



ENERGY NETWORKS

Sticking to the things we know we're good at

At the heart of our service offer to customers is the reliable and secure supply of gas and electricity.

In practice, this means ongoing investment in our gas distribution network in NSW and our electricity distribution network in Victoria. Since both are regulated businesses, it also means engaging in the dynamics of a changing market.

As Shareholders will know, the establishment of a competitive Australian energy market changed the rules governing the way energy is traded and marketed. Owners of energy transportation infrastructure must now offer access to third parties who want to compete in selling natural gas and electricity to energy consumers. Both AGL's network businesses operate under contracts with retailers who use our energy infrastructure to transport energy to their customers.

The introduction of competition has been complex. The reasons? First, there are different Federal and State agencies overseeing regulations.

Second, it has not all happened at once. Each State has set differing timetables for opening markets. The populous south-eastern States and the ACT, for example, are more advanced than others and that is where AGL's infrastructure assets are located.

AGL continues to work closely with regulators – the Independent Pricing and Regulatory Tribunal (IPART) in NSW and the Essential Services Commission (ESC) in Victoria – to ensure customers' energy needs are met. This year was no exception. For example, the ESC granted exemptions for damage to poles by fires sparked by smoke and ash from bushfires in January 2003. Thanks to these exemptions, our electricity network in Victoria achieved four of its six performance targets last year. As a result of this, revenue will increase for AGL in the 2005 calendar year to reflect incentives allowed for by the ESC.

Our electricity network is located in Victoria's manufacturing heartland and is the most geographically compact of that State's electricity distribution businesses. It services 950 sq km of north-west greater Melbourne, including the Tullamarine airport and major transport routes. It distributes electricity on behalf of a number of licensed electricity retailers in accordance with non-discriminatory contractual arrangements covering the terms and conditions of network access.

In NSW, the gas distribution network is a vast underground web of low, medium and high pressure pipes. Through this network AGL distributes gas to 924,567 homes and businesses across the State. As with our electricity network, AGL is contracted to transport gas on behalf of other natural gas retailers.

These licensed retailers include Energy Australia, BHP Billiton, TXU, Origin Energy and Country Energy, in addition to AGL's own retail businesses, which remain the largest users of the network.





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Energy Networks, representing AGL’s ownership in gas and electricity distribution networks, contributed \$234.2 million to profit before borrowing costs and tax, up \$18.3 million from last year. The result reflects favourable weather patterns in NSW and Victoria and over 38,000 new connections to both the gas network in NSW and the electricity network in Victoria.

To ensure supply, reliability and security of our electricity network, a capital investment programme was implemented to expand our network’s capacity for industrial and commercial customers as well as new and existing residential estates. In Victoria, at Heidelberg, the network was reconfigured to meet a major load increase for the Austin Hospital development and a new feeder at Broadmeadows was established to meet demand from industrial customers.

IPART approved Gas Networks accessing \$1.3 million from the Gas Customers’ Reserve Account to fund an additional marketing programme to assist existing gas customers convert electric hot water to gas hot water. It is expected that an additional 4,300 gas water heaters will be connected to the network.

ENERGY NETWORKS

	Gas Networks	Electricity Networks
Performance Summary	<ul style="list-style-type: none"> • EBIT \$164.1 m (+\$12.2 m) • 96.4 PJ (- 0.7 PJ) • 31,647 new sites • Total sites 924,567 • Total mains length 23,335 km (+228 km) 	<ul style="list-style-type: none"> • EBIT \$70.1 m (+\$6.1 m) • 4,123 GWh (+ 2.2%) • 6,656 new sites • Total sites 279,061 • Total line length 7,235 km (+61 km)
Features	<ul style="list-style-type: none"> • Result achieved despite Sydney having the fourth hottest summer on record. However, spring was the coolest since 1995, contrasting sharply with spring last year which was the warmest in 144 years of record. • Decrease in gas transported did not adversely impact revenue as the decrease occurred in the industrial market where revenue is driven by capacity reservation rather than volumes transported. 	<ul style="list-style-type: none"> • Network revenue increased by \$11.9 million due to higher customer numbers, residential and contract demand. • Result affected by colder weather over August to October and warmer weather in December, and strong growth in customer sites connected.





ENERGY SALES & MARKETING

Building better customer relationships

The good news for Shareholders is that AGL is winning – and keeping – high value customers.

We believe our success is underpinned by our business strategy that: 1) has positioned the Company for a fully competitive marketplace; 2) has given us an extensive footprint in both gas and electricity markets in the south-east corner of the country where most of the domestic energy is consumed; and 3) supports more customers to use less, saving on their overall energy costs.

1) An important step towards removing regulatory intrusion in the Victorian energy market was taken during the year when AGL secured pricing agreements with the Victorian Government. The agreements secured electricity and gas price paths until 2007 and removed the requirement for a formal annual justification of our electricity and gas tariffs.

The four-year retail price path is a positive development for both customers and Shareholders. For customers it delivers pricing certainty, enabling them to plan for their energy costs better. Shareholders benefit because revenue certainty enables AGL to manage its wholesale position better. The new structure is regarded by AGL as an important precursor to the ultimate removal of retail price controls in Victoria. It's a recognition that competition is working in Victoria. And it delivers a more practical framework to balance consumer interests with retailers' needs for a clear revenue path, both of which are necessary to underpin continued competition.

2) One of the benefits of our portfolio in energy retailing is the ability to do more business with our customers by offering a dual fuel rather than a single fuel service. It's an offer customers find attractive as evidenced by the additional

67,700 dual fuel customers we added this year.

With 36% market share, AGL is the clear dual fuel market leader, a position we have worked hard to build over the past three to four years through both organic activity and acquisitions. And it's a position we continue to build. In South Australia we are the incumbent electricity retailer. However, in anticipation of the opening of the gas market in July this year, AGL put together an attractive dual fuel offer to add gas customers to our existing electricity customer base. The highly successful dual fuel campaign was launched in April – ahead of the implementation of the retail and network systems. By September we had attracted more than 20,000 new residential customers and a number of significant industrial and commercial customers. At year's end, in the face of intense competition in South Australia and Victoria, AGL had

lost 76,000 customers but maintained EBIT/Sales margin of 6.3%.

3) Nowhere is AGL's commitment to providing energy efficient solutions to customers more apparent than at the award-winning cogeneration power plant at the Coopers Brewery in South Australia. The \$6.2 million natural gas-fired plant is owned and maintained by AGL and provides all the electricity and steam the brewery needs for its production process.

The cogeneration plant has been designed and constructed with due consideration to reliability, the latest technology and environmental management, demonstrating that AGL can benchmark plant design and engineering confidently against world best practice.

This was recognised when the plant was awarded an Engineers Australia Engineering Excellence Award in the Environmental category.



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Energy Sales & Marketing’s (ES&M) profit contribution before borrowing costs and tax was up by 11.3% to \$218.8 million compared with last year’s \$196.6 million. The improvement was driven mainly by increased sales and a full twelve month contribution from ex-Pulse Energy customers.

With the Pulse acquisition well and truly bedded down, our focus during the year was on building further retail effectiveness. This was achieved through rationalising the business, improving our information systems

platforms to better service customers and ensuring our operating costs are tightly controlled to enable us to maintain margins in a very competitive market.

Revenue potential in the Energy Services business continued to improve with new landfill power generation projects completed in Western Australia and new developments in Tasmania. Asset-based projects are performing well financially, with further opportunity to improve next year. Non-asset based programmes have continued to grow with

the recent commencement of Energy Performance Contracts with various NSW Health services.

Energy Services had NSW Greenhouse Abatement Certificates (NGACs) and Renewable Energy Certificates (RECs) registered by the appropriate controlling authorities. Sustainable energy products will continue to be developed from the portfolio of assets and programmes, providing growth opportunities for AGL.

NATURAL GAS SALES

	Performance	Features
Total Sales	162.0 PJ (+ 6.8 PJ)	Increase due to a cooler than average winter and a full twelve month contribution from ex-Pulse Energy customers.
NSW	66.5 PJ (- 3.9 PJ)	Decrease due to the transfer of customers to ActewAGL, lower consumption by some commercial and industrial customers and a net loss of 23,004 mass-market customers, offset by cooler winter.
VIC	63.1 PJ (+ 14.0 PJ)	Increase primarily due to a full twelve month contribution from ex-Pulse Energy customers and a cooler winter, partly offset by the net loss of 3,090 mass-market customers.
Wholesale Gas Sales	Incitec 10.5 PJ ActewAGL 8.4 PJ Country Energy 2.7 PJ National Power (SA) 2.7 PJ (- 5.8 PJ)	

ELECTRICITY SALES

	Performance	Features
Total Sales	22,295 GWh (+1,087 GWh)	Increase partly due to a full twelve month contribution from ex-Pulse Energy customers and from securing additional business contract loads in NSW & QLD.
NSW	4,052 GWh (+874 GWh)	Growth achieved through the successful acquisition of mass-market customers under full retail contestability and from securing additional business contract load.
VIC	9,497 GWh (+181 GWh)	Increase partly due to a full twelve month contribution from ex-Pulse Energy customers offset by the net loss of 31,340 mass-market customers.
SA	8,314 GWh (-329 GWh)	Demand for electricity down primarily due to the impact of full retail contestability and the net loss of 54,648 mass-market customers.
QLD	432 GWh (+361 GWh)	Growth from securing additional business contract load.



AGILITY

Gaining market ground

Agility has broken its energy industry mould and is now gaining ground in the water industry, after winning several water contracts over the past 18 months.

By adding water to Agility's gas and electricity management and services mix, the Company has become one of the few in Australia capable of tackling complex infrastructure projects across all three utility sectors.

A recent job for Sydney Water in the Blue Mountains highlighted once again our infrastructure services expertise in the engineering, environmental management and specialist construction techniques our clients so often require. The construction of a water pipeline and the upgrade of a pump station for Sydney Water at Greaves Creek in the Blue Mountains, involved working in, and adjacent to, a World Heritage area.

The experience of Agility's people in bringing natural gas to the Blue Mountains six years ago has provided a unique advantage in working in such a sensitive environment. Rigorous construction procedures were implemented to protect the local environment and extensive environmental safeguards were put in place to ensure water quality in the Cascade Dam catchment area was not affected.

Each project, across all of the utility sectors, has its own specific challenges. Agility's first Sydney Water project, awarded in 2002, involved the renewal of 5 km of water main, with 40 complex interconnections and disconnections of existing water mains along a major south Sydney arterial road. Minimal community impact over the project's four months was a critical success factor.

Agility designed and implemented a well-defined community relations management programme, carrying out work at night to ensure minimal traffic disruption and streamlining water mains shutdowns to reduce risks to the safety of project staff and the general public.

Agility's planning and construction credentials were put to the test during two other Sydney Water projects, one involving the upgrade of 17 sewer access chambers and the second renewing approximately 14 km of water main in 55 streets across Sydney.

AGL established Agility in 2000 to provide design, construction, operations, maintenance and asset management services to asset owners and managers.

The water industry is currently a focus as Agility continues to pursue opportunities outside of its traditional markets.

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Agility (AGL 100%) continues to perform well, improving its profit contribution before borrowing costs and tax for the year by 9.9% to \$55.5 million.

Encouragingly, our efforts to diversify earnings through securing third-party contracts are being rewarded – revenue from third parties increased to 17% of total revenue. This growth included geographic expansion into Tasmania and further significant market diversification into the water industry.

Through extending our presence to include Tasmania, Agility now operates in all states and territories across Australia.

Agility’s recent Tasmanian contracts include:

- Design and construction of polyethylene gas mains in various locations for gas distributor Powerco; and
- Several service agreements with Aurora Energy for engineering design, customer-initiated capital works and fuse installation for the electricity distribution network.

We also continue to make inroads into the water industry. Further to securing Sydney Water projects, Agility has secured a position on the Water Corporation of Western Australia’s Prime Contractor Panel for the provision of engineering, procurement and construction services.

A number of new clients have been added to Agility’s portfolio during this year including Apache Energy, UBE Industries and Telstra, to name a few.

Existing contracts continue to provide significant recurring revenue. Agility manages, operates and maintains the AGL Group’s gas and electricity distribution networks, power generation assets and gas pipelines, as well as assets owned by the Australian Pipeline Trust and ActewAGL.

In the coming year we will seek to complement further our contribution to the AGL Group earnings by focusing on newly developing markets, particularly as the ownership of infrastructure assets across Australia continues to change.

AGILITY MANAGES

9,700	Km of high pressure gas transmission pipelines
26,900	Km of gas distribution networks
7,300	Km of electricity distribution networks
330	MW of peaking plants
1,160	Employees

POWER GENERATION

Investing in assets that relate to our business

AGL's investment in Loy Yang Power, which comprises the Loy Yang A power station and adjacent coal mine in Victoria's Latrobe Valley, is an excellent strategic fit.

It complements our energy portfolio and it delivers on our strategy of ownership interests in upstream assets. It allows us to partner with experienced industry players and provides the Company with a natural income hedge.

After months of negotiations with the Australian Competition and Consumer Commission and a subsequent Federal Court ruling that concluded that the acquisition would not breach the Trade Practices Act, AGL, along with our consortium partners Tokyo Electric Power Company and a group of Commonwealth Bank investors, purchased Loy Yang Power on 8 April 2004 for \$3.48 billion. AGL's 32.5% investment cost \$210 million.

One of the issues considered by the Federal Court was that AGL plays no role in the bidding or contracting of the Loy Yang A plant.

The Loy Yang A power station is the largest base load electricity power generator in Victoria with an installed capacity of 2,200 MW. The plant produces enough electricity each year to meet the equivalent power needs of 2.4 million households, or one quarter of Victoria's power requirements. Much of the low cost efficient base load electricity produced by Loy Yang Power is used by Victoria's manufacturing industry.

AGL will be working with its Loy Yang Power consortium partners and management, to ensure that Loy Yang Power's environmental performance is consistent with AGL standards.

One of AGL's consortium partners, the Tokyo Electric Power Company, is a big player in the global energy market with 60,380 MW of installed generating capacity – which is 20% more than Australia's entire installed capacity. It has operations in Japan, Europe, Asia and the United States. Loy Yang Power represents its largest investment outside Japan.

Loy Yang Power is located near Traralgon in Victoria's Latrobe Valley, 165 km east of Melbourne. The site covers an area of about 5,800 hectares and provides employment for 500 regional Victorians.



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AGL Power Generation, including the contribution from Loy Yang Power from 8 April 2004, provided a profit contribution before borrowing costs and tax of \$17.5 million, down \$2.6 million on last year. This decrease included a write-down of \$4.2 million of the Windimurra power plant in Western Australia, offset by the full-year commercial operation and availability of the power stations at Somerton in Victoria and Hallett in South Australia. These power stations commenced commercial operation in late 2002 and were therefore operational for only part of the previous financial year.

The 150 MW plant at Somerton and the 180 MW plant at Hallett are operated predominantly during the summer and winter seasons. But they are available to supply the market all year round. Occasionally they are operated during milder weather seasons when lower cost generation is off-line due to maintenance works or fuel supply constraints.

Both plants are fuelled by natural gas. Hallett also has a backup fuel supply of distillate, which provides additional security of operation. The two plants play an important role in mitigating AGL's potential risk to the volatility of electricity spot prices during periods of peak electricity demand. In addition, the Somerton plant provides network support to both the AGL and TXU networks.

During the year relevant authorities' approval was obtained to expand the Hallett operation by an additional 250 MW. The additional capacity will be installed as required.

AGL has two smaller plants in Western Australia - a 20 MW plant operating at Cawse (60 km north-west of Kalgoorlie) which services a single customer and a 50% interest in a 13 MW plant at Windimurra (70 km east of Mt Magnet). The latter has been in care and maintenance mode since February 2003 when its only customer ceased operations.

Our strategy is to exit assets reliant on single customers in remote locations. Both the Cawse and Windimurra plants have been earmarked for sale.

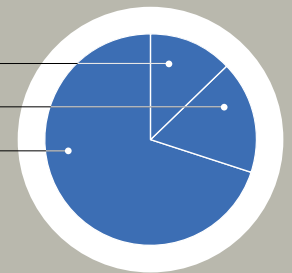
Total electricity generated from AGL-owned power assets for 2003/2004 was 61.8 GWh, a decrease of 0.4 GWh on the previous year, mainly due to the full-year operation of Somerton and Hallett, offset by the closure of the Windimurra power plant which had produced 26.9 GWh in the previous year.

AGL is the largest purchaser of Renewable Energy Certificates (RECs) in the Australian energy market. To fulfil such a large requirement, we support actively the development of renewable energy projects and have direct investment

and ownership of landfill gas and biogas power stations. In addition, we have provided commercial support via financial contracts for numerous wind farm projects. These are discussed in more detail on page 31.

RENEWABLE ENERGY PRODUCED BY AGL

Landfill gas – own and operate	13%
Biogas – own and operate	17%
Wind – Power Purchase Agreement (PPA)	70%



AGL'S POWER GENERATION & POWER PURCHASE AGREEMENT INTERESTS



- 1 Gosnells (Landfill Gas)
- 2 Rockingham (Landfill Gas)
- 3 Starfish Hill (Wind Farm PPA)
- 4 Coopers Brewery (Cogeneration)
- 5 Hallett and Hallett Expansion
- 6 Canunda (Off-take Agreement)
- 7 Somerton
- 8 Tasmania (Landfill Gas)
- 9 Werribee (Biogas)
- 10 Loy Yang Power
- 11 Nowra (Landfill Gas)

“ActewAGL is a joint venture between AGL and the ACT Government. It was established in 2000 and is the first utility joint venture in Australia between a private company and a publicly-owned enterprise.”

OTHER JOINT VENTURES AND PART-OWNED INVESTMENTS

Australian Energy Investments

ActewAGL (50%)

The ActewAGL distribution and retail joint venture contributed \$50.9 million to profit before borrowing costs and tax compared with last year's \$44.4 million as a result of cost efficiencies and higher revenues associated with favourable weather, economic growth and a regulated tariff increase. A regional marketing strategy delivered stronger than anticipated customer retention rates.

In July last year 10,397 residential and small business natural gas customers in the southern NSW districts of Goulburn, Boorowa, Young and Yass were transferred to ActewAGL. At the same time national electricity customers of ActewAGL outside the geographical region of the ACT were transferred to AGL.

In June 2004 ActewAGL won the national award for customer and market focus which was part of the Australian Business Excellence Awards. The Awards were introduced in 1988 and are open to all organisations in Australia.

ActewAGL is a joint venture between AGL and the ACT Government. It was established in 2000 and is the first utility joint venture in Australia between a private company and a publicly-owned enterprise. It owns and operates the electricity and gas networks in the ACT and gas networks in Queanbeyan, Nowra and the former Yarralumla Shire in NSW, as well as operating the ACT's water and sewerage assets. The joint venture has approximately 149,000 electricity and 107,000 natural gas customers.

Australian Pipeline Trust (30%)

The Australian Pipeline Trust (APA) is a public investment trust that was listed on the ASX in June 2000. The Trust owns, or has an interest in, more than 7,500 km of gas transmission pipelines in Australia. Through its network of pipelines, APA transports about 25% of Australia's natural gas consumption. AGL's 30% equity accounted investment in the Trust contributed \$38.0 million to profit before borrowing costs and tax, an increase of \$21.6 million over the previous year.

However the result includes a one-off tax benefit of \$27.9 million (AGL's 30% share) following APA's election to enter into the tax consolidation regime with effect from 1 July 2003, offset by the write-off of the Mid-West pipeline and acquisition costs associated with Duke Energy Australia's pipelines assets, and the Epic Energy Rest and West pipeline assets.

In July 2004, APA signed an agreement to purchase CMS Energy Corporation's interests in the Parmelia and Goldfields pipeline assets in Western Australia for \$206 million, including transaction costs. This was completed on 18 August 2004.

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INTERNATIONAL

New Zealand

NGC Holdings Limited (NGC) (66%)

NGC continued to build on its successful repositioning in 2003 as an infrastructure based energy services company. Its profit contribution before borrowing costs, tax and outside equity interests amounted to \$129.4 million, down 34.9% due to the divestment of non-core businesses. NGC’s continuing businesses performed strongly in a period of significant uncertainty in the New Zealand energy markets and the company strengthened its position in its major market segments.

Gas trading volumes were 58.9 PJ, while gas transported was 100.1 PJ. The metering business performed well, with growth in meters owned. The liquid fuel business, which includes LPG interests, improved volumes by 16%.

Foremost amongst achievements this year was the resolution of NGC’s gas supply position, which saw the Maui field supply settled satisfactorily and significant new gas entitlements secured. NGC’s remaining Maui entitlements at year end were approximately 47 PJ. The settlement included incentives for the owners to produce additional gas from the field and NGC secured a share of rights over any such gas. The finalisation of a further agreement with Shell will allow for the purchase of approximately 105 PJ of gas from the Pohokura and Kapuni gas fields.

NGC continues to work with explorers/producers to facilitate the availability of new gas supplies to the market from new smaller fields and has secured purchase rights for 5 PJ of gas from the Kahili gas field.

On the capital management front, NGC completed a NZ\$200 million fixed interest retail bond issue and a capital return to shareholders of NZ\$525 million, resulting in a reduction in the total number of shares on issue from 775 million to 443 million. The company’s credit rating remains unchanged at A-.

On the operational front, the Kapuni gas treatment plant was returned to full processing capacity and the expansion of LPG storage at the site has been completed. This increases current capacity by around 30% and enhances the plant’s strategic position because of its ability to process new gas discoveries that may require carbon dioxide removal before delivery into the market.

NGC holds a leading position in mass-market metering installations, and interval (time of use) metering installations in New Zealand. A priority for this business has been to consolidate new business initiatives aimed at expanding its electricity data management capabilities and to extending its services into Australia. The purchase of additional meters from both TrustPower and d-Cypha added 7,900 sites to NGC’s existing 856,000 residential and commercial sites.

On the regulatory front, there are three key developments that have the potential to affect the gas sector in New Zealand and, in turn, NGC’s business: the Commerce Commission Gas Pipeline Pricing Inquiry, the Electricity and Gas Industries Bill, and gas industry governance.

In a draft report, the Commission has recommended that a group of companies be subject to pipeline price control. The Commission’s process has some distance to go and the company has the opportunity to make further submissions. The matter is one for the Minister of Energy to decide, on grounds wider than those considered by the Commission. NGC has strengthened its regulatory management capabilities to ensure it continues as a fully active participant in these processes.

"In January 2004 Elgas acquired the business of Swap 'n' Go, a barbecue cylinder exchange, servicing some 2,000 outlets in Australia. This acquisition will help Elgas achieve economies of scale with its own network of outlets and pursue additional opportunities in its newly created leisure division."

Chile

GasValpo (100%)

AGL first became involved in Chile in 1996 as a consultant to some of the local gas companies. Today we own and operate GasValpo, a Chilean gas distributor and retailer situated in the coastal cities of Valparaiso and Vina del Mar. GasValpo distributes and markets natural gas to residential, commercial and industrial customers. The company contributed \$6.2 million profit before borrowing costs and tax to the Group's results.

During the year GasValpo continued with the conversion of the Caletones El Teniente copper smelter to natural gas, bringing both financial and environmental benefits. The project lowered the smelter's operational and maintenance costs and significantly reduced the levels of pollution generated by the smelting process. Chile's biggest export is copper and most of the product comes from this region.

The smelter project involved building the network and infrastructure necessary to support the supply of natural gas, installing the internal reticulation and converting 32 industrial appliances. Under the agreement between GasValpo and Caletones El Teniente, GasValpo will provide natural gas for 15 years. The Caletones El Teniente copper smelter will be GasValpo's largest customer.

LPG

Elgas (50%)

Sales growth and lower average gas costs helped lift Elgas' equity accounted profit contribution to AGL before borrowing costs and tax by 8.6% to \$13.9 million, compared with last year's \$12.8 million. The winter demand was strongest in Victoria and compensated for a decline in demand for autogas nationally, caused by the controversy surrounding the proposed Federal Government's autogas excise.

The industry campaign against the proposal by the Federal Government to introduce a potentially damaging excise on alternative fuels such as autogas proved to be successful. The Government will not introduce the excise until 2011. In that year, it will be 2.5 cents per litre and will rise by 2.5 cents per litre a year until a maximum rate of 12.5 cents per litre is reached in 2015. During the first three years of excise, the Government will provide a capital grant of \$1,000 for each new LPG powered vehicle.

This agreement will create certainty for autogas consumers and provide a compelling incentive for motorists to use LPG in vehicles in the years ahead.

The Elgas Cavern LPG storage facility in Sydney continued to increase its throughput, helped by export shipments to ports in Queensland, New Zealand and Papua New Guinea.

Saudi contract prices, which determine LPG purchase prices in Australia, were relatively stable during the year and about 20% lower than the previous year. A rising exchange rate helped to stabilise the gas cost.

In January 2004 Elgas acquired the business of Swap 'n' Go, a barbecue cylinder exchange, servicing some 2,000 outlets in Australia. This acquisition will help Elgas achieve economies of scale with its own network of outlets and pursue additional opportunities in its newly created leisure division.

H C Extractions (HCE) (100%)

In addition to distributing and retailing LPG through Elgas, AGL is involved in the production of LPG through its wholly-owned subsidiary HCE. HCE takes the by-product gases from petrol production from the adjacent Caltex refinery in Kurnell, Sydney and converts them to useable energy in the form of propane, butane and naphtha. The combined propane and butane is sold as automotive LPG. The naphtha is returned to the refinery and used in the petrol-making process.

The combination of a slightly lower Saudi price compared with last year and a significant appreciation of the Australian dollar resulted in much lower LPG prices. Overhead costs rose as a result of major work which shut down the plant in October and November. Total LPG production was 30,000 tonnes, 6,000 tonnes less than last year. In all, these factors resulted in a lower contribution to profit before borrowing costs and tax of \$1.4 million, which was \$5.9 million down on the previous year.

“In Sydney, it has been decided to relocate AGL’s leased head office premises from North Sydney to St Leonards, in late 2005, where we will occupy the whole of an existing building.”

TELECOMMUNICATIONS

COMindico (36%) and TransACT (16%)

AGL has investments in COMindico, a national internet protocol based telecommunications network and TransACT, a broadband fibre optic telecommunications network operating in the ACT. These investments are not part of the Company’s core business. The businesses have performed well below their business plans and although they have unrealised potential, the Company in reviewing the carrying value of these investments, has written them down to zero.

PROPERTY

During the year settlement occurred on: the sale of 20-22 Rodborough Road, Frenchs Forest NSW to Macquarie Industrial Trust for \$4.1 million; a surplus industrial property at 49 Tennant Street, Fyshwick ACT, for \$815,000; and the former gasworks site at Cootamundra, which was sold to the Cootamundra Council.

Two new fitouts for AGL were completed at South Australia’s new Eastwood head office and at the Melbourne suburban location of Mount Waverley. Hassell, the architect of Eastwood, won an award of merit for interior design from The Royal Australian Institute of Architects, South Australia.

In Sydney, it has been decided to relocate AGL’s leased head office premises from North Sydney to St Leonards, in late 2005, where we will occupy the whole of an existing building. This will allow us to consolidate a number of office locations throughout Sydney into the one location. A twelve year lease has been negotiated.

Features of the new arrangement include a new office fitout and significant savings as a result of lower rent, a more efficient floor space configuration, reduction in the duplication of resources and the elimination in travel times between offices.

Work is progressing on the remediation of a small portion of land in Abbotsford NSW that was used as a gasworks in the 1890s.



PEOPLE & CULTURE

Employing and retaining the best people

Underpinning everything we do at AGL is a relentless and unwavering focus on the health, safety and wellbeing of our people.

Across the Australian operations our safety performance continues to improve. Lost time injuries have continued to decrease with the rate for this year at 3.6, just down on last year's rate of 3.8, but still maintaining our position as an energy industry leader in employee safety.

A number of key initiatives have been introduced this year to drive our results closer towards the goal of an injury-free workplace. These include Health, Safety and Environment (HS&E) Positive Performance Indicators which are designed to influence the behaviours needed to reduce injuries and environmental impacts, as well as a measurable reporting and investigation standard and reviewing process, to raise the

bar on incident reporting timeliness and investigation quality.

Central to our focus on health and safety is Life Guard, our Company-wide programme based on international standards, ISO 14000 for Environmental Management Systems, and Australian and NZ Standards for Safety Management Systems, AS 4801.

Life Guard provides the standards, processes, resources and skills to identify hazards within the workplace and implement the controls needed to prevent incidents, for our Australian operations, as well as in our other businesses, NGC, ActewAGL and GasValpo.



One important responsibility as a market leader is to create work environments for our people which are challenging and flexible and where they feel valued and rewarded for the contributions they make.

As part of defining this environment we have articulated for everyone at AGL a common purpose and values. United behind our common purpose of 'using our energy to help people get on with their lives' and guided by the values of achievement, credibility and teamwork, employees right across the organisation now have increased clarity and consistency about what is important at AGL. The introduction of these values for all employees comes in conjunction with the communication of AGL's Code of Conduct, which sets out the expected behaviours required of Directors, employees and contractors.

Negotiations on four enterprise bargaining agreements were finalised this year, which collectively cover 45% of AGL's award-based employees. All negotiations were characterised by unprecedented levels of consultation, communication and transparency through every stage of the process, and conducted in an environment which balanced the needs of individuals with the commercial viability of AGL's business. As a result, the agreements were overwhelmingly endorsed by employees, on an average of 85%, and as high as 98% on one agreement. Central to all agreements has been our commitment to redefine employee classification structures, the end result of which will be clearly defined job skills and development frameworks by which employees can advance their careers. Progress is already well underway.

Our well established talent management process continues to identify, develop and retain our people for senior management and

critical technical positions. This year we've sharpened our focus to identify and develop successors who reflect the diversity of the Australian workforce. Of the senior positions filled in the last twelve months, 80% were selected from our internal employee pool.

Our commitment to leadership development continues. More than 130 AGL leaders have completed the senior leadership residential programme with its strong focus on behaviours required for shaping the future. Our focus on senior leadership development has been complemented by the introduction of a new programme called 'Unlocking Leadership' for our middle and front-line leaders. This highly innovative and multi-module learning programme includes 360 degree feedback on behaviours required for successful leadership performance, culture surveys, short skill-building workshops, and performance coaching. At year end, one third of AGL's leaders were involved in this programme.

In recognition of the increasingly complex regulatory framework and to deliver improved investment options and service for employees, the AGL Superannuation and Benefits Fund has been outsourced to a Master Trust. An integral feature of the outsourced arrangement gives members the opportunity to have investment choice and transfer to the accumulation division of the Master Trust. Under the new arrangements, employees have better access to information about their investment and are consequently better empowered to manage actively and tailor their superannuation according to their life stage.

AGL's Winning Ways programme continues to recognise and celebrate the significant achievements of our people at all levels. 113 employees received monthly Winning Ways Awards and 20 of these were invited to join AGL's Winners' Circle for 2004, with its special celebrations.



The success of our leadership programmes was highlighted this year when the 2003 Hewitt leader's survey named AGL third out of the top ten organisations who successfully attract, develop and retain quality leaders. The award judged 204 companies from seven Asia Pacific markets.

PEOPLE IN AGL – FULL TIME EQUIVALENTS

WA	2.45%
ACT	5.19%
TAS	0.26%
NSW	43.66%
VIC	35.23%
NT	1.43%
SA	9.69%
QLD	2.09%

