



Greg Martin  
Managing Director

# Managing Director's Report

Last year I outlined to Shareholders a four-part corporate strategy designed to deliver sustainable earnings per share growth for AGL by building upon the Company's core strengths in the downstream energy sector and the energy know-how and capabilities of our people.

The objectives of our strategy are to deliver maximum returns to our Shareholders, further develop and integrate our core business platform, rationalise elements of our asset portfolio around our core competencies and continue to build the capabilities of our people. I am pleased to say that a number of key elements of that strategy have been successfully delivered over the past twelve months.

We have continued to refocus AGL's business portfolio around our core strengths of energy distribution, retailing, infrastructure management and service provision. We have also taken the opportunity to complement our energy asset portfolio by investing in power generation assets.

These activities, as well as the successful integration of the Pulse Energy business, acquired in July 2002, have added to AGL's position of market leadership and contributed to the strong financial performance of the Company over the past year. We now want to build upon our portfolio of downstream energy businesses and are well positioned to take advantage of changing market dynamics and ongoing rationalisation of a number of areas in the sector.

The past year has seen our underlying financial performance improve significantly and I would like to reflect upon some of the notable achievements recorded during the past year.

As previously noted, the Pulse Energy acquisition and successful integration has contributed positively to our financial performance, as has the significant restructuring of our portfolio of energy businesses.

The continued focus on business efficiency has seen an improvement in operating cashflows, with the Company now very comfortably geared. We have the financial capacity to take advantage of further growth opportunities through investments in acquisitions as well as the expansion of existing core businesses.

Some of the biggest changes during the year unfolded, on a number of fronts, in our electricity and gas retailing businesses. At the time of my last report, we had begun the process of integrating the Pulse Energy business into AGL. This was an important acquisition for AGL as it filled several gaps in our energy sales and marketing activities in the Victorian market. The combined retail operation is already making a significant contribution to AGL's financial performance.

On the retail regulatory front, the year saw us complete significant retail pricing justification processes in Victoria, South Australia and NSW for both gas and electricity. For the first time in all states, there is retail competition as a result of the deregulation of the electricity markets. Our experience in both the Victorian and NSW markets is consistent with our expectations and the South Australian market is seeing increasing signs of competitor activity. In all markets, AGL is pleased with its performance and the strengthening of our capability to be an effective retail energy competitor. The continued growing recognition of our brand as Australia's leading retail energy Company is also most encouraging.

Just as the past year saw us develop and refine our portfolio, the commissioning of the Hallett and Somerton gas-fired peaking power stations has given AGL the flexibility to manage better wholesale electricity pricing pressures and risks during periods of peak demand from our retail electricity customers.

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We will continue to examine the potential to expand the capacity of these peaking plants to meet our customers' future energy demands. The flexibility afforded by the modular nature of gas-fired peaking plants means that we are in a position to ensure any additional investments in such capacity will only occur if they substantially benefit AGL's existing business.

With the largest customer base on the south-eastern seaboard, one of the most important components of our retailing strategy is the ability to provide customers with competitively priced gas and electricity. During the year we delivered on this objective in a number of ways.

The most significant was securing a new \$4.5 billion portfolio of wholesale gas supply and transportation arrangements, which supplement and will ultimately replace our 30-year contract with the Cooper Basin producers. The new supply and transportation arrangements represent some of the most significant transactions of this nature in Australia and are fundamental to AGL providing competitively priced natural gas supplies for customers well into the next decade. These arrangements deliver AGL a flexible, diversified portfolio of gas supplies that is not reliant on one single source, enabling the Company to compete effectively in key Australian gas markets.

Turning to the energy infrastructure side of the business, our infrastructure management and services business, Agility, has continued to prosper and contribute to AGL's results. As well as the work it does for AGL-owned businesses, Agility has improved its revenue this year through the acquisition of important new customers including Sydney Water, TXU, Macquarie Generation and Hunter Water.

Agility has also successfully added gas-fired power generation construction and operation skills to its list of capabilities. During the

coming year we plan to expand Agility's customer base to an increasing number of non-AGL related customers.

I would like to make particular mention of the outstanding expertise and dedication shown by our Agility people who assisted our joint venture business, ActewAGL, to restore infrastructure services in Canberra following the devastating bushfires on 18 January 2003.

In the aftermath of the fires, 37,500 homes and businesses were left without power, 6,400 without natural gas and the ACT's key water treatment and sewerage plants were non operational. Within one week of the fires all but a few gas and electricity supplies had been restored to full operation. This is a tribute to all involved who pulled together so magnificently at a time of crisis to restore essential services to the citizens of the nation's capital.

The past year has seen us further refine our interests and ongoing focus in New Zealand. Our strategy in New Zealand is one of building on our strengths and moving away from areas where we could not adequately influence the outcomes. Our 66%-owned subsidiary, NGC Holdings Limited (NGC) is now AGL's principal vehicle for growth in New Zealand, following the disposal of AGL's 20.5% interest in TrustPower Limited.

Following significant restructuring during the course of the year, NGC has become an infrastructure focused energy services business centred upon natural gas and LPG. NGC has announced a return of capital to shareholders through a New Zealand High Court approved scheme of arrangement totalling NZ\$525.0 million. Completion of this return is earmarked for the end of 2003. The capital restructuring of NGC will ensure it is well placed to deliver on its principal objective of delivering sustainable and growing returns to all shareholders, including AGL.

In the year ahead, NGC will focus on growth opportunities within the areas of its core activities and capabilities, all of which complement AGL's activities.

Another important development for AGL was the implementation of a power generation investment strategy. Attractive investments in power generation assets is consistent with AGL's objective of developing interests across the energy value chain. Through this approach the Company is able to manage its wholesale electricity risk better. Of primary importance is the requirement for the investment opportunity to provide an acceptable level of return, while at the same time delivering portfolio benefits, including providing a natural income hedge to our retail energy business.

As part of this objective, AGL has entered into a \$3.5 billion conditional agreement to buy a minority 35% interest in Loy Yang Power, Victoria's largest base load power station. AGL is part of a consortium called the Great Energy Alliance Corporation (GEAC) whose other members include the highly-experienced Tokyo Electric Power Company Incorporated (TEPCO) and financial investors led by the Commonwealth Bank of Australia.

The GEAC consortium is working to finalise all conditions precedent that need to be met before financial close of this transaction. At the time of writing, nearly all of the matters that needed to be addressed to enable the purchase to be concluded had been satisfied. The GEAC consortium remains confident that the outstanding matters can be satisfactorily resolved and is hopeful of a speedy resolution of these issues.

In other areas of our portfolio, we have made significant progress on our strategy to exit non-core assets including the sale of Western Australian power generation assets, as well as the ongoing sale of NSW property interests, most notably the former gasworks site at Breakfast Point.

As noted by the Chairman, we have adopted a conservative approach to valuing our non-core telecommunication investments and remain committed to realising maximum value from the sales of these investments at an appropriate time.

We have looked not just at what we can do within the bounds of our core business, but also to what we do in the communities in which we do business. The year ahead will see some exciting developments in the way we manage our role in the community as a responsible corporate citizen. We are already working to become a more active participant in helping improve the lives of people our business touches.

Of course, none of the progress we have made during the past year would have been possible without the teamwork, commitment and energy know-how of AGL's people. We have continued to invest in building our people and organisational capability as we believe that these represent a key competitive advantage that will better equip us to achieve our goals.

The continued success of AGL is a direct result of the dedication and commitment of our people and I would like to take this opportunity to personally thank all of them for their contribution. I have great confidence in our people's ability to ensure AGL continues to fulfil its mandate for its key stakeholders. Our focused approach and strong market positioning will see us further grow the business in the year ahead and enable us to continue to appropriately reward Shareholders for their investment in AGL.



Greg Martin  
Managing Director

21 August 2003