfolio around our core competencies and capabilities in the downstream energy sector also played an important part in the profit result.

On the gas side, we negotiated a new 15-year portfolio of wholesale gas supply and transportation arrangements for the NSW, Victorian, South Australian, Queensland and ACT markets. Effectively this will help to underpin long-term reliability of gas supply to our customers.

I would also mention the successful restructuring of NGC, our 66%-owned subsidiary in New Zealand, with its exit from gas and electricity retailing and the sell-off of its power generation assets.

A capital return of NZ\$525 million to shareholders of NGC is planned for later in the year. AGL's share will be NZ\$346 million.

Overall, we have further cemented our position as market leader in the Australasian energy industry and we now have a more balanced business portfolio.

You will note from the Annual Report that the result for the year included some significant after tax items.

I will mention two of them.

First, there was a net gain of \$61.2 million to AGL from the disposal of NGC assets.

Second, there was the need to equity account our investment in COMindico.





That was a touch paradoxical. On the one hand, COMindico has been tracking well and we are confident of its potential. In fact, we expect to use some of its products and services ourselves in the near future.

However, the minor restructuring of ownership of the company, which occurred during the year, coupled with AGL's power to appoint a Director, meant we had to equity account our investment for the first time.

Previously, we had accounted for it simply as an investment.

While nothing had basically changed, equity accounting meant we had to bring to book our share of COMindico losses from the date of our original investment in September 2000 through to 30 June 2003. These totalled \$52.5 million.

As a result the carrying value in AGL's book is now \$19.5 million.

We still regard COMindico as a non-core investment and propose to exit it at the appropriate time.

Without offering forecasts, events during the past year have increased the likelihood of an exit favourable to AGL.

Could I also mention that in September we settled our claim against Optus over the Dingo Blue purchase and received \$23 million. That was a pleasing outcome, particularly since there were some who doubted the validity of our position.

By now, you should all have received the final dividend of 29 cents a share, franked to 18 cents, which was paid to shareholders on 26 September.

One of the benefits of the change to a modern company constitution is that the Board can authorise the payment of the final dividend without waiting for the Annual Meeting; so you get it earlier.

When this is added to the interim dividend, the total dividend for the year was 55 cents, franked to 34 cents. That compares with 52 cents for the previous year.

The Dividend Reinvestment Plan was again available for the final dividend, with a discount unchanged at 2.5%. That meant that the DRP share price was set at \$10.23.

More than 36,000 Shareholders, including yours truly, took advantage of the opportunity and participated in the DRP.

I know that some of you will be very disappointed, but the Board has decided to discontinue the DRP for the time being. I have always been a supporter of DRP schemes, to offer something extra to smaller shareholders. However, I must admit that, in present circumstances countervailing arguments out-weigh that preference.



For one thing, the strong improvement in our debt/equity ratio means that the Company is unlikely to need new capital in the short term. To the extent that we add to our capital base through the DRP, it has the effect of diluting earnings per share.

Second, we find that some institutions take advantage of the DRP and trade in the market to the disadvantage of other shareholders. There is nothing illegal in this and, while the market effects tend to be temporary, it adds to share price instability and can affect shareholders who are looking to sell shares for genuine purposes.

So, we have decided to discontinue the scheme for the time being. We haven't cancelled it. The structure remains and, if circumstances change, the Board can always elect to reintroduce it.

I hope that those of you who, like me, have loved the DRP, will understand that our decision has been taken in the best interests of all shareholders.

I am sure you are all aware of the debate we have been having with the ACCC over the potential purchase of the Loy Yang Power Station. Let me outline the situation briefly.

Since the end of the financial year, a consortium, involving AGL, Tokyo Electric Power Company (TEPCO), and a group of financial investors led by the Commonwealth Bank of Australia, has entered into a conditional agreement to purchase Loy Yang Power Station and its adjacent coal mine in Victoria's Latrobe Valley.

AGL would hold a 35% interest in Loy Yang Power, as would TEPCO, and structuring would be put in place to ensure that Loy Yang would continue to trade with all electricity retailers, including AGL, on a strict arms length basis.

Loy Yang Power accounts for 23% of Victorian capacity and 5.2% of the combined generating capacity of Victoria, SA, NSW and Queensland. It operates in a very competitive, and very regulated, market.

The purchase of a minority stake in Loy Yang is seen by your Board as an important step in supporting the reliability of electricity supply in Victoria and in south-eastern Australia generally. Given the structure we have made, we don't believe it would lead to a lessening of competition in the electricity market.

The Australian Competition and Consumer Commission (ACCC) has opposed the acquisition.

AGL negotiated with the ACCC in good faith for over seven months and we exhausted all options, through the informal clearance process, to reach a commercially acceptable outcome for AGL.

So, in September we sought a declaration from the Federal Court that our 35% interest was not in breach of the Trade Practices Act. That option is provided for under competition arrangements. We await the Court's decision and will, of course, continue to keep shareholders and the market generally abreast of developments.

Over the past couple of years, particularly since Enron and HIH, Corporate Governance has been the subject of many seminars, learned papers and official proscriptions.

I don't propose to spend much time on the subject this afternoon, though I am always willing to respond to questions.

At AGL we have never seen corporate governance simply as a set of guidelines to observe or boxes to be ticked.

We firmly believe that good corporate governance is about behaviour, relationships and embedded values.

What matters is the integrity with which the Board and Management of a company go about their business. AGL continually strives for high ethical standards in dealing with our staff, our customers, our shareholders, the regulators and the general community.

Nonetheless, we accept that the community looks for indications that companies are doing the right thing. So we have structured the Corporate Governance Section of this year's Annual Report to demonstrate the extent of our conformance with the "Principles of Good Corporate Governance" issued by the Australian Stock Exchange.

Among other things, the ASX talks about recognising the legitimate interests of stakeholders. I would like to take that a step forward and say a few words about the importance of engagement with the community more broadly.

We are acutely aware of our responsibilities to the community, particularly with the continued growth of our business in Victoria and South Australia.

So, we have developed a Corporate Social Responsibility program that will strengthen our community relationships and partnerships and give sharper focus to decisions affecting community and charitable activities.

As part of the program, we are providing incentives to support and encourage community contributions by our employees.

We have started an 'Employee Giving Programme', which encourages employees to contribute regularly, out of their salaries, to charities of their choice. The employee contributions are then matched by AGL.

A voluntary time bank of 500 hours a year is also being established. This will enable our employees to donate up to 500 hours in voluntary community service at the Company's expense.

Other elements of the programme have yet to be released but our objective is to be a good corporate citizen and to discharge our responsibilities as a good corporate citizen in the communities in which we operate.

I am quite excited about this programme.

I would like to say something positive to you about regulation. But, unfortunately, the *nirvana* of a truly national energy market remains elusive.

Despite the generally sensible recommendations of the Parer Report and the efforts to create the structures for a national market, there remains a lack of consensus on important issues at government level.

We will keep pressing for consistent regulation across jurisdictions and between forms of energy that balances the interests of energy users and the need for continuing investment in the sector.

We have seen, overseas and regrettably also in Australia, the unfortunate effects of a lack of continuing investment in energy infrastructure.

With even-handed regulation, we believe AGL's future is bright. In the current year we are focussing on further improvements to our core businesses with the objective of growing our customer base whilst maintaining overall profitability.

I would like you to know that this is the last Annual Meeting at which I will preside as your Chairman, or which I will attend as a Director. I certainly hope to come as a shareholder for quite some years.

While the Government has repealed the legislation that discouraged Directors from continuing to serve after reaching the age of 72, I think the time has come for me to step down.

I have been a Director for 11 years and your Chairman for 7 of those.

I have enjoyed the time immensely and will leave with very good memories.

I shall remain in my position until December, by which time I hope we may have some clarity on the Loy Yang issue.

There will be other opportunities for me to thank the Executive and Board of AGL for their efforts and their support during my tenure. However, I would not wish this occasion to pass without thanking you, the shareholders, for your understanding, your support and, in many cases, your friendship. One of AGL's strengths has always been the loyalty of our Australian shareholders.

So, thank you and God Bless you all.



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It only remains for me, on behalf of the Board and, I hope, on behalf of all of you to thank Greg Martin, his management team and all employees of the AGL Group for the results achieved in 2002/2003.

M John Phillips AM  
**CHAIRMAN**

