ANNUAL GENERAL MEETING 2004

ADDRESS BY MARK JOHNSON
CHAIRMAN
AUSTRALIAN GAS LIGHT COMPANY

19 OCTOBER 2004

Introduction

Good morning Ladies and Gentlemen.

I have much pleasure in declaring open the 165th Annual General Meeting of The Australian Gas Light Company.

I am your Chairman, Mark Johnson, and I would like to welcome you all here today. This is my first time as the Chairman of AGL's Annual General Meeting having succeeded John Phillips in December 2003, although I have been one of your Directors since 1988.

For those Shareholders who are also attending this Annual General Meeting for the first time, I extend a particularly warm welcome and trust you find it informative and helpful. Your investment in AGL has seen the number of Shareholders increase to over 114,000 of which around 95% are Australian.

The Board of your Company, and its senior management, are here to report to you today on the state of your Company, its performance and accomplishments in the past year, and to give you an opinion on the outlook for the coming year.

In the Annual Report we have tried to give you comprehensive operating and financial information, which we hope you found sensible and relevant.

One of the tasks we have given ourselves is to improve our communication with you. We have asked some of our large Shareholders about their priorities, we have commissioned research and we have spoken with a sample group of our Shareholders. We want to know what you want to know.

To help us in this mission, you will find on your chair this year a Shareholder Feedback Form. We ask you to consider taking the time to complete the form and give it back to us. It will provide us with valuable information concerning your views on the Annual General Meeting and the Annual Report and assist us in improving Shareholder information and services. Tell us what you want to know, and we will do our best to give it to you.

The Annual Report of the Company, the Independent Audit Report and the Concise Financial Report for the 12 months ended 30 June 2004 were posted to you on 17 September 2004.

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

Financial Performance

Operationally, 2003-2004 was a good year for AGL. Profit attributable to Shareholders grew 18.5%, to $349.5 million from $295 million in 2002/2003.

Earnings per share grew by 9.5 cents to 76.8 cents, up from 67.3 cents in the previous year.

The underlying profit after income tax for the Group of $361.8 million, excluding significant items and the outside equity interests associated with those items, increased by 12.8 per cent compared with the previous year. This indicates the good underlying performance of the Company's portfolio of energy businesses.

And AGL's operating cash flow increased by 17.5 per cent to $637.2 million. You will judge us by how well we use this cash on your behalf.

By now, you should all have received the final dividend of 31 cents a share, franked to 23 cents, which was paid to Shareholders on 24 September.

When this 31 cents is added to the interim dividend, the total dividend for the year was 60 cents, franked to 45 cents. That compares with 55 cents for the previous year. The Dividend Reinvestment Plan remains suspended and I will talk more about the Company's ongoing capital requirements shortly.

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.

Operational Performance

AGL's improved profit came from its existing portfolio of businesses. It was achieved in a year that saw strong competition in the retail sector of our business, and reflects the strong market positions the Company has established.

It also reflects the benefits of continued improvements in operating efficiencies and service levels for AGL's customers, who now number more than three million.

To explain AGL's business interests more clearly we have included a diagram at pages 6 and 7 of the Annual Report. This shows the key segments of the electricity and gas markets in which AGL does business. Today, these interests span the energy supply chain and give your Company great strength.

It also makes us a natural target for competitors.

Through the year, particularly in the last quarter, other electricity retailers tried to increase market share, particularly in South Australia and Victoria, and new entrants tried to obtain customers with aggressive price offers.

AGL's capacity to respond effectively in this competitive environment is critical. We lost around net 77,000 customers last year from our customer base. We gained 67,700 customers who now buy both gas and electricity from AGL. This is the new world of competitive energy retail markets and we can expect this level of activity to continue into the foreseeable future.

We have a clear strategy in the marketplace and that is to win market share whilst maintaining our focus on margin. This year we have consistently maintained these margins.

Competitive risk is only one of the risks that must be managed.

Our industry is bedeviled by illogical and inconsistent market structures. Each State has a different regime for regulating energy businesses, there are different structures in both gas and electricity across the states, and each State is at a different stage of market liberalisation.

One of the great strengths of AGL is its extensive experience and deep understanding of regulatory issues. We think the Company enjoys good working relationships with regulatory bodies and we work hard to maintain a constructive dialogue at all levels.

In that context, we maintain our strong support for a national energy market with a single regulatory framework.

The path and the timetable are not always clear but the benefits to customers, the energy industry, the Australian economy and to AGL are overwhelming and clear. We will continue to work with all concerned.

Investment in Loy Yang Power

In April this year AGL and its foundation partners, The Tokyo Electric Power Company (TEPCO), and a group of financial investors led by the Commonwealth Bank of Australia, completed the purchase of Loy Yang A Power Station and its adjacent coal mine in Victoria's Latrobe Valley.

AGL invested $210 million for its 32.5% investment in a power station that represents around 23% of Victoria's total installed electricity capacity.

This followed a December ruling by the Federal Court that AGL's involvement in Loy Yang Power did not breach the Trade Practices Act because it did not substantially lessen competition in the electricity market.

The purchase of Loy Yang Power is an important step in expanding a new earnings stream for AGL. It represents the first investment in base load power by AGL and brings our direct and equity investment to over 1000 MW or about 2.6% of the electricity market.

We are aware of the environmental issues involved in power generation and will be working with our partners and Loy Yang Power management to ensure the power station and mine are managed in a manner consistent with our environmental principles.

Sale of NGC Holdings

Another important matter is the announcement in late August of our intention to sell our investment in NGC Holdings Pty Ltd (NGC) in New Zealand. The Board formed the view that the investment in NGC was worth more in the hands of a new investor than AGL.

The sale process has resulted in New Zealand company Vector contracting to buy AGL's 66 per cent interest in NGC for a favourable sale price. Net proceeds of approximately A$760 million, representing around NZ$3.00 per NGC share (including the fully imputed dividend of 9 cents per share announced last week) are expected to be received by AGL by the end of the calendar year.

Vector's offer structure was straightforward with a minimal number of conditions. The offer will provide minority shareholders in New Zealand with the opportunity to participate on the same terms as AGL.

AGL has been in New Zealand for around twelve years and for most of that time NGC performed extremely well. The year 2001 was extremely disappointing both to you and to the Board and there has been much work since that time to restore NGC's fortunes. I am pleased to say that, as a consequence, the financial performance of NGC in the last three years has been strong.

We have a good understanding of the New Zealand energy market, and would consider future investments should attractive opportunities become available.

Capital Management

In August the Company indicated that a capital management program was being actively considered. Put simply, we think that some of the cash that will soon be in the Company will be better used by the owners than by the Company, and we are looking at how best to get it to you. Options include a capital return, an on market buy back, an off market buy back, increasing the dividend pay out ratio, as well as a special dividend.

It is important that any return of Shareholders' funds is made in the most tax effective and certain manner.

As a consequence, in considering such a program, we have sought a ruling from the Australian Tax Office that is expected in the near future.

We will make the necessary decisions and an announcement on the amount and structure of the capital management program after we get the ruling from the Australian Tax Office.

Corporate Governance

I would now like to discuss a number of matters that relate to the governance of your Company, in particular the operations and effectiveness of the Board of Directors, and tell you about some changes we propose to achieve.

Earlier this year we conducted a review of the performance of the Board and we examined issues including structure, size, composition and tenure.

As we reported to you in the Annual Report, this review has led to a number of changes to our processes. We have reorganised priorities to allow more time for strategic matters and for detailed reviews of environmental issues, health and safety, information technology and risk management.

As part of this review the Board decided to eliminate the position of Deputy Chairman during the year. With the retirement of John Phillips last December the Board invited Max Ould to fill the casual vacancy. Max Ould has valuable experience and expertise in marketing products to mass market customers.

We have also introduced a process of review of individual Board Members by their Board peers.

The Board decided not to impose a formal age limit, but there is a documented understanding that Directors will not nominate for re-election beyond 70 years of age.

Similarly, there is a documented understanding that the normal tenure for a Director will be ten years, but the Board can vary this in exceptional circumstances.

It follows from all this that the next several years are going to see significant changes as we renew the Board and look for new Directors with skills and experience to contribute to the interests of Shareholders.

In doing this we are going to try to balance the value of corporate memory with the vigor that new recruits can bring.

Energy is a sector that, in many aspects, has a long life cycle. Regulatory resets of revenue and tariffs earned from our energy networks occur every five years and key energy supply contracts, such as the gas supply and transportation contracts signed in December 2002, occur around every fifteen years.

Nevertheless, we think we can recruit four new Directors over the next four years and allow them to gain the necessary knowledge base without losing important corporate memory. We intend to do this and the People and Performance Committee is working with consultants to identify candidates.

We will look for candidates with appropriate skills and experience to build a balanced Board. We will also look for people who exercise an independent and informed judgment on matters that come to the Board. Lastly we will look for people who earn the respect of their colleagues through constructive and sensible behaviour.

As part of its normal processes, the Board is also concerned with the many dimensions of human resources throughout the Company.

During the year, the Board was actively involved in appraising policies relating to promotion, training and development opportunities, succession planning, remuneration policies and job satisfaction.

The Board has a strong belief that integrity in how the Board, management and employees conduct their business underpins the success of the Company. Your Directors believe that AGL has strong ethical, safety, and environmental standards, and a culture in which AGL's people genuinely support these commitments.

Corporate Sustainability

My predecessor, John Phillips, reported to you that the Company had developed a Corporate Social Responsibility program. I would like to report briefly to you on progress during the year, as well as future directions.

You will find in the pack on your seat, AGL's first Sustainability Report. This document reports to Shareholders, and AGL's other stakeholders, on what we have done during the year to make AGL a more sustainable company.

To us, sustainability means a financially successful business that recognises our role as a good corporate citizen in all the communities where we operate.

Community and social issues, such as the financial difficulties of some of our customers, are very real business issues. This is why you will see a "Social" section in the Report.

We are also very aware of our responsibilities, as Australia's largest energy retailer, to address environmental issues such as greenhouse gas emissions.

This is captured in the "Environment" section in the Report. Greenhouse gas emissions are a long-term issue and require action internationally, nationally and locally. AGL is committed to play its part by implementing our environmental principles in everything we do.

The reason for our commitment to sustainability is quite straightforward. If AGL is to continue to deliver returns to Shareholders we must address these social and environmental issues. If we do not, governments and regulators are likely to respond for us.

We are ambitious for AGL. We aspire to leadership in all aspects of our business – sustainability, safety, excellent service to all of our customers, and improved operating and environmental performance for both our own and our customers' operations.

Many of the advances we have made over the past year in these and other aspects of our business have been small and incremental – doing a thousand little things better or more effectively. They have, however, all underpinned the strength of our balanced business portfolio and helped deliver returns for Shareholders.

Long Term Incentive Plan

One of the matters for consideration by Shareholders is the acquisition of rights by the Managing Director to acquire shares up to a maximum of 65,223 in the Company. The Managing Director, receives a balance of fixed and variable (that is at risk) remuneration, the details of which are contained in the Concise Annual Report.

The variable – or at risk - component is based on the economic profit earned by the Company and a series of performance hurdles set by the Board.

Part of the variable component is in the form of a short term incentive paid in cash. Part is in the form of a long term incentive payable not in cash but in fully-paid shares.

These shares may either be issued by the Company or acquired on the market and they are priced at the market rate.

It is important that you know the Managing Director is not entitled to this part of his remuneration immediately. The shares are progressively vested to him over a three-year period.

The terms of the arrangement are the same as for other executives of the Company. However, because he is a Director, the share issue needs to be approved by Shareholders.

At the start of each year, as part of his appraisal and review process, the Board sets the Managing Director's performance hurdles.

For him and other senior executives to gain an allocation of share rights under the long-term incentive arrangements, two things are necessary.

First, there must be an increase in earnings per share. In other words, Shareholders must benefit if senior management is to benefit.

Secondly, the size of any allocation of shares is then directly related to the extent to which the actual performance of AGL improves, measured by the three-year average movement in economic profit.

For these purposes economic profit is defined as Group Earnings before interest, tax, depreciation and amortisation (that is, "**EBITDA**") ***LESS*** (Funds employed ***multiplied by*** pre-tax Weighted Average Cost of Capital).

So, management only gets to share in the increased profitability of the Company after a charge for the use of capital has been applied to the reported profit result.

We think that movement in economic profit as a key performance hurdle ensures executives' rewards are directly aligned with actual delivery of AGL's performance to Shareholders.

For the year ended 30 June 2004, the Company, under the Managing Director's leadership, achieved an 8.7% increase in earnings per share and a positive movement in economic profit, which was reflected in the increased dividend to Shareholders.

On the basis of these positive, measurable achievements, which have benefited all Shareholders, the Board has approved the relevant share allocations for the senior executive group.

Some compensation plans deal primarily with cash rewards. Your Board strongly believes that a large share component aligns management and Shareholder interests. Vesting over a three year period is designed to encourage a longer term outlook.

You will be interested to know that over 98 per cent of eligible employees under AGL Share Plans hold shares in the Company and collectively they rank as the 11th largest Shareholder. We are proud of this alignment of employee and Shareholder interests.

Conclusion

On behalf of my colleagues, thank you for attending and demonstrating your interest in AGL by taking part in this Meeting. I hope you will join the Directors and Management for light refreshments downstairs.

For those of you who wish to provide feedback to us about this AGM and other Shareholder communications, I encourage you to fill in the Shareholder Feedback form you found on your seat. May I remind you that you can place them in the return boxes at the exit to the venue.

Mark Johnson
CHAIRMAN