



REVIEW OF OPERATIONS

**What
we do**

Managing Director's report

Our continued success and solid financial growth are due to a carefully considered corporate strategy and business model. Underpinning both is a simple formula – we stick to the things we know we're good at. We invest in assets and businesses that make the best use of our energy sector skills and capabilities. We build enduring relationships with our customers and constantly look for ways to improve the standard of customer service and care. And we work to find, develop and retain the best people.



AGL has had a very good year. All operating businesses, particularly the energy retail and networks businesses, performed strongly. This was due to their improving efficiency as well as our commitment to continuing organic growth, helped along by the positive influence of weather through a cooler winter than the previous year. In an important development, the Company added power generation assets to the business portfolio providing sound investment returns and attractive synergy benefits with our energy retailing business.

These achievements are built on the four part strategy we embarked upon two years ago to strengthen and build AGL's business. It has involved addressing a number of gaps within AGL's business portfolio, reconfiguring our asset base and refocusing our attention on our core capability to deliver value from AGL's portfolio of energy businesses and energy interests.

This strategy has now largely been delivered.

AGL has become an integrated energy company with market-leading positions in the energy industry servicing the electricity, natural gas and LPG sectors. Through subsidiaries and associates, we also invest in those sectors of the energy market where we can materially influence business performance and achieve acceptable returns for Shareholders.

Operational Performance

AGL's market leading retail energy business is well positioned in Australia's south-eastern markets where competition in deregulated markets is most advanced. Key acquisitions in recent years, including the Pulse Energy business in Victoria, have now been fully integrated and continue to compete and perform strongly in increasingly competitive retail markets.

While we sustained a net loss of 76,000 retail customers during the year, we added 67,700 dual fuel customers, (who purchased both gas and electricity from us), and have also signed over 325,000 of our existing most valuable customers to retention agreements of up to three years duration.

The establishment of multi-year retail price paths for gas and electricity in Victoria and for gas in NSW during the past year, is a positive recognition by regulators that competition is working and is a step in the right direction to encouraging further investments in the retail energy sector, most notably in new power generation.

The main strategic focus for AGL now is to grow earnings in an increasingly competitive environment. We intend to achieve this by growing market share and preserving existing margins. Success will require careful management of wholesale costs, tight control on operating costs, as well as adhering to stringent risk management practices.

AGL's gas and electricity distribution networks are valuable businesses with an estimated market value in excess of \$3.0 billion. They provide a strong defensive quality for AGL, helping to maintain a solid credit rating

and improve the predictability of AGL's cashflow and earnings. AGL has a good track record in owning and managing a regulated portfolio of energy assets. We are intent on continuing to manage these assets well and obtaining the best-possible returns.

Turning to the energy infrastructure management side of our business, our national infrastructure management and services business, Agility, has continued to demonstrate the value of its management expertise through its success in securing new third-party contracts during the year. Agility has now established a solid reputation as an infrastructure management services company within the water industry and continues to look for opportunities to broaden this expertise into other related areas.

AGL's core strengths have traditionally centred on energy retailing, distribution and infrastructure management.

Following the successful execution of our power generation strategy over the past 18 months, in part through the acquisition of a 32.5% interest in Loy Yang Power in Victoria, AGL will now expand its business focus to take further, value adding positions in power generation. This is a two-pronged strategy centred around strong investment returns and providing a diversified income stream to, in part, offset the risks faced in retailing electricity in what, at times, can be a volatile wholesale market. The objective of our strategy is to build a new core capability in this sector that complements our existing energy asset portfolio skills and know-how.

Our Power Generation group, AGL's newest business unit, has been given the task of building a power generation portfolio that is diversified in its fuel mix, asset type and location. Power Generation's immediate priority is to manage and optimise AGL's investment in Loy Yang Power and AGL's existing vertically integrated gas-fired peaking power generation stations in Victoria and South Australia.

With an eye to future growth in power generation, AGL is positioning itself in the renewable energy generation sector and implementing a greenfields gas-fired generation programme. By building on strategic partnering relationships, such as the one we have developed with our Loy Yang Power partner, the Tokyo Electric Power Company, we plan to achieve profitable growth in this sector.

This strategic positioning is particularly significant as Australia's requirements for additional, private sector funded power generation investments grow during the latter part of this decade.

NGC Holdings Limited also had a good year following its business and capital restructure. Its strong underlying performance also reflected the resolution of key issues surrounding Maui gas entitlements. As the Chairman has said in his report, as a result of the strong market conditions in New Zealand and the opportunity to unlock value for AGL Shareholders, we have decided to sell our investments in NGC. Whilst our investment has provided excellent returns, in all but one of the last twelve years, it is now an appropriate time for us to sell our interest and reinvest the proceeds

AGL Leadership Team



Greg Martin

Greg holds degrees in Economics and Law. He is a Fellow of the Australian Institute of Management and a member of the Australian Institute of Company Directors. He is Chairman of NGC Holdings Limited and of the Energy Supply Association of Australia Limited.



Gareth Bennett
Group Manager
People & Culture

Gareth holds an Honours degree in Social Science from Liverpool University in the United Kingdom. He is a member of the Australian Institute of Company Directors and a Fellow of the Institute of Personnel Development. He is a director of the Loy Yang Power Partnership companies.



Jeff Dimery
Group Manager
Power Assets

Jeff holds a Bachelor of Business degree from RMIT University. He has extensive energy industry experience having served as a member on the NECA Reliability Panel and the GEM (Green Energy Market) Governance Board. He is a director of the Loy Yang Power Partnership companies.



Les Fisk
Group Manager
Corporate Services

Les is a Fellow of the Chartered Institute of Company Secretaries, Fellow of CPA Australia and a Fellow of the Australian Institute of Company Directors. He is Chairman of Elgas Ltd. Les was Company Secretary of AGL until August 2004.



Michael Fraser
Group General Manager
Energy Sales & Marketing

Michael holds a Bachelor of Commerce degree from the University of NSW. He is a CPA and a Fellow of the Taxation Institute of Australia. He is Deputy Chairman of ActewAGL and a board member of the Energy Retailers Association of Australia.

in higher growth and return opportunities in our core Australian operations, rather than continue to hold them.

Sustainability

AGL is also committed to being a sustainable energy business. We seek to be customer's energy provider of choice as a result of our reliability, safety, expertise as well as our environmental credentials. To achieve this position, we have measured AGL's environmental footprint, examining the business impact of environmental constraints and pursuing opportunities that we see emerging in the energy sector. I am pleased to say that we are well advanced in integrating formally sound environmental considerations into the strategies of all parts of the business.

Sustainability also applies to the way in which AGL interacts with the communities in which we operate. We have made significant progress in implementing a Corporate Social Responsibility programme within the Company over the past year. It is an important factor, not only to the way in which AGL demonstrates its commitment to the community, but also a key consideration in all of our business decisions.

Year Ahead

Continuing to maintain our strong financial performance and position is essential to the ongoing success of AGL. This provides investment security for Shareholders and gives AGL the flexibility to consider growth opportunities that fit with both our strategy and capabilities.

In the year ahead AGL's growth strategy will be based on a balance of organic growth and value accretive acquisitions. Our financial strength will enable the Company to take advantage of attractive investment opportunities that we anticipate will continue to present themselves. As growth through acquisition can carry significant risks, it is important that a disciplined approach is taken to ensure that any acquisition will generate additional value for Shareholders. Acquisition opportunities will, therefore, continue to be judged against other options for rewarding Shareholders.

AGL has a long and proud 167 year history in serving our energy customers well and providing satisfactory returns to our owners.

With the strategies we are pursuing, and the business portfolio we have built, I have every confidence that Shareholders will continue to be rewarded for their continued investment in AGL.

Of course, good returns stem not only from the quality of a company's business and financial position. They are also a direct result of a professional and dedicated management team and staff. I would like to thank all of AGL's people for their dedication and contribution over the past year.



Greg Martin
Managing Director

26 August 2004



Ross Gersbach
Group Manager
Infrastructure Investments

Ross holds a Bachelor of Business degree, a post graduate diploma in Finance and is a CPA. He is a director of Elgas Ltd and Australian Pipeline Limited.



Mark Harper
Group General
Manager Operations

Mark holds a Bachelor of Commerce degree from the University of NSW and is a member of the Institute of Chartered Accountants. He is a director of NGC Holdings Limited and a member of the Australian Pipeline Industry Association.



Greg Hayes
Chief Financial Officer

Greg holds a Bachelor of Arts degree, post graduate diplomas in Accounting & Taxation and a Master of Applied Finance degree from Macquarie University. He is a member of the Institute of Chartered Accountants, Chairman of the Loy Yang Power Partnership companies and a director of NGC Holdings Limited.



Jane McAloon
Group Manager External
& Regulatory Affairs

Jane holds degrees in Economics (Honours) and Law from Monash University, is a graduate member of the Australian Institute of Company Directors and a member of the Institute of Public Administration of Australia. She is a Board member of ActewAGL and was appointed Company Secretary of AGL in August 2004.



Cesare Tizi
Chief Information Officer

Cesare holds a Bachelor of Engineering degree from Monash University in both Electronics and Communications. He has extensive experience in large scale IT customer management systems, in the mobile phone industry and in electronic road tolling.