



living.

### Annual General Meeting

The Annual General Meeting of the Company will be held in the City Recital Hall, Angel Place, Sydney, on Tuesday 18 October 2005 at 10.30 am.

### Financial calendar

2005		2006			
September	October	December	February	March	June
<b>9 September</b> Shares begin trading ex-dividend	<b>18 October</b> Annual General Meeting	<b>31 December</b> Half-year end	<b>23 February</b> Interim dividend and half-year result announced	<b>6 March</b> Shares begin trading ex-dividend	<b>30 June</b> Year end
<b>15 September</b> Record date for final dividend				<b>10 March</b> Record date for interim dividend	
<b>23 September</b> Final dividend payable				<b>23 March</b> Interim dividend payable	

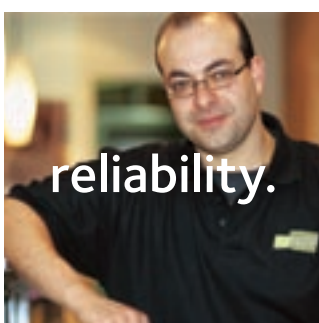
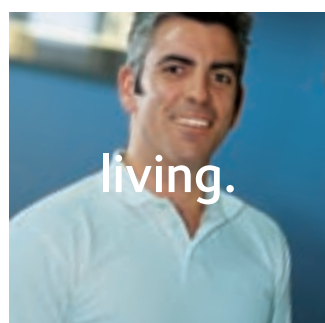
#### FRONT COVER

**Anthony Karsay, AGL residential gas customer, Sydney.**

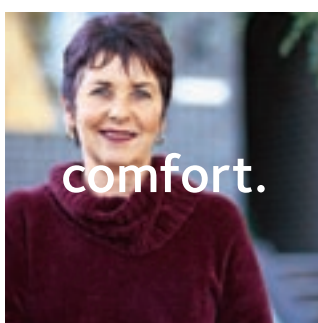
Anthony Karsay certainly knows about living. He loves enjoying time with his family and pursuing his passion for triathlons, water skiing and motorcycle riding. This means he prefers simplicity when dealing with a gas and electricity retailer. When Anthony contacted AGL recently about a bill enquiry he was impressed with the service he received.

“AGL was swift in responding to my query about my bill – without being given the ring-around.”

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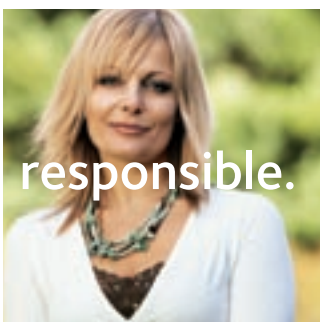


Energy is all around us. It underpins all we do in our lives. At AGL we help people get on with living through our energy know-how. This year we've steadily met our commitments, we've held and won ground in the competitive marketplace, we've responded to changes in the market and we've continued to build our business towards being an integrated energy company.

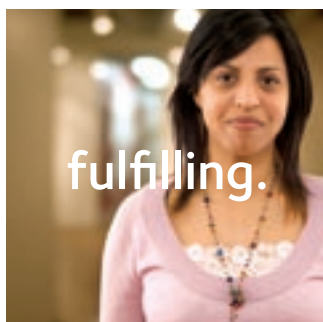
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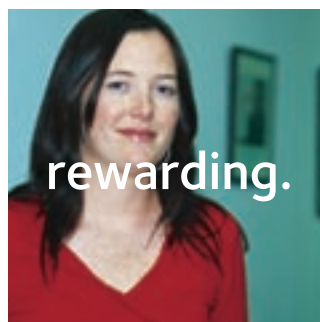
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# Chairman's report.

## Dear Shareholder,

At this time last year, we said that we expected to continue to reinvest in the Company, defend and grow our existing core businesses, and plan how to add new revenue over a five-year period by extending our existing businesses, and by examining future trends and our strategic response to them.

We have continued on this path. AGL's support for the Papua New Guinea Gas Project and pipeline, while conditional, promises long-term strategic benefits and growth to east coast gas users and to AGL. There was strong competition in the markets in which we operate, but we maintained market share and took steps to improve our own competitive abilities.

## Financial performance

Profit attributable to Shareholders grew 142.7% to \$848.3 million, compared with \$349.5 million last year.

Earnings per share (EPS) grew 141.9% to 185.8 cents, compared with 76.8 cents last year.

An ordinary dividend of 32 cents per share, 100% franked, will be paid on 23 September 2005, taking total ordinary dividends for the year to 63 cents, franked to 95.2%.

Following the sale of AGL's 66% share of NGC Holdings Limited (NGC) in New Zealand, a three-part \$515 million capital management program was implemented. Shareholders received a special dividend of 30 cents per share, franked to 90% on 24 March 2005, and a capital return of 50 cents per share on 29 April 2005. At the date of this Report, we have put in place the procedural steps to commence the \$150 million on-market buy-back, the third part of the program and we expect it to be concluded by the end of December.

The reported profit result includes some significant items, including \$587.5 million from the sale of AGL's interest in NGC, \$14.7 million from the next tranche of the sale of Breakfast Point, Sydney and \$231.1 million associated with the write down of the Victorian electricity network. The latter was a result of a tightening regulatory environment, declining market values achieved for recent sales of regulated energy assets and a disappointing draft regulatory decision. Tax consolidation, effective from 1 July 2003, favourably affected the reported result through a one-off net accounting benefit of \$64.8 million. Tax consolidation will simplify the tax management of AGL's intra-group transactions and improve our ability to distribute franking credits to Shareholders.

The underlying profit after income tax for the Group of \$386.8 million, excluding significant items and outside equity interests associated with those items, compares to the \$361.8 million profit in the previous year, an increase of 6.9%. Underlying EPS grew by 6.5%.



Earnings per share – excluding significant items (cents)



Dividends per share (cents)

## The Board



Mark Johnson  
Chairman



Charles Allen AO



Sir Ronald Brierley



David Craig

### Towards a national energy market

Australia should have a national energy market. Energy is an input to all economic activity in Australia and affects the price and competitive situation of every product and service we use or which we export.

The largest possible market is required for economies of scale and, particularly, to allow risks to be spread and managed. A small number of market participants cannot average out or spread their risks as well as a large number, the risk premium is greater, and costs to consumers end up being higher. Because risks are higher, investment in required new capacity may be deferred.

In 2005, we have a market structure patchwork amongst the States. Some, like Victoria and South Australia, have relatively sound market structures, but both – and particularly South Australia – would benefit further from seamless competition and supply across the east coast. New South Wales has been contemplating reform for several years, but no direction is clear and Queensland's State ownership policies distort or avoid market price signals.

State governments are naturally concerned with energy prices paid by their electors. The best and most secure outcomes for electors in every Australian State will come from open energy markets, with competition from many suppliers, responding to the same price signals and (where regulation is required) the same regulatory framework.

AGL supports the efforts of the Commonwealth Government and the Ministerial Council on Energy to implement a cohesive national energy market. The program is now at the half-way point and several important milestones have been reached this year. These include the commencement of the new national regulator (the Australian Energy Regulator) and the new national rule maker (the Australian Energy Market Commission). These new bodies now have responsibility for the national electricity market and electricity transmission. During the next 18 months, responsibility for gas transmission, and gas and electricity distribution and retail is expected to be transferred to these bodies.

We support the Australian Energy Regulator as the national regulator, as it understands that strong competition in the marketplace will benefit consumers. Meddling in outcomes at a State level ultimately imposes costs on the system, for which everybody pays.

Significant work remains, including on critical areas such as economic regulation, the transfer of retail and distribution to a national framework, and the completion of transmission reforms.

In particular, the development of a national framework for retail and distribution regulation is an opportunity to deliver efficiencies and reduce costs which will give confidence to the industry to invest in the necessary infrastructure.

### Competition and the retail market

AGL believes that dynamic and strong competition is good for customers and for the energy industry. For customers it leads to innovation in products and offerings, competitive prices as well as improved customer service.

For the energy industry, competition makes players more robust and more conscious of efficiency and effectiveness.

During this year, AGL responded strongly in the market and maintained market share. We worked very hard to keep existing customers and win new customers. AGL trialled innovative, flexible products and services. There was a particularly positive response to AGL's dual fuel product offering under which both gas and electricity are provided to a customer.

AGL is in a position to compete strongly and profitably as the national market gradually emerges. This means that AGL must strive to be the lowest cost and most efficient energy company in Australia. It is essential that this ambition for cost leadership be combined with excellent customer service standards. We are making investments in systems and processes that lower operating costs, as well as making improvements in customer service, to underpin AGL's competitive position in the market.



Tony Daniels OAM



Carolyn Hewson



Greg Martin  
Managing Director



Max Ould



Graham Reaney

## Power generation

Increasing our interests in power generation remains a priority. AGL buys electricity in the wholesale market for sale to its 1.5 million electricity customers. When the weather is mild and electricity is being generated without constraint, AGL can buy electricity between \$20 and \$100 per megawatt hour. When the weather is extreme and there is high demand, AGL may have to pay up to \$10,000 per megawatt hour for electricity to supply its customers.

AGL's strategy to manage the financial risks associated with this wholesale price volatility is to invest in power generation plants – base load, intermediate and peaking, to supplement financial instruments. This portfolio approach smooths the fluctuations in the wholesale electricity price that AGL faces, provides better 'matching' of income when prices rise and provides more predictable prices to customers.

## Upstream PNG Gas Project

During the year AGL commenced the \$66 million Front End Engineering and Design work for the natural gas pipeline from PNG to eastern Australian markets.

In early July 2005, AGL announced an additional two-part involvement in the PNG Gas Project which, in turn, enhanced the prospects of the pipeline being built:

- A \$4.5 billion conditional gas supply agreement with the PNG Gas Project producers for 1,500 PJ of natural gas over 20 years from 2009. This gas is priced below AGL's current average portfolio cost.
- A \$400 million conditional agreement with Oil Search Limited to acquire a 10% equity interest in the upstream PNG Gas Project.

The gas supply agreement will enable the Company to meet future customer demand in NSW, the Australian Capital Territory and South Australia. It will underpin participation in the growing Queensland energy market. It diversifies AGL's existing gas supply portfolio and creates 'infill' opportunities as the pipeline opens new markets.

Part of AGL's integration strategy is to create value through equity investments in upstream gas reserves at attractive entry prices. The investment parameters agreed with Oil Search for the equity purchase will result in earnings per share accretion from day one.

These transactions are very important for AGL's future competitiveness in eastern Australian markets. In seeking direct access to gas reserves it is important to understand that we do not want to be an oil and gas explorer. We do, however, want greater control over how and when we sell wholesale energy into the market. Direct access to gas reserves provides us with greater pricing flexibility and a real opportunity to provide long-term returns to Shareholders.

## Corporate governance

AGL conforms with the Australian Stock Exchange (ASX) Corporate Governance Council, Principles of Good Corporate Governance and Best Practice Recommendations, as set out in the corporate governance section on page 28.

During the year the Board commenced the renewal process presented to Shareholders at last year's Annual General Meeting. In May this year, David Craig was appointed as a non-executive Director to the AGL Board. He is the Chief Financial Officer of the Australand Property Group and brings extensive financial, strategic and operational experience to the Board. We all expect that he will make a valuable and important contribution.

Tony Daniels, a Director since 1999, has chosen to retire from the Board at the next AGM. We will miss his substantial contribution to the work of the Board. On your behalf, I thank him and wish him well for the future. Tony has had a distinguished business career and has many accomplishments across a range of industries. He has always made this experience available to his colleagues in a considered, concise, relevant and constructive fashion.

The Board undertook its annual performance review and reviewed the contribution of individual Directors. We believe the changes put in place last year, including more regular informal interactions between Board

meetings, have improved effectiveness. Review of policies and systems have enhanced the Company's awareness of the need to be the most efficient and lowest-cost energy company. The Board continues to devote considerable time to strategy development, as well as reviewing senior management performance against targets.

## Conclusion

It will take time to reform the energy market and bring it up to the standards of efficiency and competition that Australia has achieved in other parts of its economy. Industry participants and consumers will have to deal with greater risk, uncertainty, higher costs and industry restructuring while this takes place.

AGL is well placed to deal with these conditions. It has a strong balance sheet, predictable cash flows, a market-leading retail position and an increasingly deep wholesale energy portfolio. It has good people, hard working, well skilled and dedicated to improvement. Your Board is confident that AGL can meet the challenges that lie before it.



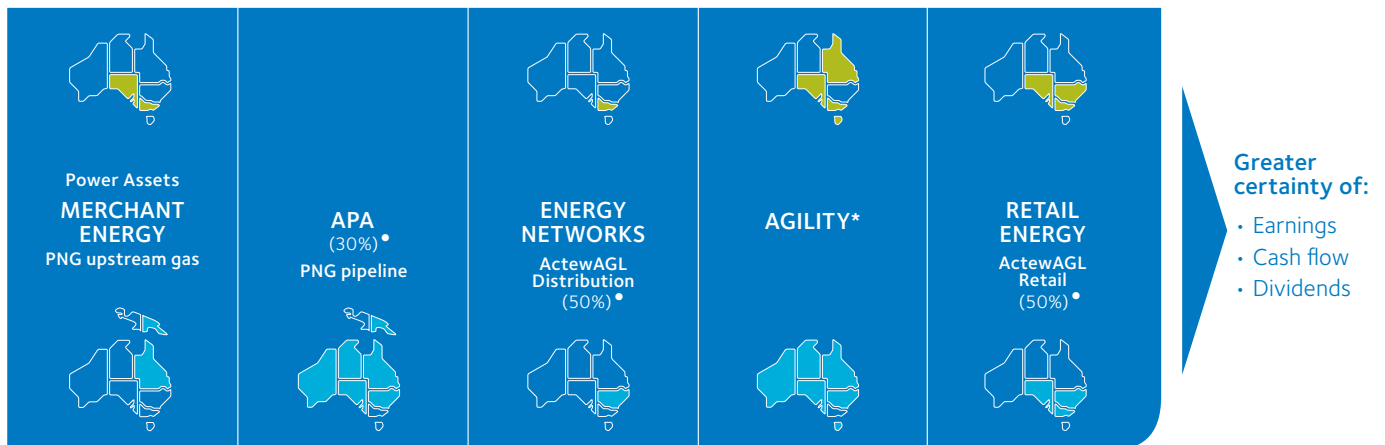
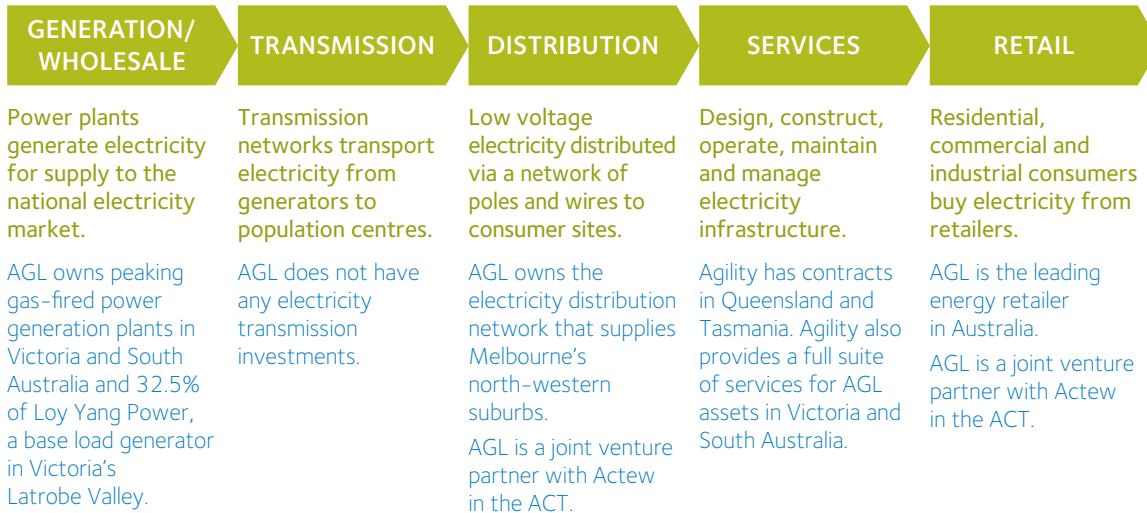
**Mark Johnson**  
Chairman

25 August 2005

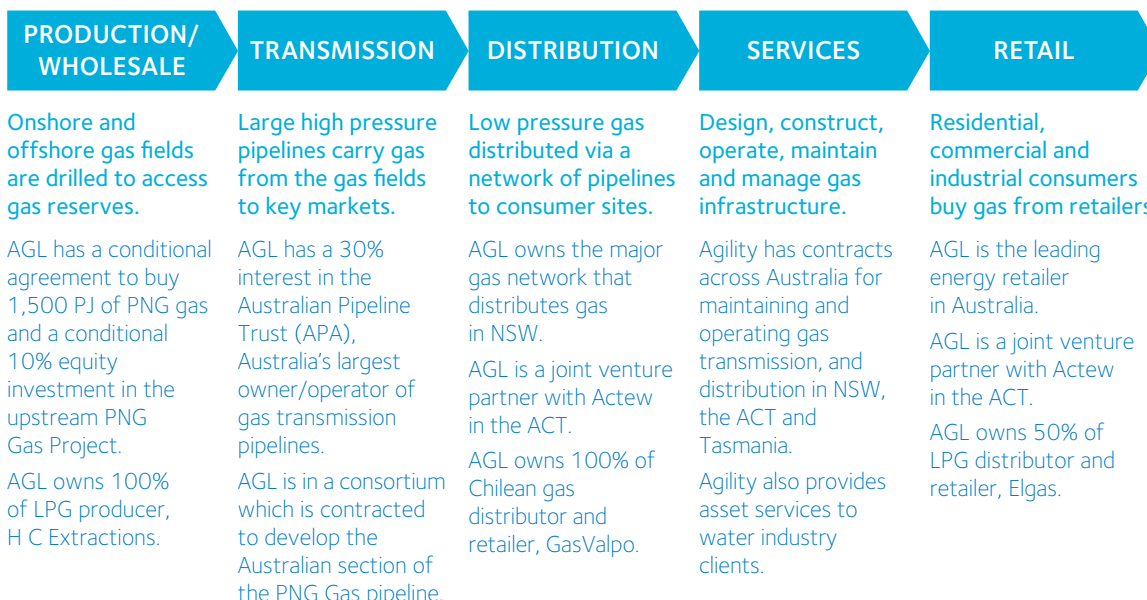
# Integrating across energy markets.

The basis of our integrated energy company strategy is to participate in markets across the energy value chain to give greater certainty of earnings, cash flow and dividends to Shareholders:

## Electricity



## Gas



# Key matters.

## During the year we:

**Achieved an underlying profit attributable to Shareholders of \$386.8 million** compared with \$361.8 million for the previous year;

**Declared a final dividend of 32 cents**, 100% franked, payable on 23 September 2005;

**Continued delivery of AGL's integrated energy company strategy** by announcing a \$4.5 billion conditional Gas Supply Agreement with the PNG Gas Project producers to purchase about 1,500 PJ of gas over 20 years. In addition, AGL entered into a \$400 million conditional agreement with Oil Search Limited to acquire an equity interest of 10% in the upstream PNG Gas Project;

**Implemented a \$515 million capital management program** made up of a special dividend of 30 cents per share franked to 90% (\$137.3 million), a capital return of 50 cents per share (\$228 million) and a \$150 million on-market share buy-back. The procedural steps to begin the buy-back have been put in place. The buy-back is scheduled to be completed by December 2005;

**Announced that the APC Consortium comprising AGL and Petronas Australia Pty Limited** had entered into the Front End Engineering and Design (FEED) phase of the Australian component of the PNG to Queensland natural gas pipeline. APC was selected as the preferred developer of the pipeline in April 1998;

**Maintained market position in an increasingly competitive retail energy market** by acquiring 276,102 dual fuel customer accounts during the year and increasing the total number of customer accounts, excluding ActewAGL accounts, to 2,829,400;

**Underpinned the implementation of our integrated energy company strategy** by realigning the structure of our Energy Sales & Marketing group into two new business groups: Merchant Energy and Retail Energy. Merchant Energy, including Power Assets, is focused on developing and securing value accretive upstream opportunities (power generation and gas production), while Retail Energy manages and services mass-market customers, with a key focus on winning and keeping valuable customers;

**Expanded the presence of Agility into Queensland** through the acquisition of Oakland Construction which specialises in underground electricity cable installation services in the south-east supply region of Queensland;

**Secured the development rights for a proposed 90 to 135 MW wind farm** that would significantly add to the generating capacity at AGL's existing Hallett peaking power plant north of Adelaide;

**Further implemented key components of our Corporate Social Responsibility program initiatives** including providing 139,000 warm winter nights for Australian men, women and children experiencing homelessness; the introduction of our volunteering program; enhancing support mechanisms for customers in hardship; and completing the first year of our community energy efficiency program; and

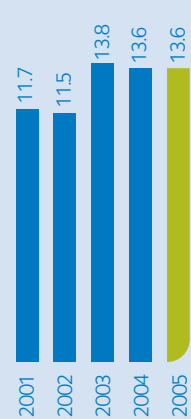
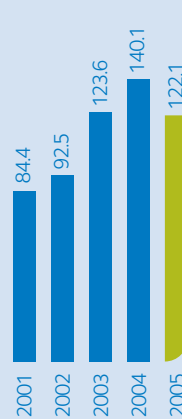
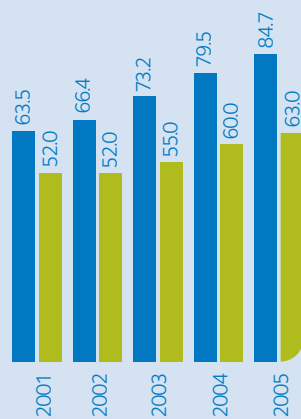
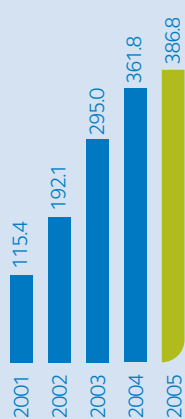
**Broadened our health and safety focus** and introduced a range of programs to improve the personal wellbeing of employees.

# Financial summary.

Year ended 30 June 2005  
(\$ million unless indicated)

	2005	2004	Change %
Revenue*	4,915.4	4,201.7	17.0
Profit before borrowing costs and tax*	1,054.5	701.0	50.4
Borrowing costs	(111.5)	(134.0)	(16.8)
Income tax expense*	(74.8)	(187.5)	(60.1)
Profit before outside equity interests*	868.2	379.5	128.8
Outside equity interests*	(19.9)	(30.0)	(33.6)
Profit attributable to Shareholders*	848.3	349.5	142.7
Total assets	5,928.2	6,574.1	(9.8)
Total liabilities	(2,660.6)	(3,419.5)	(22.2)
Net assets	3,267.6	3,154.6	3.6
Shareholders' equity	3,267.6	3,049.8	7.1
Outside equity interests	0.0	104.8	(100.0)
Total equity	3,267.6	3,154.6	3.6
Cash flow from operating activities	557.4	637.2	(12.5)
Capital expenditure	197.5	211.8	(6.8)
Net borrowings	1,249.0	2,159.1	(42.2)
Earnings per share* (cents)	185.8	76.8	141.9
Dividends per share (cents)	63.0	60.0	5.0
Earnings on Shareholders' equity* (%)	26.9	11.8	128.0
Debt : debt plus equity (%)	27.7	40.6	(31.8)
Net borrowing costs cover (times)	8.0	5.7	40.4
Net tangible assets per share (\$)	3.92	3.15	24.4
Net assets per share (\$)	7.16	6.69	7.0

\*Including significant items



Underlying profit attributable to Shareholders (\$million)

■ Earnings per share (excluding significant items) (cents)  
■ Dividends per share (cents)

Operating cash flow per share (cents)

EBIT/funds employed (percentage)

# Managing Director's report.

AGL enjoys a position of market leadership in the Australian energy sector. During the past year we have focused on a strategy of becoming a more integrated energy company. We have done so by seeking to increase our involvement in wholesale energy markets in order to enhance our ability to supply Australia's largest retail customer base with competitively priced energy products and services.



**Greg Martin**  
Managing Director

AGL has produced a satisfactory result for Shareholders this year against a backdrop of continued intense retail competition and weather conditions, in all major markets, that were milder than in the previous year. While this had the most impact on the performance of our Energy Sales & Marketing business, all other business groups made good progress during the year. A continuing focus on improving the efficiency and effectiveness of our operating businesses and support groups also played a material role in the overall financial performance of the Company.

During the past year our priorities have been to:

- Generate ongoing returns to Shareholders;
- Compete effectively in retail energy markets by increasing profitably the number of customers buying both gas and electricity from us;
- Maintain our position as the leading energy retailer;
- Improve our internal systems, processes and capabilities to deliver the very best of customer service at the lowest possible cost;

- Return capital to Shareholders as a result of selling our majority interest in NGC Holdings Limited (NGC) in New Zealand;
- Ensure the continued safe and reliable operation of our gas and electricity networks and other energy infrastructure investments; and
- Secure further interests in competitive supplies of wholesale energy in order to reduce the impact and risk of wholesale energy price volatility.

## Strategic direction

AGL's strategy of being a more integrated energy company centres on increasing our ownership interests in wholesale gas and power generation assets as a proportion of our total wholesale energy portfolio. Integrating our business interests from the customer through to the source of gas supply and electricity generation will deliver a more competitive position in the retail energy market. It will also reduce the level of wholesale energy price volatility we experience by providing a level of natural hedging against the cyclic fluctuations that are a feature of competitive wholesale and retail energy markets.

This strategy will improve the predictability of cash flows from our competitive market-based energy supply businesses and, when added to the cash flows from our energy infrastructure businesses and investments, will afford greater certainty over the dividends that we are able to distribute to Shareholders.

In an important development in our strategy, we recently committed to a conditional 10% equity investment in the upstream PNG Gas Project and executed a conditional long-term contract for 1,500 PJ of PNG gas. First gas deliveries are expected in 2009.

These arrangements will deliver long-term value for Shareholders by:

- Securing further long-term, competitively priced gas supplies to support our gas requirements for NSW, the ACT, South Australia and Queensland markets;
- Acquiring an equity investment in the PNG Gas Project reserves at an attractive entry price; and
- Providing greater certainty for our proposed investment in the PNG Gas pipeline that will bring gas to eastern Australian markets.

Continuing to build our power generation portfolio is another priority and AGL continues to investigate opportunities that will add to the competitiveness of our wholesale electricity portfolio. These opportunities include gas-fired power generation plants in NSW, Victoria and South Australia as well as renewable energy plants.

To enhance the successful implementation of this strategy we realigned the structure of the Energy Sales & Marketing business group during the year into two new business groups, Merchant Energy and Retail Energy. Merchant Energy develops and secures the most competitive and flexible portfolio of wholesale gas and electricity, while Retail Energy's task is to maintain a position of leadership in the retail energy market through a combination of competitive, innovative energy offerings and the best of customer service.

These changes became effective on 1 March 2005. This Annual Report reflects the former Energy Sales & Marketing structure that operated up until that time.

## Operational performance

### Energy Sales & Marketing

With up to 25% of customers in some retail energy markets choosing to change energy retailer or take up a market contract during the past year, the Australian energy market is experiencing levels of retail competition that are higher than witnessed in other deregulated international energy markets. In this challenging environment we have competed effectively to maintain our overall market share and have increased the number of dual fuel customers who purchase both gas and electricity from us. In addition a further 418,200 of our existing customers have accepted a market contract for terms of up to three years.

As always it is our customers who continue to direct the priorities of our retail energy business. Company wide, we are committed to helping our customers get on with their lives, whether at home or in business. We want our customers to choose to purchase their energy requirements from us not just because of our competitive energy prices, but also because of the total service experience we provide.

This is why the Retail Energy group is focused on continuing to build our customer management, billing and other service delivery systems around our customers. We are committed to upgrading the information tools we provide to our front-line people, in order for the customer experience to be as quick and easy as possible.

We also know that some customers experience both temporary and permanent financial hardship. During the year we extended the reach of our vulnerable customer program and assisted more than 11,300 customers to stay connected and pay their outstanding bills over time.

Our customers know us as an established and dependable Australian company with expertise and capability in both gas and electricity. To help retain our brand recognition and leadership in the marketplace we invested during the year in both our dealership network and retail brand to give them a fresh and more modern look and feel. These investments are in keeping with our goal of continuing to improve the customer experience each time our customers do business with us.

Our newly formed Merchant Energy group is already active in securing new long-term competitive gas supplies from PNG at prices below the average price of our existing wholesale gas portfolio. On a smaller, but equally important scale, we boosted our presence in the South Australian wholesale energy market during the year with the acquisition of Tarong Energy's Terra Gas Trader business. This strategic bolt-on acquisition complements our wholesale gas supply arrangements in that State further.

Now incorporated into the Merchant Energy group, our power generation activities have been centred on bedding down our minority interest in Loy Yang Power, as well as pursuing new opportunities in both gas-fired and renewable power generation. To this end, we have continued to pursue a generating licence for the Hallett wind farm project in South Australia and expect to be in a position to make a final investment decision later in the year. In addition we are continuing to evaluate the expansion of the existing Hallett gas-fired peaking power station as well as a number of other sites in eastern Australia for new greenfield gas-fired power generation plants.

### Energy Networks

The underlying contribution of our gas and electricity networks was 2.2% higher than the previous year. A decision to write down the carrying value of the Victorian electricity network by \$231.1 million before tax negatively affected the reported contribution.

This is a consequence of a review of recent prices paid for Victorian distribution assets, the tightening regulatory environment and the recent draft pricing decision for our Victorian electricity network by the Victorian Essential Services Commission (ESC), which will be effective from 1 January 2006.

We believe the ESC draft decision is at odds with recent views from governments and independent experts that there needs to be a more light-handed approach to infrastructure regulation. Through the remainder of the price-setting process, we will continue to discuss key points of difference with the ESC. We are hopeful of reaching a more acceptable final outcome than the draft decision. This possibility has been factored into our consideration of the fair carrying value of this asset.

New access arrangements for the NSW gas network began on 1 July 2005 for a five-year period. The revenue impact will be offset largely by volume growth, resulting in a small financial impact for the 2005/2006 year.

### Agility

Our national infrastructure management and services business, Agility, continues to build its position as a nationwide provider of infrastructure services, recently winning contracts with Powerco, Aurora Energy, Apache, Santos, Sydney Water and Ergon Energy.

The acquisition during the year of the Queensland based Oakland Construction business will enable Agility to provide additional underground electricity cable installation services in the south-east supply region of Queensland. The acquisition boosts our presence in Queensland and has provided Agility with substantial electrical undergrounding skills and the added capability to resource major 'turnkey' projects directly in the country's fastest growing energy market.

### Infrastructure Investments

Queensland is a market of growing importance for us where we serve commercial and industrial electricity customers. Through our 30% share of Australian Pipeline Trust, we are involved in the management of pipeline assets. We are currently involved in the development of the Australian component of the PNG to Queensland natural gas pipeline.

We have seen substantial developments during the year which have significantly increased the likelihood of the PNG Gas pipeline project proceeding. First, the PNG Gas Project partners, led by Exxon Mobil, entered into the Front End Engineering and Design (FEED) phase of the upstream elements of the PNG Gas Project. At the same time we have begun FEED activities on the Australian component of the pipeline, with a proposed extension to Gove, along with our Malaysian pipeline consortium partner, Petronas.

## AGL Leadership Team



**Greg Martin**  
Managing Director



**Gareth Bennett**  
Group Manager  
People & Culture



**Michael Fraser**  
Group General Manager  
Merchant Energy



**Ross Gersbach**  
Group Manager  
Infrastructure Investments

A second major development was the announcement by Exxon Mobil that it would now focus on turning conditional gas sales agreements for the project into binding sales contracts. A final investment decision on the PNG Gas Project is scheduled for 2006 following the completion of the concurrent FEED programs which are due to be completed in early 2006. These recent developments give the PNG Gas Project much greater certainty and provide an excellent opportunity for us to increase our participation in the Queensland energy market.

### The Future

The year ahead will be a period of transition after the divestment of NGC in December 2004 and before the first positive impact of the PNG Gas Project investments are expected to flow through to earnings in the 2006/2007 financial year.

Agility, Retail Energy and Merchant Energy are all expected to deliver improved operating results in the financial year ending June 2006. The full-year impact of the regulatory reset for the NSW gas distribution network and the half-year impact of the reset for the Victorian electricity network, still being challenged at the date of this Report, will result in a reduced contribution from these assets.

As disclosed in this year's accounts we will prepare financial statements under the Australian equivalents to the International Financial Reporting Standards (A-IFRS) for the first time for the year ending June 2006. Subject to any unforeseen circumstances, the application of A-IFRS is expected to result in improved reported net profit and earnings per share in the 2005/2006 financial year. This will not change AGL's cash flow or capacity to pay dividends.

Our results and progress over the past year have only been possible because of the efforts of our talented and dedicated people. I would like to thank my leadership team and all of our people for their continued commitment and contribution.



**Greg Martin**  
Managing Director

25 August 2005



**Mark Harper**  
Group General Manager  
Operations



**Greg Hayes**  
Chief Financial Officer



**Phil James**  
Group General Manager  
Retail Energy



**Jane McAloon**  
Group Manager Corporate  
and External Services  
Company Secretary



**Cesare Tizi**  
Chief Information Officer



Joe Rizzo, owner of Bar Rizzo, Five Dock, Sydney

## Energy Networks

Energy Networks, representing AGL's ownership of gas and electricity distribution networks, contributed \$239.4 million to profit before borrowing costs, tax and significant items, an increase of \$5.2 million from the previous year.

AGL Gas Networks transports gas to 951,591 customer sites throughout Sydney, Newcastle, Wollongong and many NSW country centres. AGL Electricity Networks distributes electricity to 285,693 customer sites over 950 sq km of north-west greater Melbourne. Both networks provide non-discriminatory regulated distribution services to licensed energy retailers, including AGL's retail business.

## Gas Networks

Gas transported on the AGL gas network in NSW was 95.8 PJ, a decrease of 0.6 PJ compared to the corresponding period last year. This decrease was driven by the effect of warmer weather, as Sydney experienced the warmest April and fifth warmest June in 144 years of records. New site growth, mostly in new housing, saw a net increase of 27,024 customer sites and 206 km of gas mains added to the network. The NSW gas distribution network now comprises 23,541 km of gas mains.

Significant capital projects during the year included capacity upgrades to six major pressure-regulating stations and commencement of the Bathurst gas network rehabilitation project. Preliminary design and route selection also began for the future reinforcement of Sydney's high pressure system.

In June 2005 the NSW Independent Pricing and Regulatory Tribunal (IPART) issued its determination approving the prices, services, terms and conditions under which AGL Gas Networks will provide transportation services to retailers over the five-year period to June 2010.

## Electricity Networks

Electricity distributed by the AGL electricity network was 4,174 GWh, an increase of 51 GWh. This result was also affected by generally milder weather conditions throughout 2004/2005 which had an adverse impact on energy sales. Growth in customer sites connected continued to be strong with a net increase of 6,632 sites added to the network during the year and extending the distribution network by a further 105 km, bringing the total network length to 10,285 km.

Following a review of the carrying value of AGL's electricity network, a write down of \$231.1 million has been made in accordance with accounting standards. The write down reflects a review of recent prices paid for Victorian distribution assets, the tightening regulatory environment and the recent draft decision of the Victorian Essential Services Commission (ESC).

# “My philosophy? Creating good customer relationships and serving great coffee.”

We know how prompt and reliable service is always important, particularly when you are starting a new business.

Joe recently opened *Bar Rizzo* at Five Dock, Sydney, having previously owned and operated another business in the area with his father for 29 years. He has been an AGL gas customer for all that time and, when preparing the new café for opening, was impressed with our prompt service.

“AGL’s response was really fast – laying gas pipes and processing applications for both gas and electricity. Without this support I may not have been able to open the café on time.”



## Gas Networks

Performance	Features
<ul style="list-style-type: none"> <li>• EBIT \$163.9 million (-\$0.2 million).</li> <li>• 95.8 PJ (-0.6 PJ).</li> <li>• 27,024 increase in connected sites.</li> <li>• Total sites 951,591.</li> <li>• Total mains length 23,541 km (+206 km).</li> <li>• 98% of network incidents responded to within 60 minutes of notification.</li> </ul>	<ul style="list-style-type: none"> <li>• Result was affected by Sydney experiencing the warmest April and fifth warmest June in 144 years of records.</li> </ul>

## Electricity Networks

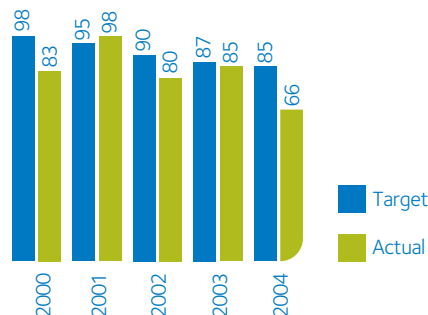
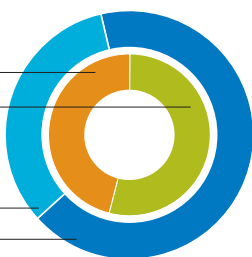
Performance	Features
<ul style="list-style-type: none"> <li>• EBIT \$75.5 million<sup>(a)</sup> (+\$5.5 million).</li> <li>• 4,174 GWh (+51 GWh).</li> <li>• 6,632 increase in connected sites.</li> <li>• Total sites 285,693.</li> <li>• Total network length 10,285 km (+105 km).</li> <li>• SAIDI<sup>(b)</sup> and SAIFI<sup>(c)</sup> supply interruption indices both better than target in calendar year 2004.</li> </ul>	<ul style="list-style-type: none"> <li>• Gross distribution margin increased by \$6.6 million (4.9%) due to increased customer base, despite moderate weather during the year.</li> </ul>

### Electricity

Residential and Small Business	46%
Large Business	54%

### Gas

Residential and Small Business	33%
Large Business	67%



### Network Outage Performance - SAIDI<sup>(b)</sup>

- (a) Before significant items.
- (b) • System average interruption duration index (SAIDI): which is the total minutes on average that a customer can expect to be without electricity in a year due to interruptions (of duration equal to or greater than 1 minute).
  - Note that actual SAIDI in 2000, 2001 and 2003 includes adjustments for approved exemptions.
  - SAIDI is calculated on a calendar year basis.
- (c) System average interruption frequency index (SAIFI).

The ESC’s draft decision was disappointing and AGL is working to achieve an improved final outcome. The new pricing arrangements commence on 1 January 2006.

Significant capital projects in 2005 included the start of a two-year project in Melbourne to construct a new subtransmission line from Keilor to Sunbury to reinforce supply to Sunbury and surrounding areas,

and the installation of a new transformer in Heidelberg to meet the load increase resulting from a hospital redevelopment.

AGL is committed to the provision of a reliable and secure source of energy. Major capital expenditure programs are planned to continue to upgrade and develop the networks.



Maree Munro, AGL residential gas customer, Concord, Sydney

## Energy Sales & Marketing

Energy Sales & Marketing's profit contribution before borrowing costs and tax was down by 5.8% to \$206.2 million compared with last year's \$218.8 million. The result was impacted by warmer weather and intense competition in the retail market.

AGL remains the leading brand in Australia's energy sector measured by both brand awareness surveys and the number of customers choosing AGL over competitors. Acceptance of our offer to supply customers with both gas and electricity (dual fuel) has grown in all markets in which we compete: NSW, Victoria and South Australia. In Victoria, 43% of our customers had dual fuel by 30 June. Overall, AGL dual fuel accounts grew by about 36% over the year to 1,036,680. We believe customers have exercised that choice because of their

view of AGL's value for money, excellent customer service and trusted brand.

### Customer service focus

Competition continues to increase customers' expectations, particularly in respect of service delivery. AGL continues to meet this challenge and this year introduced a new program designed to improve service delivery from our Contact Centres. This has included focusing on the building blocks necessary for excellent customer service delivery including call ownership, issue identification, query logging and tracking, and communication, escalation and issue resolution.

To deliver on these building blocks AGL has enhanced its training of Contact Centre staff, established a team to handle the more difficult service issues and improved business processes. Early results of the program have been very positive with a reduction in the number of

customers engaging third parties, such as ombudsmen, to assist with resolution of their issues. It has also improved our ability to identify customer issues earlier.

In July 2004, consistent with the drive to continuously improve the efficiency of our operations, we announced the closure of our Sydney Contact Centre. Calls previously taken in Sydney are now handled in Canberra and Adelaide. The transition of calls, and the Sydney Centre closure, was completed in June of this year. This is being supported by the roll out of improved call distribution and workforce management capabilities. This new technology enables us to integrate fully our three Contact Centres in Melbourne, Adelaide and Canberra.

### Staying Connected

A key strategy for being 'switched on' to our customers' needs is to tailor

options for those who need specialised services and support. *Staying Connected* was developed cooperatively with our national Customer Council and is AGL's program for supporting customers in financial hardship. Since 2003 the *Staying Connected* team has helped customers experiencing temporary or ongoing hardship to stabilise their bills and better manage payments so they can exit from the debt cycle.

With more than 11,300 residential customers participating in the program, AGL tailors assistance to an individual customer's needs by establishing a personal payment plan. *Staying Connected* protects participating customers from collection action, informs them about financial counselling services, government concessions and assistance, and offers support through energy efficiency advice. To improve the program further, this year we introduced the

# “There’s nothing I enjoy more than sitting in front of the fire, knitting for my grandson.”

We know how a bit of home comfort goes a long way.

Maree and her family have been AGL gas customers for 32 years and have never had a problem with service or reliability. Not only does she enjoy the warmth of a gas fire, she prefers gas cooking and hot water as well. “A hot shower after a day with my grandson is just perfect.”

Maree thought that retirement would mean slowing down but she’s kept busy with her growing family. “I have one grandson and two grandchildren on the way. It will certainly mean the family home will be bustling again.”



## Natural Gas Sales

	Performance	Features
Total sales	172.9 PJ (+8.8 PJ)	Increase due to the acquisition of Terra Gas Trader Pty Ltd (TGT) in January 2005, offset by milder winter.
NSW	65.1 PJ (-1.4 PJ)	Decrease driven by milder winter and small loss of mass-market customers.
VIC	60.2 PJ (-2.9 PJ)	Decrease driven by milder winter despite increase in mass-market customer numbers.
SA	5.8 PJ (+0.6 PJ)	Increase driven by the introduction of full retail contestability in SA and growth in commercial and industrial customer load.
Whole-sale	TGT 13.7 PJ Incitec 10.9 PJ ActewAGL 8.3 PJ Country Energy 2.4 PJ International Power 1.8 PJ Total (+12.4 PJ)	Acquisition of TGT in January 2005 offset by reduction of gas supplied to International Power.

## Electricity Sales

	Performance	Features
Total sales	22,279 GWh (-16 GWh)	Steady volume resulting from a small net decrease in mass-market customer numbers, offset by growth in business contract loads in VIC, NSW and QLD.
NSW	4,937 GWh (+885 GWh)	Growth achieved through the successful acquisition of mass-market customers and from securing additional business contract load.
VIC	9,478 GWh (-19 GWh)	Small decrease in the number of mass-market customers, partly offset by growth in business contract load.
SA	7,236 GWh (-1,078 GWh)	Decrease driven predominantly by the loss of 80,000 mass-market customers throughout the year.
QLD	629 GWh (+197 GWh)	Growth achieved from securing additional business contract load.

national Alternative Contact Service, put additional information on our website, and improved our energy efficiency advice.

### Delivering the brand promise

During the year we launched the *Switched on Living* campaign. AGL wants to be recognised as the leading provider of comfort and control to Australian households and as being ‘switched on’ to people’s energy needs. This includes our desire to give them unrivalled energy know-how, advice and service.

To help back this up AGL invested in a range of initiatives to provide sales and service staff with energy know-how. During the year 383 staff and sales agents received training under an initiative known as *Energy Matters*. Participants were given a better understanding of relative energy usage through various applications in the home, energy efficiency tips and green energy options.

AGL continues to monitor opportunities arising from innovative metering technology as a means of

providing customers with more flexible products and services. A key potential customer benefit is the ability to manage energy usage more efficiently.

### Retail regulation

During the year a retail electricity pricing decision for the next three years was determined in South Australia by the Essential Services Commission of South Australia. When combined with the four-year agreements for gas and electricity price paths that started earlier in Victoria, and the existing

arrangements for gas in NSW, these arrangements give customers and Shareholders a level of future price certainty.

AGL maintains support for national consistency in the regulation of Australia’s retail energy markets. During the year the Ministerial Council on Energy agreed to move towards a national regulatory framework. This positive step should provide further opportunity for retailers to deliver more effective and consistent service to customers regardless of their location.



# relationships.

Barry Parsons, Gas Networks Project Manager, Powerco, Tasmania

## Agility

### Portfolio growth

Agility's profit contribution before borrowing costs and tax increased by 14.2% to \$63.4 million, as new and existing clients and contracts continued to provide recurring revenue.

This increase was the result of a strategy to develop further customer relationships, capability, geographic coverage and credibility across Australian energy and utility markets.

Agility also won a number of significant new contracts over the past year, including:

- Water mains rehabilitation for Sydney Water Corporation in NSW;
- Natural gas network construction, operation and maintenance for Powerco in Tasmania;
- Live Line overhead electricity network maintenance for Energex in Queensland;

- Natural gas lateral pipeline construction for Hammersley Iron in Western Australia;
- Natural gas pipeline repair for Santos in Queensland;
- Live Line services and air brake switch inspection and maintenance for Ergon Energy in Queensland;
- Coal seam methane plant engineering consultancy for APA/Arrow Energy in Queensland; and
- Operations and maintenance for APA's Parmelia pipeline in Western Australia.

In addition Agility is now on a number of preferred supplier panels for utilities, including Sydney Water Corporation, Ergon Energy and the Water Corporation of Western Australia. All of these wins are evidence of Agility's success in expanding its traditional gas and electricity network base in NSW and Victoria, and its traditional natural gas pipeline base. Agility is now pursuing

actively opportunities in NSW, Queensland, Western Australia, Tasmania and Victoria in electricity, gas and water/wastewater.

### Capability expansion

Agility has set in place a plan to develop continuously skills and upgrade resources to meet the needs of clients. A recruitment program has been established and the business has acquired Oakland Construction - a preferred construction and maintenance provider to Energex in south-east Queensland. Oakland specialises in high-voltage underground electrical assets and will strengthen Agility's underground services capability, originally developed in gas.

By expanding capability in Queensland, Agility is well placed to capitalise on the rapidly growing market for outsourced services driven by Ergon Energy's and Energex's capital works programs.

Agility has also expanded its capability by developing a Multi-Utility team in NSW to provide relocation services for gas, electricity and water assets. Agility can now provide a full service from design and utility liaison through to traffic management and community relations. The initiative will provide cost savings in project management for both clients and Agility. Clients, such as local councils, will also have the added convenience of dealing with a single service provider.

# “For me, a strong partnership is what counts.” We know how to commit to a relationship.

In 2002 Powerco was awarded the natural gas distribution rights in Tasmania. To deliver the first stage of pipeline and network construction, Barry Parsons, Gas Networks Project Manager for Powerco, knew that Agility had the experience and proven ability to deliver.

What convinced him to keep working with us on the next stage, was a common value when it came to teamwork. By the end of 2007, Powerco expects to have delivered more than 250 km of Tasmania’s natural gas distribution network in partnership with Agility. “A good operational partnership is vital when delivering something this big. It’s a real team approach to success.”



## Agility’s Australia-wide presence



### Adding value to customer relationships

Agility is aware of increasing demands on asset owners and operators and is looking to work in partnership with clients to share this load.

This approach was demonstrated through the relationship Agility developed with Aurora Energy in Tasmania. Working with the Aurora management team, Agility used its experience and innovative design techniques to help resolve Aurora’s issues.

Colleagues from both organisations worked in each other’s business locations to improve operational efficiencies as part of an employee sharing program. This sharing of knowledge and skills resulted in an extremely successful partnership.

In recognition of this dedicated teamwork, Aurora Energy presented Agility with a *Subcontractor of the Year Award* for 2004.

Agility’s commitment to developing a working alliance partnership, resulted in significant improvements to Aurora’s overall bottom-line business performance.

During the year Agility commissioned qualitative and quantitative customer research to better understand its clients’ current and future requirements. Agility intends to use this to develop further its service offerings and to build its customer relationships.

### Increasing market credibility

Since its inception in 2000, Agility has recognised the need to build credibility in the broader market place if it is to be successful in growing further third-party business. The primary means of building credibility is by demonstrating capability for third-party clients. Occasionally this has meant starting with smaller jobs and working its way up.

Agility has also sought to build credibility through participation in exhibitions, conferences and professional associations, and has been active in presenting technical papers to industry conferences and in industry journals. Through these, Agility has been able to publicise a number of technical innovations and demonstrate our industry expertise. These innovations include:

- A Field Data/Middleware project that enhanced applications for GIS (Geographical Information Systems); and
- A Network Reliability package that uses off-the-shelf components to optimise electricity network reliability.

### Agility manages

10,000 km of high pressure gas transmission pipelines\*

27,400 km of gas distribution networks

10,285 km of electricity distribution networks

330 MW of peaking plants

1,329 employees

\* manages and services

Agility has made good progress in the water industry by completing several complex projects for Sydney Water during the past 18 months.

Agility was awarded two water main renewal projects to enhance water quality and services to the Sydney Metropolitan and Illawarra regions in NSW. The first project involved renewal of 18 km of water reticulation in 50 streets and the second project, a further 30 km of water mains renewal across 100 streets.



Angela Eden, AGI green electricity customer, Adelaide

## Power Assets

AGI Power Assets, including the contribution from Loy Yang Power, provided a profit contribution before borrowing costs and tax of \$31.2 million, up \$13.7 million on last year. This increase was primarily the result of a full-year contribution from Loy Yang Power. AGI purchased a 32.5% share in Loy Yang Power on 8 April 2004 and therefore this investment only contributed to the AGI Power Assets' result for part of the previous financial year.

### Loy Yang Power

AGI's 32.5% investment in the Loy Yang power station and adjacent coal mine represents a key component of our strategy of growing ownership interests in upstream assets. The power station is the largest base load electricity generator in Victoria. With an installed capacity of 2,200 MW, it supplies about one quarter of the State's power

requirements and underpins its manufacturing industry. It is located on about 5,800 hectares near Traralgon in Victoria's Latrobe Valley, 165 km east of Melbourne and employs about 500 regional Victorians.

The 2004/2005 financial year contribution was \$9.5 million which compares with the \$2.7 million from the less than three months contribution for 2003/2004. Low generation revenue is the principal reason for the 2004/2005 performance which has been adversely affected by lower pool prices and the slower than forecast take up rate of contracts by counter parties, leaving Loy Yang Power with a higher percentage exposure to pool prices during the year.

### Gas-fired generation

AGI's two gas-fired power stations, Somerton in Victoria and Hallett in South Australia, play an important role in mitigating

our potential risk to the volatility of electricity spot prices during periods of peak electricity demand. As such they tend to operate during the summer and winter seasons but are available to supply the market throughout the year. In addition, the Somerton power station provides network support to the AGI and former TXU electricity networks in Victoria. Somerton has 150 MW of installed capacity, while Hallett has 180 MW. Hallett has distillate as an alternative fuel, which enhances security of supply.

The total electricity generated from the Somerton and Hallett power assets was 63.2 GWh, an increase of 1.4 GWh on the previous year, mainly due to higher demand in South Australia.

AGI's third gas-fired power station is a 20 MW plant located at Cawse in Western Australia.

It supplies electricity, steam and desalinated water to the OMG Cawse nickel mine (60 km north-west of Kalgoorlie).

AGI also has a 50% ownership interest in the 13 MW Windimurra power station, which has been earmarked for sale. The Xstrata vanadium mine to which this plant supplied electricity ceased operations in February 2003. The plant is being maintained in its current location in Western Australia (70 km east of Mt Magnet) until a suitable purchaser is identified.

AGI is actively pursuing other opportunities to expand its power generation portfolio to complement its retail position. Several opportunities were evaluated during the year and it is expected that additional development projects will start in 2006.

**“I want to make a difference for my children’s future.”**  
 We know how green electricity options help to make a difference.

Angela is always busy, running her own business, caring for her two kids and spending time with her partner. Sitting down and getting a moment to herself is not something she gets a chance to indulge in often. An AGL customer for about ten years, she switched to our Green Living plan because it was an easy first step towards making a difference.

“You want to do the right thing environmentally and you have to start somewhere. I look at it for my kids. It’s their future and we all need to be responsible for doing what we can to protect it.”



**Investing in renewable sources of power generation**

Consistent with AGL’s strategy of increasing investment in power generation and to meet the Federal Government’s requirement to supply 2% of all retail energy from a certified green source, AGL has secured the development rights for a 90 to 135 MW wind farm at Hallett. A decision whether or not to invest will be taken later this year. The project is currently awaiting approval of a generation licence.

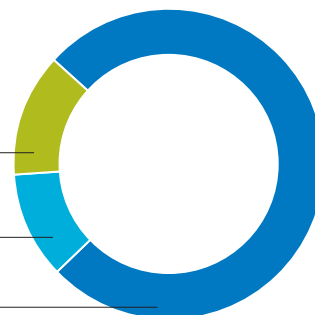
In addition to integrating the wind farm into the existing Hallett power station facilities, AGL is evaluating a proposal to expand the current gas-fired capacity. Approval has already been obtained to install additional gas turbines with a capacity of up to 250 MW. AGL also continues to examine potential additional opportunities

to take advantage of the Hallett area’s sizeable wind resource.

AGL currently supports renewable sources of power generation through its investment in landfill gas and biogas power stations, and financial contracts for a number of wind farm developments.

**Renewable energy produced by AGL**

<b>Landfill gas own and operate</b>	13%
<b>Biogas own and operate</b>	11%
<b>Wind Power Purchase Agreement (PPA)</b>	76%



**AGL’s interests in power generation and power purchase agreements**



- 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 (Offtake Agreement)
- 7 Somerton
- 8 Tasmania (Landfill Gas)
- 9 Werribee (Biogas)
- 10 Loy Yang Power
- 11 Nowra (Landfill Gas)

## Energy investments and LPG

### Australian energy investments

#### ActewAGL (50%)

The ActewAGL distribution and retail joint venture contributed \$53.0 million to profit before borrowing costs and tax, an increase of \$2.1 million from the previous year.

Tariff reductions in the electricity and gas distribution businesses were offset by lower costs, higher customer contributions for capital works, the expansion of Ecowise (a subsidiary providing environmental monitoring and analytical services) and the provision of management services to TransACT.

Following the March 2004 Independent Competition and Regulatory Commission (ICRC) pricing review, revised distribution prices for the electricity distribution network commenced on 1 July 2004. Three months later, the ICRC issued its Final Decision for the ActewAGL gas network in the ACT and Queanbeyan area, with revised distribution pricing effective from 1 January 2005.

A highlight of the year was the signing of a three-year contract with the ACT Government bus company, ACTION, to supply natural gas for part of its bus fleet. Initially 28 buses will be supplied with natural gas, with 54 buses (12% of the ACTION fleet) expected to be powered by natural gas by 2005/2006.

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 the gas networks in Queanbeyan, Nowra and the former Yarralumla Shire in NSW, as well as operating the ACT's water and sewerage assets. ActewAGL also manages the operations of the TransACT telecommunications services business. The joint venture has approximately 150,000 electricity and 107,000 natural gas customers.



A highlight of the year was the signing of a three-year contract with the ACT Government bus company, ACTION, to supply natural gas for part of its fleet.

#### Australian Pipeline Trust (30%)

AGL's 30% equity-accounted investment in the Australian Pipeline Trust (APA) contributed \$19.4 million to profit before borrowing costs and tax, a decrease of \$18.6 million from the previous year. Last year's result included a one-off tax benefit of \$27.9 million (AGL's 30% share) following APA's election to enter into tax consolidation with effect from 1 July 2003. However, APA's underlying earnings improved by 36% from \$14.3 million (AGL's 30% share) in the prior year to reflect the acquisition of the CMS Energy Corporation's interest in the Parmelia and Goldfields pipeline assets in Western Australia for \$206 million, together with the 30% minority interest in the Ballera to Mt Isa pipeline.

APA owns, or has an interest in, more than 7,500 km of gas transmission pipelines in Australia. APA has a major presence in NSW, Queensland, the Northern Territory and Western Australia. It transports close to 25% of Australia's natural gas consumption through a network of pipelines which comprise a mix of mature, established pipelines and more recently completed greenfield pipelines.

#### PNG Gas pipeline (50%)

AGL's involvement in the PNG Gas Project has seen the addition of two conditional agreements which complement the role that AGL has in a consortium with Malaysian company Petronas (known as APC), to build, own and operate the Australian segment of the PNG Gas pipeline.

The agreements entered into by AGL in July 2005 comprise:

- A conditional Gas Supply Agreement with the PNG Gas Project producers to purchase about 1,500 PJ of gas over 20 years from 2009 with an approximate value of \$4.5 billion; and
- A conditional agreement to acquire from Oil Search a 10% stake in the upstream PNG Gas Project with an approximate value of \$400 million.

Working in parallel with this investment opportunity, APC commenced the FEED exercise in May 2005 after APC awarded this phase to the international engineering firm GHD Pty Ltd.

A final investment decision is expected on the PNG Gas Project in 2006. This decision will depend on securing sufficient gas sales agreements to enable the project to proceed, successful completion of the FEED exercises and APC concluding corresponding gas transportation arrangements with the PNG Gas Project producers.

APC and the PNG Gas Project producer group are targeting initial gas deliveries to customers from 2009, which will also see the start of AGL's purchase of PNG gas for supply to markets in NSW, South Australia, the ACT and Queensland.

## Chile

### GasValpo (100%)

GasValpo is a gas distributor and retailer situated in the coastal cities of Valparaiso and Viña del Mar, in the Region V of Chile. GasValpo distributes and sells gas to some 40,000 residential and commercial customers and 38 industrial customers.

GasValpo contributed \$4.1 million profit before borrowing costs and tax to the Group's results.

From May this year GasValpo began supplying gas to the government-owned oil company ENAP. The five-year contract will deliver up to 7.1 PJ per annum and is expected to bring significant financial benefits. The following month, as planned, GasValpo successfully completed the conversion of the Caletones El Teniente copper smelter to natural gas. The use of natural gas brings economic and environmental benefits to this smelter, which services the world's largest underground copper mine.

The summer of 2005 has seen the recommencement of gas restrictions from Argentina. Restrictions are limited to GasValpo's industrial customers only and are expected to ease over the winter months. The Chilean Government has initiated a LNG project as an alternative gas supply option. This will be located in GasValpo's area. GasValpo has introduced a number of initiatives such as energy swaps and sourcing alternative gas supplies, to minimise the overall impact of the restrictions.

## LPG

### Elgas (50%)

Elgas' equity-accounted profit contribution to AGL before borrowing costs and tax of \$13.5 million, is in line with last year's \$13.9 million.

Warmer trading conditions in winter 2005 placed pressure on sales volumes, although profit levels were maintained due to the relatively strong Australian dollar, which enabled the company to maintain margins despite international LPG prices reaching record levels in US dollar terms during the year. A further boost followed the integration of the Swap 'n' Go business, which was acquired in January 2004, providing Elgas with strong growth in the leisure market.

### 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. Total LPG production of 37,000 tonnes was 7,000 tonnes higher than last year following last year's major maintenance shutdown. This, together with the record Saudi contract price, resulted in a higher contribution to profit before borrowing costs and tax of \$6.0 million which was \$4.6 million up on the previous year.

To produce the LPG, HCE processes 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.

## Property

Settlement of the penultimate stage (Lot 6) of the former gasworks site at Breakfast Point occurred in December 2004 for \$31.0 million. An additional deferred settlement was paid in June 2005 of \$11.3 million. Settlement of the remaining stage (Lot 7) for \$42.0 million is due in June 2006.

The building upgrade and office fitout of AGL's new leased head office premises at St Leonards is progressing with the relocation scheduled for September 2005. AGL will occupy the whole of the building (11,200 m<sup>2</sup>) obtaining efficiencies from the consolidation of a number of office locations in Sydney.

In addition, office fitouts to increase the space at AGL's South Australian Head Office at Eastwood and additional Contact Centre facilities at Canberra were completed during the year.



Stephanie Cotte, Campaign Coordinator, AGL Melbourne

## People & Culture

### Health, Safety & Environment

The health, safety and wellbeing of our people continues, as always, to be a core priority at AGL.

Most fundamental is our goal of having no employee injured or sick as a result of working for AGL. Our lost time injuries rate rose this year, with the rate of 5.2 up on last year's rate of 3.6. The increase is disappointing. It is pleasing however that the overall severity of injuries decreased compared to the previous year. AGL is implementing positive performance indicators aimed at giving early signals if cultural and workplace awareness of safety is improving or falling. This is aimed at improving the new year's rate.

To emphasise the critical importance of keeping our people safe throughout AGL, our health and safety program Life Guard introduced a new initiative called *Look it's up to me*, aimed at helping employees recognise and take some personal ownership for keeping safe at work.

Life Guard, now in its tenth year at AGL, is based on international standards: ISO 14000 for Environmental Management Systems, and Australian and NZ Standards for Safety Management Systems, AS 4801. It provides the standards, processes, resources and skills to identify hazards in the workplace and implement the controls needed to prevent incidents at all of AGL's Australian operations, as well as at ActewAGL and GasValpo.

### Leadership

Our commitment to leadership development at AGL broadened this year with the addition of the *Emerging Leaders Program*. This initiative provides bi-monthly forums and networks to encourage the early development of tomorrow's leaders. This augments other well-established leadership development programs, including the Senior Leadership Development residential program, and Unlocking Leadership, for our middle and front-line leaders.

### Employee agreements

A total of four certified agreements were successfully negotiated this year for more than 600 award-based employees in Victoria and South Australia, as well as State agreements in Queensland and Tasmania. We applied the same principles we adopt in all enterprise bargaining agreements; namely to work towards a consistency of employment benefits and conditions for everyone at AGL, with priority on ensuring transparency of process and thorough consultation with both employees and unions.

**“I love my work at AGL. Each day brings me new challenges.”**  
We know how to help our people achieve their potential.

Stephanie started in one of our Contact Centres nearly five years ago. Since then, she’s had a number of roles, making the most of our training and development programs.

“I have been extremely fortunate to work with leaders who have recognised my potential and encouraged me to take on new challenges and opportunities at every turn.”

Earlier this year, she was nominated for a *Winning Ways* award, a program recognising exceptional achievements by employees in the workplace or in the community.

“To receive formal recognition from your peers is really special, you know that your work is valued.”



For South Australian employees, the majority of whom work in our retail customer Contact Centre, priorities included family flexible options, access to carer’s leave and increased clarity of working conditions. In Victoria, as in other States, the agreement included our commitment to review and redefine our employee classification structures. The outcome will be a clearly defined job skills and development framework through which employees can advance their careers. Internally, our focus has been on further enhancing the employee relations capability.

### **Diversity**

This year we have increased our focus on building a workforce that truly reflects the diversity of our customer base. About 180 AGL leaders attended workshops where they were formally introduced to the principles and opportunities of creating a diverse workplace. Our 2005 internal electronic calendar was updated to display important dates for all major cultural, ethnic and religious groups, and consideration of such dates is now incorporated into our business event planning. A series of online Fact Sheets were recently introduced for employees seeking to understand the religious beliefs and practices of their team members better. In December AGL’s Managing Director launched the Diversity Support Line, providing employees with toll-free and confidential access to independent consultants. Employees are encouraged to contact

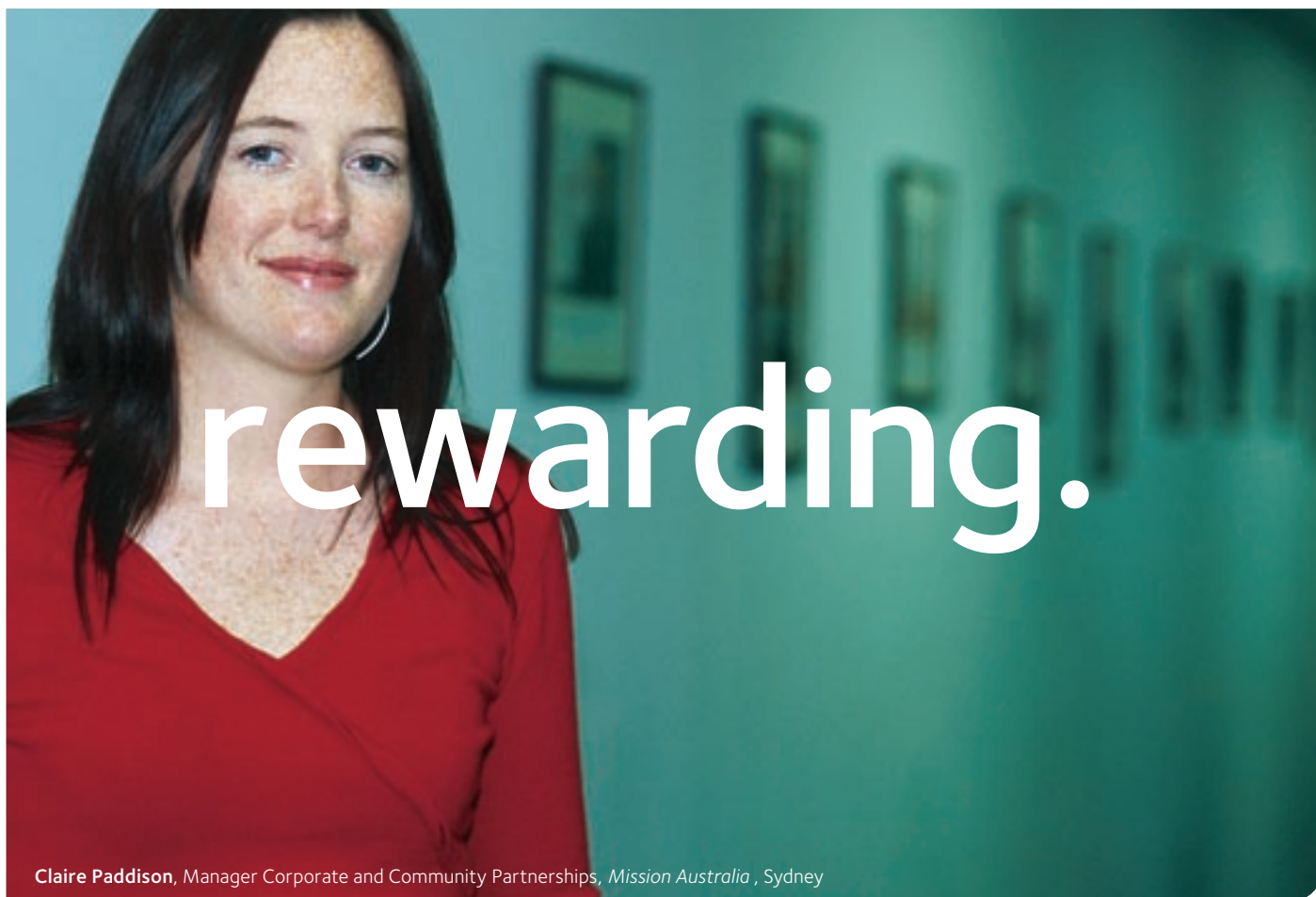
the Support Line with suggestions of how to make AGL a more diverse workplace and to report any incidents of harassment, discrimination or bullying. All incidents are independently investigated and if substantiated, addressed by AGL.

### **Recognition**

AGL’s *Winning Ways* recognition and reward program was refreshed this year to encourage more employees to nominate their colleagues. A hard-copy nomination form now makes it easy for field-based employees without access to a computer to nominate a colleague. Twenty people will be invited to join the special celebrations of our 2005 *Winner’s Circle*.

### **Relocation**

Following a successful relocation of all our Adelaide people to a new purpose-built facility last year, we made the decision to relocate most of our Sydney operations to a new dedicated facility at St Leonards. Our goal is to create a working environment that will support our core values of achievement, credibility and teamwork. The open workspace configuration, supported by a range of informal meeting spaces and quiet work areas, is an exciting and significant step in our cultural journey.



Claire Paddison, Manager Corporate and Community Partnerships, Mission Australia, Sydney

## Community

Now in its second year, our community investment program *Energy for Life* encompasses a number of community initiatives: *Warmth in Winter* has helped provide more warm winter nights for Australians experiencing homelessness; *Employee Volunteering* offers the time for our employees to use their skills and enthusiasm; *Employee Giving* provides on-going donations to a range of charities; and *Energy Matters* continues to promote and develop energy efficiency skills among our staff and in the community.

*Energy for Life* allows us to give back to the communities in which we operate by using our energy know-how and expertise, and drawing on our collective skills to deliver benefits to social concerns that relate to our business.

## Warmth in Winter

Our *Warmth in Winter* program addresses the issue of homelessness. It is a recognition that people experiencing homelessness do not normally enjoy the home comforts of AGL's products and services. Conceived by AGL staff and developed in partnership with peak homeless organisations in Victoria, NSW and South Australia, the program helps pay the winter energy bills of crisis and emergency accommodation services for people experiencing homelessness.

In its second year, applications were received from 210 emergency/crisis accommodation sites across metropolitan and regional NSW, Victoria and South Australia – more than double the number received last year. The contribution provided to these services was equivalent to providing 139,000 warm winter nights

for Australian men, women and children experiencing homelessness.

This year we conducted a pilot program into providing energy efficiency audits for *Warmth in Winter* participants. These were offered at no cost to participants, with the aim of identifying energy saving opportunities to reduce costs. While it is in its early stages, there are positive signs that the participants found the audit information very useful. The pilot program is ongoing and also provides opportunities for participants to acquire energy-efficient appliances at a reduced price.

## Employee Volunteering

AGL provides one paid work day every year for all employees to volunteer their time and skills to a community group, charity or cause of their choice. This year 430 AGL people took their volunteering day. Projects ranged from collecting donations on Melbourne streets for the Starlight Foundation, to repainting the kennel facilities of the Adelaide RSPCA animal shelter.

An employee survey indicated that nearly 40% of AGL people spent some personal time volunteering for their favourite community cause within the last year, with crisis telephone counselling, tree planting for local environment groups and coaching local soccer teams being just a handful of the hundreds of examples reported.

**“It’s rewarding to build relationships with companies to help disadvantaged communities across Australia.”**  
 We know how communities depend on the support of those around them.

Claire has been working with AGL for about two years on a number of programs that help raise money for people who need it most.

“AGL’s support has been growing through employee volunteering and employee giving as well as corporate involvement through the *Warmth in Winter* initiative.”

*Warmth in Winter* is a program where AGL helps pay the gas and electricity bills for emergency accommodation centres for homeless people across Australia. Claire is complimentary of AGL’s support.

“It’s great that it comes from all areas of the business – from the executive level to local office employees. I look forward to continuing the relationship.”



**Employee Giving**

*Energy for Life* helps our people support the charities they care about through an *Employee Giving* program. Through the program AGL matches employee contributions dollar for dollar. The maximum amount AGL will match has recently been increased to \$200,000 per year. This year nearly 14% of our people donated through the program. Collectively, the donations of our people and AGL contributed more than \$320,000 to ten selected charities, including nearly \$70,000 towards CARE Australia’s tsunami relief efforts. Since *Employee Giving* was

launched in September 2003, nearly \$450,000 has been donated across the ten charities.

**Energy Matters**

Using our energy know-how, AGL is helping employees, customers and the broader community become more energy efficient by developing energy efficiency know-how. This year more than 10% of our people volunteered their time to take household energy efficiency training through the *Energy Matters* program. Many are now applying this training to promote energy efficiency in the broader community.

Our *Energy Matters* community pilot program based in Claymore, a suburb in western Sydney, provided local residents with hands-on assistance and practical know-how to reduce their energy bills. The program continues to be delivered in partnership with not-for-profit community capacity building group WorkVentures. While this program is still in a pilot phase, early results are encouraging.

The outcomes and lessons from this program are being carefully monitored and documented so we can use the learnings within our *Staying Connected* program – AGL’s hardship program that assists customers experiencing difficulty paying their energy bills (see page 15). If the pilot is successful, AGL plans to expand and replicate this program into other selected communities experiencing hardship.





# solutions.

Mike Newton, Symex, Port Melbourne

## Environmental sustainability

AGL's focus on sustainable environmental performance is simply good business sense. It delivers Shareholder value by earning and keeping the confidence of our customers, employees and the community in which we operate in the short, medium and long term.

### Greenhouse gas emissions

The need to stabilise greenhouse gas emissions and work to maintain the quality of the environment in which we live are concerns we all share. To this end, AGL has two goals: to achieve excellence in environmental management and performance and to reduce the greenhouse gas intensity of energy across the supply chain.

We believe it is important for Australia to establish a long-term greenhouse gas emission reduction goal and to map a path to achieve it.

An expansion of gas base load and shoulder generation will be an important element in the transition to a lower emissions economy. Our investment in the proposed PNG Gas pipeline, linking gas from the PNG Highlands to eastern Australia, will help ensure security of gas supply to east coast markets. This will help create the supply conditions for the expansion of such generation capacity.

To improve discussion with our stakeholders about the greenhouse impacts of our business and customers' decisions, and to complement our internal business analysis of the impact of carbon constraints on our investment portfolio and retail business, AGL now reports comprehensively on greenhouse gas impacts. We use three approaches or 'footprints' for measuring these impacts. The energy supply footprint measures the impacts of the energy we supply to customers; our operational footprint measures the impacts of our facilities, networks and offices; and our equity footprint shows the greenhouse gas emissions associated with our investment interests. For more information about AGL's Greenhouse Gas policy and the greenhouse footprints go to AGL's website at: [www.agl.com.au](http://www.agl.com.au)

### Green energy

This year we expanded our green energy program through the launch of a new green product, *Green Living*. AGL customers now have the choice of purchasing 5%, 10%, 25%, 50% and 100% of their energy as accredited *Green Power*, or ensuring their energy is greenhouse neutral through the purchase of our offset product, *Green Balance*. We have also been working with the Victorian Government to promote awareness and uptake of green energy through a targeted media campaign.

AGL has purchased energy from wind farms and landfill gas generation facilities, including electricity from the Canunda and Starfish Hill wind farms in South Australia, and from our own landfill gas generation sites located at Nowra in NSW and Gosnells and Rockingham in Western Australia. AGL also added to its long-term wind renewable energy certificate

# “We’ve now got an energy solution that suits us and the environment.”

## We know how to create sustainable energy options for business.

Mike Newton is Managing Director of Symex, a world-competitive manufacturer of oleo-chemicals. Under a 15-year agreement, AGL will build, own and operate a gas turbine cogeneration plant at Symex’s Port Melbourne site. The plant will provide all the electricity needed for processing and subsidiary operations, with surplus supplied to the Victorian grid to power around 3,700 average households annually.

The expected reduction in carbon dioxide emissions is the equivalent of taking about 5,700 cars off the road per year.



“The cogeneration plant gives us better supply reliability and cost certainty over the next 15 years, with the added bonus of generating electricity savings.”

offtake agreements with the commissioning of the 89 MW Walkaway wind farm, located near Geraldton in Western Australia.

We are pursuing our own renewable energy investment opportunities to support the decisions of our customers and to reduce greenhouse gas emissions. We have secured the development rights to a 90 to 135 MW wind farm adjacent to AGL’s Hallett power station in South Australia (see page 19). We are also developing new landfill generation projects at Hobart and Glenorchy in Tasmania and Gosford in NSW.

### Helping customers reduce energy usage

We use our significant energy know-how and experience to help customers manage their energy usage. Examples include:

- Working with Symex to build, own and operate a 4.4 MW gas turbine

cogeneration plant at their site in Port Melbourne;

- The installation of energy conservation measures under an energy performance contract with Manly Hospital, Sydney. Initial measurement and verification of savings indicate reductions in energy usage well in excess of guaranteed savings; and
- Working with Melbourne Water to extend AGL’s existing biogas power generation facility by a further 4 MW, making this the largest biogas generation project in Australia.

### Loy Yang Power

AGL continues to work with its consortium partners and Loy Yang Power management on greenhouse emission issues.

We recognise that Loy Yang’s fuel source and scale makes it a major emitter of greenhouse gases, accounting for approximately 7% of national stationary

energy sector emissions. However, it is the most efficient brown coal generator in Australia, with the lowest greenhouse gas emission per unit of electricity produced from brown coal and is a long-term participant in voluntary greenhouse programs such as the Greenhouse Challenge Program and the Generator Efficiency Standards. Loy Yang Power is also working with the Cooperative Research Centre for Clean Power from Lignite and other industry participants, to establish a pilot coal dewatering plant at Loy Yang. The technology has the potential to significantly reduce the level of greenhouse emissions from the combustion of brown coal and is being supported by the Victorian and Federal Governments.

This year Loy Yang Power won the Victorian Government’s Strzelecki Sustainability Award for

Industry Best Practice in the mining, extractive and petroleum industries.

### Environmental goals

As part of our commitment to reducing greenhouse emissions from our office operations, the energy used in our five major offices is greenhouse neutral.

We have also strengthened our understanding of our environmental impact in areas such as waste, recycling and paper use, and completed the roll out of the Green Office program so that it fully covers all Australian operations. As part of this program we have established environmental goals to improve further the efficiency of our corporate office operations.

# Corporate governance.

## A. AGL's approach to corporate governance

### A.1 Overview

The AGL Board considers best practice corporate governance standards support sustainable performance by AGL over time. The Board is committed to best practice standards of governance, underpinning how AGL conducts its business.

In determining what is best practice governance for AGL, the Board has taken into account the Australian Stock Exchange (ASX) 'Corporate Governance Council, Principles of Good Corporate Governance and Best Practice Recommendations' of March 2003, the Corporations Act 2001 (including CLERP 9 amendments), and other related best practice guidelines. The Board's philosophy is to adopt principles, practices and recommendations that are in the best interests of AGL. Consistent with ASX Corporate Governance Council Best Practice Recommendations, AGL's corporate governance practices are regularly reviewed. They are available on AGL's website.

### A.2 Compliance with ASX Corporate Governance Council Best Practice Recommendations

The ASX Listing Rules require listed companies to include in their Annual Report a statement regarding the extent to which they have adopted ASX Corporate Governance Council Best Practice Recommendations. To the extent that companies do not adopt any of the recommendations, they must identify these and provide an explanation for the difference in approach to governance practices.

The Board considers that AGL's governance practices either comply or are consistent with ASX Corporate Governance Council Best Practice Recommendations. This statement provides details of AGL's adoption, during the financial year, of the Best Practice Recommendations. It addresses each principle and describes AGL's response.

#### ASX Corporate Governance Council Best Practice Recommendations

- Principle 1** Lay solid foundations for management and oversight
- Principle 2** Structure the Board to add value
- Principle 3** Promote ethical and responsible decision making
- Principle 4** Safeguard integrity in financial reporting
- Principle 5** Make timely and balanced disclosure
- Principle 6** Respect the rights of Shareholders
- Principle 7** Recognise and manage risk
- Principle 8** Encourage enhanced performance
- Principle 9** Remunerate fairly and responsibly
- Principle 10** Recognise the legitimate interests of stakeholders

**PRINCIPLE 1: Lay solid foundations for management and oversight**

**PRINCIPLE 2: Structure the Board to add value**

**PRINCIPLE 8: Encourage enhanced performance**

## B. Board of Directors

### B.1 Membership and expertise of the Board

The Board is comprised of eight non-executive Directors and one executive Director who have a broad range of skills and expertise. The Managing Director is the executive Director and Chief Executive Officer (CEO) of AGL. The Board's size and composition is subject to limits imposed by AGL's Constitution, which provides for a minimum of three Directors and a maximum of ten until changed by Shareholders.

The Directors of AGL at any time during the financial year, or since, are listed below with a brief description of their qualifications, experience, other directorships and special responsibilities.

*ASX Corporate Governance Council (ASXCGC) Best Practice Recommendation 2.1*

#### Mark Johnson LLB MBA – Chairman, Age 64

**Term:** Non-executive Director since 1988. Appointed Chairman on 3 December 2003 following appointment as Deputy Chairman in October 1996.

**Independent:** Yes.

**Committees:** Chairman of the People and Performance, and Health, Safety and Environment Committees.

**Directorships:** Deputy Chairman of Macquarie Bank Limited (commenced as a Director in 1987) and Chairman of Macquarie Infrastructure Group (commenced as a Director in 1996). He is also Chairman of the Australian Strategic Policy Institute.

**Experience:** Previously he was a Director of Biota Holdings Limited and within the last three years a Director of New Zealand Futures and Options Exchange Ltd.

#### Charles Allen AO MA MSc, Age 69

**Term:** Non-executive Director since 1996.

**Independent:** Yes.

**Committees:** Member of the Audit & Risk Management and Health, Safety and Environment Committees.

**Directorships:** Chairman of Air Liquide Australia and a Director of Amcor Limited (commenced in 1996) and Earthwatch Australia.

**Experience:** Retired as Managing Director of Woodside Petroleum Limited in 1996. Within the last three years he was a Director and Chairman of National Australia Bank Limited (commenced in 1992, retired in 2004).

**Sir Ronald Brierley, Age 68**

**Term:** Non-executive Director since 1987.  
**Independent:** Yes.  
**Committees:** Member of the Health, Safety and Environment Committee.  
**Directorships:** Chairman of Premier Investments Limited (commenced in 2002) and a Director of Tooth & Co Limited (commenced in 1994). His offices overseas include Chairman of Guinness Peat Group plc.  
**Experience:** Previously he was a Director of Adsteam Marine Limited.

**David Craig BEc CA, Age 50**

**Term:** Non-executive Director since 11 May 2005.  
**Independent:** Yes.  
**Committees:** Member of the Health, Safety and Environment Committee.  
**Experience:** Currently the Chief Financial Officer (CFO) of the Australand Property Group. He was previously Global Transition Finance Leader for IBM's Business Consulting Services and Global CFO of PWC Consulting.

**Tony Daniels OAM, Age 70**

**Term:** Non-executive Director since 1999.  
**Independent:** Yes.  
**Committees:** Member of the Audit & Risk Management and Health, Safety and Environment Committees.  
**Directorships:** Director of the Commonwealth Bank of Australia (commenced in 2000).  
**Experience:** Retired as Managing Director of Tubemakers of Australia Limited in December 1995. During the last three years he was also a Director of Orica Limited (commenced in 1995, retired in 2003).

**Carolyn Hewson BEc (Hons) MA, Age 50**

**Term:** Non-executive Director since 1996.  
**Independent:** Yes.  
**Committees:** Member of the Audit & Risk Management and Health, Safety and Environment Committees.  
**Directorships:** Director of Westpac Banking Corporation (commenced in 2003).  
**Experience:** Community involvement includes board or advisory roles with the YWCA NSW, the Royal Humane Society of New South Wales and The Australian Charities Fund. Within the last three years she was a Director of CSR Limited (commenced in 1995, retired on 14 July 2005) and also a Member of the Economic Development Board (South Australia).

**Greg Martin BEc LLB – Managing Director, Age 45**

**Term:** Appointed Managing Director from 1 March 2001.  
**Independent:** No.  
**Committees:** Member of the Health, Safety and Environment Committee.  
**Directorships:** Director of AGL 50% owned Elgas Ltd.  
**Experience:** Mr Martin has been with AGL for 24 years. He is Chairman of the Energy Supply Association of Australia Limited and is Chairman of the Royal Botanic Gardens and Domain Trust. Within the last three years he was Chairman of NGC Holdings Limited in New Zealand.

**Max Ould BEc, Age 58**

**Term:** Non-executive Director since 1 January 2004.  
**Independent:** Yes.  
**Committees:** Member of the People and Performance, and Health, Safety and Environment Committees.  
**Directorships:** Director of Pacific Brands Limited (commenced in 2004) and Foster's Group Limited (commenced in 2004).  
**Experience:** Previously Managing Director of National Foods Limited.

**Graham Reaney BCom CPA, Age 62**

**Term:** Non-executive Director since 1988.  
**Independent:** Yes.  
**Committees:** Chairman of the Audit & Risk Management Committee, Member of the People and Performance, and Health, Safety and Environment Committees.  
**Directorships:** Chairman of PMP Limited (commenced in 2002), a Director of St George Bank Limited (commenced in 1996) and a Director of So Natural Foods Australia Limited (commenced in 2001).  
**Experience:** Retired as Managing Director of National Foods Limited in 1996, prior to which he was Managing Director of IEL.

The Board met nine times during the year. Directors' attendances are set out on page 38 of this Annual Report.

*ASXCGC Best Practice Recommendation 2.5*

**B.2 Board responsibilities**

The Board's responsibilities are encompassed in a formal Charter that is published on AGL's website. The Charter is reviewed annually to determine whether any changes are necessary or desirable. There have been no major changes to the Charter.

The major roles the Board has defined to fulfil its responsibilities are:

- Review and approve the strategic direction of AGL with management and monitor management's implementation of that strategy;
- Monitor financial outcomes and the integrity of reporting, and in particular, approve annual budgets and longer-term strategic and business plans;
- Set specific limits of authority for management to commit to new expenditure, enter contracts or acquire businesses;
- Monitor the effectiveness of AGL's audit, risk management and compliance systems that are in place to protect AGL's assets and to minimise the possibility of AGL operating beyond legal requirements or beyond acceptable risk parameters;
- Monitor compliance with regulatory requirements (including continuous disclosure) and ethical standards, including reviewing and ratifying codes of conduct and compliance systems;
- Select and appoint (and, if appropriate, remove from office) the CEO, determine his/her conditions of service and monitor his/her performance against established objectives;
- Ratify the appointment (and, if appropriate, the removal from office) of the Chief Financial Officer (CFO) and the Company Secretary;
- Approve conditions of service and performance monitoring procedures to apply to senior management;
- Review senior management succession planning and development regularly; and
- Provide effective and timely reporting to Shareholders.

*ASXCGC Best Practice Recommendation 1.1*

### B.3 New Directors

The Board issues formal letters of appointment for new Directors setting out the key terms and conditions relative to that appointment, and the expectations of the role of Director. New Directors also receive an induction pack which provides key details about AGL.

*ASXCGC Best Practice Recommendation 1.1*

### B.4 Selection and role of the Chairman

The Chairman is selected by the Board. The roles of Chairman and CEO are not exercised by the same individual.

The Chairman presides over Board and General Meetings of AGL. He/She has the task of making sure that the Board is well informed and effective, and that the members, individually and as a group, have the opportunity to air differences, explore ideas and generate the collective views and wisdom necessary for the proper operation of the Board and AGL.

The Chairman is responsible for meetings being conducted competently and ethically, and providing effective leadership for the Board to review and approve the strategic direction of AGL. He/She must conduct General Meetings efficiently and give Shareholders adequate opportunity to air their views and obtain answers to their queries.

Among the Chairman's other responsibilities are:

- See that new Board members are well briefed and have access to information on all aspects of AGL's operations;
- Be the Board's representative in dealings with management, ensuring that its views are communicated clearly and accurately;
- Act as the primary counsellor to the CEO; and
- Represent the views of the Board externally on appropriate occasions.

*ASXCGC Best Practice Recommendation 2.3, 8.1*

### B.5 Delegation to the CEO

The Board delegates responsibility for implementing the strategic direction and for managing the day to day operations of AGL to the CEO.

There are clear lines of communication established between the Chairman and CEO to ensure that the responsibilities and accountabilities of each are clearly understood.

The CEO has a formal service contract setting out duties, responsibilities, rights, conditions of service and termination entitlements. The conditions of service require the permission of the Chairman to be sought before any outside appointment can be taken up by the CEO.

*ASXCGC Best Practice Recommendation 1.1*

### B.6 Director independence

All current non-executive members of the Board are independent. In determining independence the Board applied the guidelines on director independence in the ASX Corporate Governance Council Best Practice Recommendations and other best practice guidelines.

The Board has specifically considered the independence of all non-executive Directors. The Board has determined that each non-executive Director, including those whose tenure exceeds ten years, remains independent. In forming this view the Board had regard to the conduct of Directors in Board meetings as well as discussions with Directors regarding their independence.

Specific arrangements are in place to deal with any conflict of interest issues that may arise with the Chairman over the provision of investment banking services by Macquarie Bank Limited.

Since the previous year, no Director has received or become entitled to receive a benefit because of a contract between any company in the AGL Group and the Director, or a firm in which the Director is a substantial member, or an entity in which the Director has a substantial financial interest, other than:

- In the case of non-executive Directors, remuneration as disclosed on page 45 of this Annual Report which includes participation in the Shareholder approved AGL Share Purchase Plan; and
- In the case of the CEO, a contract of employment and the Shareholder approved entitlements under the Long-Term Incentive Plan.

*ASXCGC Best Practice Recommendation 2.1, 2.2, 2.5*

### B.7 Review of Board and senior management performance

AGL has processes in place to review the performance of senior management and Board members. Each year the Board devotes time to consideration of broad corporate governance matters, including the continuing relevance of existing committees and to reviewing its own and individual Director's performance. The Chairman is responsible, in the first instance, for monitoring the contribution of individual Directors and counselling them on any areas for improvement. In this he is assisted by the People and Performance Committee. In turn, individual Directors use an appraisal form to assess the performance of the Board and the Chairman.

Each senior manager, including the CEO, has personal objectives as well as objectives related to business units and AGL as a whole. The CFO and other senior management have formal service contracts in place. They are assessed against their objectives on an annual basis, or more frequently if that is indicated or required.

The assessment and monitoring of the CEO is handled by the Chairman with the assistance of the People and Performance Committee. The Committee makes an initial assessment and recommendation to the Board. After discussion the Chairman communicates the Board's views to the CEO. Assessment and monitoring of other senior managers is handled by the CEO who reports in detail to the Chairman and the People and Performance Committee.

*ASXCGC Best Practice Recommendation 8.1*

### B.8 Director education and access to independent professional advice

Directors have unfettered access to AGL records and information reasonably necessary to fulfil their responsibilities. Directors also have access to the Company Secretary and other relevant senior management to seek explanations and information. They receive regular detailed reports on financial and operational aspects of AGL's business and may request elaboration or explanation of those reports at any time. Each Director has the added right to seek independent professional advice at AGL's expense. Prior approval of the Chairman is required but this may not be unreasonably withheld.

As set out at B.4, the Chairman is responsible to see that new Board members are well briefed and have access to information on all aspects of AGL's operations. Directors and senior management are encouraged to broaden their knowledge of AGL's business and to keep abreast of developments in business more generally by attendance at relevant courses, seminars and conferences. AGL meets expenses involved in such activities.

*ASXCGC Best Practice Recommendation 2.1, 2.5, 8.1*

## B.9 Board succession

Succession planning for the Board is reviewed regularly, first by the People and Performance Committee, and then by the Board. Over the next two to three years a Board renewal process is being undertaken. It is important that this is staged to ensure an orderly transition and enable new Directors to gain the necessary knowledge base given the long-term and cyclical nature of factors influencing the business such as regulatory decisions.

In considering potential new Directors to commend to Shareholders, the Board seeks to identify candidates with appropriate skills and experience to contribute to the effective direction of AGL, who can exercise an independent and informed judgement on matters which come to the Board and who are free of any business or other relationships that may interfere materially with the exercise of that independent judgement. As set out at B.3, new Directors receive formal letters of appointment from the Chairman, which set out the key terms and conditions relevant to that appointment and the expectations of the role of Director.

*ASXCGC Best Practice Recommendation 2.3, 2.5*

## C. Board Committees

To assist it in carrying out its responsibilities the Board has established three standing committees of its members. They are:

- Audit & Risk Management Committee;
- People and Performance Committee (which combined the Nomination and Remuneration Committees in 2003/2004); and
- Health, Safety and Environment Committee.

Each Committee has a charter that outlines its responsibilities, which are all on AGL's website.

*ASXCGC Best Practice Recommendation 1.1, 2.4, 4.2, 9.2*

### C.1 Audit & Risk Management Committee

The Board has established an Audit & Risk Management Committee, comprising four non-executive Directors, all with appropriate financial experience. They are Graham Reaney (Chairman), Charles Allen, Carolyn Hewson and Tony Daniels. Their qualifications are disclosed at B.1.

The Committee has a formal charter which has been reviewed by the Committee and the Board.

The CEO, CFO, General Manager Finance-Corporate, General Manager Group Strategic Risk, Manager Group Audit and the external auditor attend Committee meetings at the discretion of the Committee. The Committee meets privately with the external auditor on general matters concerning the external audit, and other related matters, including when considering the half-year and full-year financial reports.

The minutes of each Committee meeting are reviewed at the subsequent meeting of the Board and the Chairman of the Committee reports on the Committee's conclusions and recommendations.

The primary function of the Audit & Risk Management Committee is to assist the Board of Directors in fulfilling its responsibilities to Shareholders by:

- Monitoring the adequacy and integrity of financial reporting;
- Monitoring and reviewing the effectiveness of Group Audit;
- Overseeing and recommending to the Board matters in relation to the external auditor, including the appointment of external auditors and their fee;
- Monitoring and reviewing the external auditor's qualifications, performance and independence;
- Maintaining and overseeing a sound system of internal controls based on the adoption by the Board of a risk-based approach to the identification, evaluation and management of risks that are significant

- to the fulfilment of AGL's business objectives; and
- Reviewing the effectiveness of AGL's risk management and internal compliance and control system.

To fulfil its responsibilities and duties the Audit & Risk Management Committee:

### Financial reporting processes

- Reviews and discusses with management and the external auditor the half and full-year financial reports, including notes to the financial accounts and other disclosures, and recommends to the Board whether the financial reports should be issued;
- Reviews AGL's accounting and financial reporting practices, including the effect of changes in accounting standards and practices, ASX listing requirements and corporate legislation. This includes discussing with management and the external auditor the application of those practices and standards to AGL financial reports;
- Reviews and discusses with the external auditor its report regarding significant findings in the conduct of its audit and management's response;
- Discusses with management and the external auditor any major issues relating to the system of internal controls over financial information; and
- Discusses with management and the external auditor the process and related information supporting the statements to the Board by the CEO and CFO, that AGL's financial reports present a true and fair view, in all material respects, of AGL's financial condition and operational results, and are in accordance with relevant accounting standards (ASX Corporate Governance Council, Principle 4.1).

### Oversight of external auditor

- Recommends to the Board the selection and termination of the external auditor subject to Shareholder approval;
- Reviews the annual audit plan with the external auditor and approves the plan and audit fees;
- Reviews and discusses with the external auditor any matters relating to the conduct of the audit, including responses from management;
- Receives and reviews quarterly reports on non-audit services to ensure compliance with the Board's policy on maintaining the independence of the external auditor;
- Reviews annually the Board's policy on maintaining the independence of the external auditor and recommends any necessary changes;
- Reviews the performance of the external auditor having regard to the skills and capabilities of the lead external audit staff; and
- The external auditor reports directly to the Committee.

### Risk management

- Reviews and approves AGL's risk management policy and framework for identifying and managing risk;
- Monitors the effectiveness of the risk management framework and the system of internal control. As part of monitoring and assessing the effectiveness of the system of internal control, the Committee regularly receives and reviews reports on internal control, particularly those included in the Annual Report;
- Reviews at least annually AGL's implementation of the risk management policy and framework; and
- Discusses with management, the General Manager Group Strategic Risk and Manager Group Audit the process supporting the statements to the Board by the CEO and CFO that the integrity of financial statements is founded on a system of risk management and internal compliance and control, and that AGL's risk management and internal compliance is operating efficiently and effectively in all material aspects (ASX Corporate Governance Council, Principle 7.2).

### Internal audit

- Reviews the appointment and, if required, replacement of the Manager Group Audit;
- Oversees, reviews and approves the scope of the annual internal audit plan; and
- Reviews and discusses with the Manager Group Audit significant internal audit reports.

### Legislative compliance

- Monitors the development and ongoing review of appropriate legislative compliance programs where applicable; and
- Receives, reviews and discusses with management regular reports on legislative compliance.

### Review

- The Committee conducts a review of its performance annually as part of the overall Board performance assessment process.

The Committee met five times during the year. Directors' attendances are set out on page 38 of this Annual Report.

*ASXCGC Best Practice Recommendation 4.2, 4.3, 4.4, 4.5, 7.1*

## C.2 People and Performance Committee

The People and Performance Committee was formed in May 2004 covering the previous Nomination and Remuneration Committees. Three non-executive Directors, Mark Johnson (Chairman), Graham Reaney and Max Ould are members of the Committee. The Committee has a formal charter that is reviewed regularly.

The primary function of the Committee is to assist the Board in fulfilling its oversight responsibilities to Shareholders including by reviewing and ratifying remuneration and people policies, procedures and programs designed to:

- Meet long-term people needs through effective talent management and succession planning;
- Achieve clear alignment between the needs and requirements of key stakeholder groups (ie. customers, Shareholders and communities) and the objectives and values of AGL people;
- Reward AGL people for excellent performance and keep them committed and motivated;
- Encourage teamwork and shared learning;
- Foster the growth of AGL people to enable them to reach their full potential through performance management, development and training;
- Achieve compliance with relevant legislation and corporate governance principles on remuneration practices and employment policies; and
- Effectively overview remuneration practice, including incentives, superannuation and retirement benefits, for people at all levels, enabling AGL to attract and retain people who create value for Shareholders.

The Committee is responsible for making recommendations to the Board on matters including the following:

### Recommendations to the Board relating to Board matters

- Reviewing strategic issues and commercial changes that impact AGL and the energy sector to determine the most appropriate structure, size, composition and tenure of the Board;
- Maintaining a healthy balance of skills, knowledge and experience across the Board by recommending new appointments and ongoing development for Directors;

- Determining Board performance assessment criteria and assessing performance;
- Rewarding Directors responsibly and fairly for their individual contributions to enhancing AGL's performance;
- Recommending to the Board the appointment and removal of Directors for consideration at a General Meeting of Shareholders;
- The time required to be committed to AGL business by non-executive Directors; and
- Recommendations in relation to Board succession, planning and Director remuneration policy.

### Recommendations to the Board relating to the CEO

- Setting and reviewing performance objectives for the CEO and evaluating his/her contribution and effectiveness;
- Rewarding the CEO responsibly and fairly for his/her contribution to enhancing AGL's performance; and
- The recruitment, retention and termination policies and procedures for the CEO.

### Recommendations to the Board relating to the senior leadership team

- Reviewing the CEO's recommendations on senior leadership remuneration and reward, and on succession plans for key senior positions within the Company;
- Maintaining a balance of skills, knowledge and experience across the senior leadership team, through reviewing recommended structures, new appointments and assessing ongoing leadership development; and
- The recruitment, retention and termination policies and procedures for members of the senior leadership team.

### Recommendations to the Board on AGL philosophy and policy issues

- Providing counsel and guidance to the business in relation to talent, succession planning and performance management; and
- Monitoring remuneration policies and practices (including incentive policies) to ensure they enable AGL to attract and retain people who create value for Shareholders and who uphold and develop the culture of AGL.

The Committee met four times during the year. Directors' attendances are set out on page 38 of this Annual Report. The Committee may make use of external consultants if that is deemed appropriate.

*ASXCGC Best Practice Recommendation 2.4, 2.5, 8.1, 9.2, 9.5*

## C.3 Health, Safety and Environment Committee

The Board meets as the Health, Safety and Environment (HSE) Committee, in order to review the adequacy and effectiveness of AGL's health, safety and environmental management systems. The Chairman of the Board is the Committee's Chairman. The Committee meets at least twice a year, with additional meetings scheduled on an 'as needs' basis. The Committee has its own formal charter.

The primary function of the HSE Committee is to set and review the implementation of AGL's HSE strategy including:

- Monitoring and reviewing AGL's commitment to the health and safety of its people;
- Reviewing AGL's environmental priorities and commitments, including its greenhouse gas strategy; and
- Integration of these priorities within AGL's corporate strategy, risk management framework, and people and culture priorities.

To achieve this, the Committee is responsible for:

### Health and safety management systems

- Reviewing and monitoring the effectiveness of AGL's HSE management system, including the adequacy of processes for identifying, assessing and avoiding HSE risks;
- Monitoring HSE performance, including lead and lag indicators with a view to providing a desirable outcome for Shareholders, customers, employees and the community;
- Monitoring AGL's compliance with relevant HSE legislation and its HSE Policy;
- Reviewing extreme and very high HSE risks and issues, and action plans put in place to reduce risk and prevent future incidents;
- Reviewing AGL's health and safety initiatives and programs, and their success; and
- Considering reports submitted by management on health and safety performance and issues.

### Environment

- Reviewing AGL's environmental principles and policies;
- Reviewing AGL's environmental and greenhouse gas footprint and tracking performance indicator trends;
- Reviewing priority goals and targets and monitoring implementation; and
- Considering reports submitted by management on environmental performance and issues.

### Reporting

The Board Committee will action the preparation of any reports required by law or requested by the AGL Board.

The Chairman of the Board Committee will attend the Annual General Meeting to respond to any Shareholder questions on the Board Committee's activities.

To the extent the Board Committee deems necessary, it may, at AGL's expense, retain legal, accounting or other advisors. The Board Committee is authorised to seek any information it requires from any employee of AGL in order to perform its duties.

### Review

The Committee and the Board reviews the performance of the Committee. The Committee's charter is reviewed at least every two years. Any changes required are to be approved by the AGL Board.

The Committee met three times during the year. Directors' attendances are set out on page 38 of this Annual Report.

## PRINCIPLE 3: Promote ethical and responsible decision making

### D. Ethical and responsible decision making

AGL is committed to conducting all its business ethically and responsibly.

#### D.1 AGL Code of Conduct

AGL has a Code of Conduct that applies to Directors as well as employees. It is also part of the induction pack for new Directors. New employees are required to confirm that they have reviewed and are aware of AGL's Code of Conduct as part of their induction process.

Equally important is the encouragement of ethical conduct, not only by edict, but also by example from all involved in AGL. It is the Board's objective that all dealings with Shareholders, staff, customers, regulatory authorities and the community should be conducted honestly, fairly, diligently and in accordance with all applicable laws. Any departure from such practice is treated very seriously. The Code provides a mechanism to enable employees to report breaches of the Code without any fear of retribution.

AGL has an internal Ethics Panel which oversees the application of the Code of Conduct in AGL, including dealing with breaches of the Code, monitoring compliance and recommending amendments to the Board. The Ethics Panel met twice during the year and has reviewed the Code of Conduct. A revised Code of Conduct will be published in 2005.

AGL has incorporated ethics sessions into its Senior Leadership Program and Emerging Leaders Program.

AGL has a commitment to diversity and has a policy on this issue. AGL has also initiated a Diversity Support Line. The Diversity Support Line is an independent and confidential telephone service available to all AGL colleagues. AGL has engaged independent professional providers for this service.

The Code of Conduct is available on AGL's website.

*ASXCGC Best Practice Recommendation 3.1, 3.3, 10.1*

### D.2 Policies on share trading and conflicts of interest

AGL has policies on share trading by Directors and senior managers, and conflicts of interest. These are available on AGL's website.

*ASXCGC Best Practice Recommendation 3.1, 3.2, 3.3*

## PRINCIPLE 4: Safeguard integrity in financial reporting

### E. Financial reporting

#### E.1 CEO and CFO statements on financial reports

The CEO and the CFO provide written declarations to the Board confirming that AGL's financial reports present a true and fair view, in all material aspects, of AGL's financial position and are in accordance with relevant accounting standards.

*ASXCGC Best Practice Recommendation 4.1*

#### E.2 Audit & Risk Management Committee

As set out above at C.1, the Board has established an Audit & Risk Management Committee with a formal charter, comprising four non-executive Directors, all with appropriate financial experience. They are Graham Reaney (Chairman), Charles Allen, Carolyn Hewson and Tony Daniels. Their qualifications are disclosed under B.1.

*ASXCGC Best Practice Recommendation 4.2, 4.3, 4.4*

#### E.3 External auditor

The Audit & Risk Management Committee has oversight of the external auditor and its responsibilities are set out at C.1. AGL's external auditor is Deloitte Touche Tohmatsu. Deloitte Touche Tohmatsu was appointed in October 1995.

## E.4 Non-audit services

The Board has a formal policy on the provision of auditing and related services. Specifically, the external auditor is precluded from providing any services that might threaten its independence or conflict with its assurance and compliance role. Quarterly reports on the provision of auditing and related services are provided to the Board through the Audit & Risk Management Committee. Directors are satisfied that the provision of \$681,000 of non-audit services by the external auditor is compatible with the general standard of independence for auditors.

The policy and procedures in place, and the review by the Audit & Risk Management Committee, enable Directors to conclude that non-audit services provided did not compromise the external auditor's independence requirements under the Corporations Act 2001. There is also in place an agreed rotation policy for the senior auditor of Deloitte Touche Tohmatsu. The external auditor annually provides a declaration to the Directors on its independence within the meaning of relevant legislation and professional standards. No officers of AGL were partners or directors of Deloitte Touche Tohmatsu during this reporting period.

*ASXCGC Best Practice Recommendation 4.5*

## F.3 Accountability

The Company Secretary as the nominated Continuous Disclosure Officer reports to the Board quarterly on matters that were either notified or not notified to the ASX. In the event a decision is made not to notify the ASX of a particular event or development, the reasons for not doing so are advised to the Board. Directors receive copies of all announcements immediately after notification to the ASX. All ASX announcements are posted on the AGL website.

Direct reports to the CEO also confirm in writing to the Board, on a quarterly basis, that matters which might need to be disclosed have been brought to the attention of the Continuous Disclosure Officer for review.

*ASXCGC Best Practice Recommendation 5.1, 5.2*

## F.4 Financial market communications

AGL has established a policy on financial market communications. Communication with the financial market is the responsibility of the CEO, CFO and Head of Investor Relations. The policy covers briefings to institutional investors and stockbroking analysts, general briefings, one-on-one briefings, blackout periods, compliance and review. It is available on AGL's website.

*ASXCGC Best Practice Recommendation 5.1, 5.2*

### PRINCIPLE 5: Make timely and balanced disclosure

## F. Market disclosure

### F.1 ASX Listing Rules disclosure

A continuous disclosure regime operates throughout AGL. Policies and procedures are in place to ensure matters that a person could reasonably expect to have a material effect on the share price are announced to the ASX in a timely manner. The Market Disclosure Policy describes AGL's continuous disclosure obligations and how they are managed by AGL, as well as how AGL communicates with financial markets. It is available on AGL's website. The Policy is complemented by internal plans which give effect to it.

*ASXCGC Best Practice Recommendation 5.1, 5.2*

### F.2 Market Disclosure Committee

As part of its internal plans to give effect to the Market Disclosure Policy, a Market Disclosure Committee has been established. This is a senior management committee, and comprises the CEO, Company Secretary (the nominated Continuous Disclosure Officer), CFO and Head of Investor Relations. The General Counsel is an ad hoc member who attends where there are legal matters to be discussed. The Continuous Disclosure Officer is the Convenor. The purpose of the Committee is to help AGL achieve its objective to establish, implement and supervise a continuous disclosure system.

The Committee is responsible for ensuring that all AGL announcements are made in a timely fashion, contain material information as well as being objective and factual, and are clearly written to allow investors to assess the impact of information on their investment decisions.

Business Unit Disclosure Officers have been appointed to each Business Unit to co-ordinate the provision of material information to the Convenor of the Market Disclosure Committee. The Committee has endorsed materiality guidelines, which are available to employees to enhance their understanding of what may be material information for disclosure purposes.

*ASXCGC Best Practice Recommendation 5.1, 5.2*

### PRINCIPLE 6: Respect the rights of Shareholders

## G. Shareholders

### G.1 Communication with Shareholders

AGL endeavours to keep its Shareholders fully informed of matters likely to be of interest to them. It does this through:

- Reports to the ASX and the media;
- Half-year and full-year profit announcements;
- Annual financial reports;
- Information provided to analysts which is released to the ASX;
- Webcasting of half-year and full-year financial report presentations; and
- Webcasting of the Chairman's address to the AGM.

All of the above are on the AGL website. Shareholders have been given the opportunity to provide their email addresses to AGL to enable them to receive reports and announcements made to the ASX without delay.

The Investor Centre section of the AGL website contains an extensive collection of resources for Shareholders. Information available includes:

- An archive of Annual Reports;
- Details from recent General Meetings (including Resolutions, Chairman's Address, Notice of Meeting, Chairman's Letter and proxy form);
- Results for the current year;
- Performance graphs;
- Presentations given by the CEO and the AGL Leadership Team;
- Corporate governance items, including the Board Charter, AGL Code of Conduct, ASX Principles of Good Corporate Governance and Market Disclosure Policy;
- Share price graphs;
- Dividend payment history;
- Shareholder forms;
- Information on how to become a Shareholder; and
- Investor calendar.

At the AGM, the Chairman encourages questions and comments from Shareholders and seeks to ensure the Meeting is managed to give the maximum number of Shareholders an opportunity to participate. In the interests of clarity, questions on operational matters may be answered by the CEO or another appropriate member of senior management. New Directors or Directors seeking re-election are also given the opportunity to address the Meeting.

At the last AGM, Shareholders were asked by the Board whether they would provide feedback on a Shareholder Feedback form. Around 70 Shareholders provided constructive and helpful feedback. Their ideas regarding improved reporting underpin the Board's commitment to provide Shareholders with information that is helpful to them.

*ASXCGC Best Practice Recommendation 6.1*

## G.2 External auditor's attendance at the AGM

The external auditor attends AGL's AGM. Shareholders may submit written questions to the auditor to be considered at the AGM in relation to the conduct of the audit and the preparation and content of the Independent Audit Report by providing the questions to AGL at least five business days before the day of the AGM. Shareholders are also given a reasonable opportunity at the AGM to ask the auditor questions relevant to the conduct of the audit, the Independent Audit Report, the accounting policies adopted by AGL and the independence of the auditor.

*ASXCGC Best Practice Recommendation 6.2*

## PRINCIPLE 7: Recognise and manage risk

# H. Managing risk

## H.1 Audit & Risk Management Committee

As set out at C.1, the Board has established an Audit & Risk Management Committee, comprising four non-executive Directors, all with appropriate financial experience. They are Graham Reaney (Chairman), Charles Allen, Carolyn Hewson and Tony Daniels. Their qualifications are disclosed at B1.

*ASXCGC Best Practice Recommendation 4.2*

## H.2 Risk management policy and program

Any company faces a wide variety of risks depending on the nature of its operations and the regions in which it operates. AGL has a formal holistic enterprise-wide risk program based on Standards Australia's AS/NZS 4360:2004 (Risk Management).

This program is supported by AGL's Risk Management Policy, which has been endorsed by the Board on the recommendation of the CEO and the Audit & Risk Management Committee. AGL's Risk Management Policy is available on the website.

*ASXCGC Best Practice Recommendation 7.1, 7.3*

## H.3 Risk management roles and responsibilities

A Peak Risk Management Committee comprising AGL's senior management monitors and oversees the continuous improvement of risk identification, assessment, controls, treatment and reporting, including legislative compliance.

AGL's Group Strategic Risk department supports AGL's business units in the implementation of the AGL-wide risk management framework. AGL's Group Audit department performs regular audits of the internal systems of control and risk management compliance across the Group.

These audits take account of both the nature and materiality of risk. The Audit & Risk Management Committee review quarterly reports of the activities and findings of Group Strategic Risk and Group Audit. All outstanding audit issues are monitored through to satisfactory completion. The external auditor also reports findings on relevant risk and control issues to the Audit & Risk Management Committee and to the Board on a six-monthly basis.

*ASXCGC Best Practice Recommendation 7.1, 7.3*

## H.4 Adoption of COSO model

AGL has adopted the Committee of Sponsoring Organisations of the Treadway Commission's report, Internal Framework (COSO) model as a means of evaluating the effectiveness of its risk management, internal compliance and control systems as well as the effectiveness of their implementation. This is complemented by the application of Principles 7.1 and 7.2 from the ASX Corporate Governance Council Best Practice Recommendations Report.

*ASXCGC Best Practice Recommendation 7.1, 7.3*

## H.5 Action to address any deficiencies

Where weaknesses are identified, immediate action is taken to address the deficiency. However, in circumstances where corrective action is yet to be fully implemented and tested, increased monitoring and review by management, Group Strategic Risk and Group Audit are initiated to provide the Board with assurance that risks are identified and appropriately addressed and no material error or misstatement occur in AGL's financial statements.

*ASXCGC Best Practice Recommendation 7.1, 7.3*

## H.6 Written assurances from the CEO and CFO

The CEO and the CFO have also provided the Board with written assurances supplementary to their Principle 4.1 representation that:

- The integrity of the Financial Statements is founded on a sound system of risk management and internal compliance and control which, in all material respects, implements the policies adopted by the Board; and
- The risk management and internal compliance and control systems of AGL and consolidated entity relating to financial reporting objectives, are operating efficiently and effectively, in all material respects.

Ernst and Young was engaged to undertake a review of AGL's assurance processes supporting the Principle 7 sign-offs. This was instigated by the Board as part of its overall approach to safeguarding the integrity in financial reporting. Ernst and Young's overall finding was that AGL's processes and accountabilities for the ASX Principle 7 sign-off were in line with good practices established by other ASX Top-100 companies. AGL is currently reviewing opportunities to further improve existing Principle 7 processes.

*ASXCGC Best Practice Recommendation 7.2*

**PRINCIPLE 9: Remunerate fairly and responsibly****I. Remuneration policies and packages**

The Board has established a People and Performance Committee to consider and report on, among other things, remuneration policies and packages applicable to Board members and to senior managers of AGL. Three non-executive Directors, Mark Johnson (Chairman), Graham Reaney and Max Ould are members of the Committee. The Committee has a formal charter which is reviewed regularly.

The full terms of reference of the Committee are detailed at C.2.

The CEO attends meetings of the People and Performance Committee by invitation when required to report on and discuss senior management performance and remuneration matters, etc. A Remuneration Report, required under Section 300A(1) of the Corporations Act 2001 is provided in the Directors' Report on pages 40 to 45.

*ASXCGC Best Practice Recommendation 9.1, 9.2, 9.3, 9.4, 9.5*

**PRINCIPLE 10: Recognise the legitimate interests of stakeholders****J. Legitimate interests of stakeholders****J.1 Code of Conduct**

AGL has a Code of Conduct which sets out the behaviour required of Directors, employees and contractors. The Code provides a mechanism to enable employees to report breaches of the Code without any fear of retribution. There is also in place an Ethics Panel that deals with breaches of the Code, monitors compliance and recommends amendments to the Board for approval. The full Code is published on AGL's website.

*ASXCGC Best Practice Recommendation 10.1*

**J.2 Sustainability Report**

AGL believes that a sustainable business is one that adds measurable value by its financial success and its positive contribution to society as a good corporate citizen.

In 2004, AGL published its first Sustainability Report. This Report identified goals, strategies and the activities of AGL's wholly-owned Australian-based businesses and assets from 1 July 2003 to 30 June 2004 and listed actions for 2004/2005.

This Report established the framework for ongoing public reporting about the sustainability of AGL's social, environmental and economic activities. Where appropriate, the Global Reporting Initiative framework was used in the construction of this Report.

As set out in the 2004 Sustainability Report AGL has:

- Been selected as an index component in the 2004 Dow Jones Sustainability World Index (DJSI World); and
- Met FTSE's corporate responsibility criteria and is a constituent company in the FTSE4Good Index Series. This Index is designed to identify and facilitate investment in companies that meet globally recognised corporate responsibility standards.

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Audit Report**

The Concise Financial Report has been derived from the Full Financial Report for the year ended 30 June 2005.

The Full Financial Report and Independent Audit Report will be sent to Shareholders on request, free of charge. Please call (02) 9921 2259 and a copy will be forwarded to you or, alternatively, you can access the Full Financial Report and the Independent Audit Report at AGL's website: [www.agl.com.au](http://www.agl.com.au)

# Directors' Report.

The Directors present their Report together with the Concise Financial Report of The Australian Gas Light Company and its consolidated entities, being the Company and its controlled entities, for the year ended 30 June 2005 and the Independent Audit Report thereon.

## Directors

The Directors of the Company at any time during or since the end of the financial year are:

### Non-Executive Directors

Mark Johnson  
 Charles Allen, AO  
 Sir Ronald Brierley  
 David Craig (appointed 11 May 2005)  
 Tony Daniels, OAM  
 Carolyn Hewson  
 Max Ould  
 Graham Reaney

### Executive Director

Greg Martin

Details of their qualifications, experience, other directorships and special responsibilities are set out on pages 28 and 29 of this Annual Report in the corporate governance section.

## Directors' Meetings

The number of Directors' Meetings (including meetings of Committees of Directors) and number of meetings attended by each of the Directors of the Company during the financial year were:

Director's Name	Regular Board Meetings		Special Board Meetings		Audit & Risk Management Committee		People and Performance Committee		Health, Safety and Environment Committee	
	A	B	A	B	A	B	A	B	A	B
Mark Johnson	8	9	2	2			4	4	3	3
Charles Allen	9	9	2	2	4	5			3	3
Sir Ronald Brierley	6	9	1	2					3	3
David Craig	1	1	1	1					1	1
Tony Daniels	9	9	2	2	5	5			3	3
Carolyn Hewson	9	9	2	2	4	5			3	3
Greg Martin	9	9	2	2					3	3
Max Ould	9	9	2	2			4	4	3	3
Graham Reaney	9	9	2	2	5	5	4	4	3	3

A – number of meetings attended

B – number of meetings held during the time the Director held office during the year

In addition to the above selected meetings, Directors throughout the year participated in informal meetings and telephone conferences. The Company makes extensive use of email between meetings to keep Directors informed of current developments; to provide relevant background and industry information; to deal with routine matters; and allow formal Board meetings to concentrate on more important matters. Extended strategy sessions are held at least twice a year. Periodically, Directors meet informally outside the Company to discuss matters of interest and travel to visit assets, operations or locations of particular relevance to the Company.

## Directors' Interests

The relevant interest of each Director in the share capital of the companies within the consolidated entity, as notified by the Directors to the ASX in accordance with Section 205G of the Corporations Act 2001, at the date of this Report is as follows:

	The Australian Gas Light Company Ordinary Shares
Mark Johnson	183,151
Charles Allen	68,561
Sir Ronald Brierley	69,065
David Craig	2,000
Tony Daniels	27,049
Carolyn Hewson	47,294
Greg Martin	547,745
Max Ould	5,647
Graham Reaney	70,931

## Company Secretary

The Company Secretary, Jane McAloon, 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 Director of Australian Pipeline Limited and was appointed Company Secretary of AGL in August 2004.

## Principal Activities

- Sale of gas and electricity;
- Ownership and operation of natural gas and electricity distribution networks and operation of natural gas transmission pipelines;
- Power generation and energy processing infrastructure;
- Extraction and sale of LPG; and
- Realisation of property and property-related assets.

There were no significant changes to the nature of the Company's activities during the year.

## Review and Results of Operations

The consolidated profit for the year after income tax attributable to Shareholders was \$848.3 million (2003/2004 \$349.5 million). A review of the operations and of the results of those operations of the consolidated entity during the financial year are contained on pages 8 to 27 of this Annual Report.

## Dividends and Capital Return

The following dividends have been paid or declared by the Directors since 30 June 2004:

Final dividend of 31 cents per share (74.2% franked) referred to in the previous Directors' Report and paid on 24 September 2004	\$141.4 million
Interim dividend of 31 cents per share (90.3% franked) out of profits for the six months ended 31 December 2004 paid on 24 March 2005	\$141.5 million
Special dividend of 30 cents per share (90.0% franked) out of profits for the six months ended 31 December 2004 paid on 24 March 2005	\$137.3 million
Final dividend of 32 cents per share (100% franked) payable on 23 September 2005	\$141.8 million

A Capital Return of 50 cents per share was paid on 29 April 2005, pursuant to a resolution of Shareholders passed at the Extraordinary General Meeting held on 6 April 2005.

## State of Affairs

In the opinion of the Directors there were no significant changes in the state of affairs of the consolidated entity that occurred during the financial year other than those included in the front section of this Annual Report.

## Environmental Regulation

The consolidated entity's operations are subject to various Commonwealth, State and Territory environmental laws in relation to energy (gas and electricity) operational, maintenance and construction activities, LPG production, power generation (natural gas, biogas and landfill gas) and land remediation works.

The Board meets as the Health, Safety and Environment Committee in order to review the effectiveness of the entity's health, safety and environmental management program, Life Guard. Environmental management performance is monitored on an on-going basis by way of system audits conducted by the entity using internal and external auditors. In addition, the consolidated entity has its own management Health, Safety and Environment Committee that meets regularly to review the entity's environmental performance in detail.

## Operational, Maintenance and Construction Activities

Gas and electricity activities were undertaken throughout Australia during the financial year. No environmental infringements were reported and no fines were levied on this part of the business during the period.

## LPG Production (NSW)

Specific licence conditions exist under the NSW Protection of the Environment Operations Act 1997 (POEO Act). The H C Extractions facility has exceeded its load-based licence limits. Exceeding these emission limits does not incur loss of licence or fines, but does require further monitoring and testing to determine what actions are required to address the specific matters. H C Extractions is appealing the existing licence conditions through an independent Statutory Appeals process.

## Power Generation

Environmental licence conditions in NSW, Victoria and South Australia govern aspects of the management of generation assets. No environmental infringements occurred and no fines were levied on this part of the business during the period.

## Land Remediation

Remediation of part of the former Wollongong gasworks site was completed in May 2005. The independent site auditor has been issued with the validation report and 'sign-off' by the site auditor is anticipated in early September 2005. Settlement of the sale of this land to the adjoining owner can then take place.

Work has continued during the year on the remediation of soil on a number of residential properties in the Sydney suburb of Abbotsford. Gasworks residue was found on these properties as a result of a small gas-making facility in the area which operated for about five years in the 1890s.

A remediation trial was carried out during the year on the contaminated soil of AGL's former gasworks site located at North Hamilton, Newcastle. Investigations are in progress regarding the remediation of this land and the eventual disposal of the property.

### Events Subsequent to Balance Date

Apart from this and matters discussed elsewhere in this Annual Report, the Directors are not aware of any other matter or circumstance which has arisen since 30 June 2005 that has significantly affected or may significantly affect the operations of the consolidated entity in subsequent financial years, the results of those operations, or the state of affairs of the consolidated entity in future financial years.

### Likely Developments, Strategies and Prospects

The consolidated entity will continue to pursue new opportunities in Australia and overseas that show promise in adding value. Further information about likely developments in the operations of the consolidated entity and the expected results of those operations in future financial years has not been included in this Report because disclosure of the information would be likely to result in unreasonable prejudice to the consolidated entity.

### Proceedings on Behalf of the Company

No person has applied under Section 237 of the Corporations Act 2001 for leave of the Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings. The Company was not a party to any such proceedings during the year.

### Non-Audit Services

Non-audit services have been provided during the year by the external auditor, Deloitte Touche Tohmatsu. Disclosure of the details of these services can be found on page 59 of this Annual Report.

### Indemnification and Insurance of Directors and Officers

The Company's Constitution indemnifies, to the extent permitted by law, officers of the consolidated entity when acting in their capacity in respect of:

- Liability to third parties (other than related entities) when acting in good faith; and
- Costs and expenses of successfully defending legal proceedings and ancillary matters.

The Directors named earlier in this Report and the Company Secretary, Jane McAloon, have the benefit of the indemnity, together with any other person concerned in or who takes part in the management of the consolidated entity.

During the year the Company paid a premium in respect of a contract insuring all Directors of the Company as listed earlier, all Directors of related bodies corporate of the Company, secretaries and other officers of the consolidated entity against liabilities incurred in their capacity as Director or officer, as the case may be, of the consolidated entity.

The contract prohibits disclosure of the nature of the liabilities and the amount of premium paid and the Corporations Act 2001 does not require disclosure of the information.

### Auditor's Declaration

A copy of the external auditor's declaration under Section 307C of the Corporations Act 2001 in relation to the audit for the financial year is on page 64 of this Annual Report.

### Rounding

The Company is an entity to which ASIC Class Order 98/100 applies and in accordance with that Class Order, amounts in the Financial Reports and the Directors' Report have been rounded off to the nearest tenth of a million dollars, unless otherwise stated.

## Remuneration Report

### Overview

The People and Performance Committee of the Board is responsible for reviewing the remuneration strategy and remuneration arrangements for the Board, the Managing Director and the senior leadership team reporting to the Managing Director, and makes recommendations to the Board. The Committee has access to independent external advisers as required. The Committee similarly reviews the arrangements for remuneration of the non-executive Directors of AGL.

Directors' remuneration is set following review of market practice, comparators and external advice. Directors' remuneration is delivered as fees from which the statutory superannuation guarantee component is subtracted. This remuneration structure recognises their core responsibilities as Directors through the base fee. Additional workload that arises from participation in Board Committees is provided for by a Committee loading. No equity or incentive payments are made. Directors are encouraged to use part of their fees to purchase AGL shares bought at market price. The overall level of remuneration is within the aggregate limit approved by Shareholders at a General Meeting. The present limit is \$1.2 million.

Remuneration strategy is a key component of the overall people strategy for AGL, which is focused on attracting and retaining talented people to deliver AGL's objectives and value for Shareholders.

The practices of other companies of comparable size and in relevant industry sectors are tracked to provide benchmark data and insights into best practice. External advisers also provide commentary on market practice to ensure an independent perspective.

The specific arrangements for the senior leadership team (including the Managing Director) are formalised in individual service agreements. These set out the objectives and responsibilities of the role, and the terms and conditions of employment (these also include termination, governance and confidentiality arrangements).

The remuneration package of the senior leadership team (including the Managing Director) has three elements:— fixed remuneration which is the monetary cash component (including Company contributions to superannuation); a short-term incentive component which is a discretionary lump-sum annual payment, based on Company and individual performance goals; and a long-term incentive component awarded as share rights in AGL which vest over a three-year period. The award of these share rights is directly related to the growth of AGL's Economic Profit averaged over three years. Long-Term Incentive awards become available to recipients over the next three years to ensure focus on achievement of longer-term goals, as well as encouraging retention.

Therefore, the long-term incentive of senior leaders is directly tied to the sustainable performance of the business. If the average Economic Profit growth is a negative figure, then the senior leaders receive no long-term incentive allocation. Only if the average Economic Profit growth is positive does the pool of funds available to be distributed to senior leaders begin to generate; a small Economic Profit growth means senior leaders get up to 18% of that small amount. As the Economic Profit growth changes, so does the pool. However, there is also a ceiling, or cap, on what the senior leadership team can receive from the pool, which is currently the equivalent 60% of their base salary Total Fixed Remuneration.

The balance between remuneration elements is kept under review for competitiveness and market relevance.

Linking the incentive elements to Company performance ensures alignment of senior leadership remuneration with Shareholder values. The elements that reflect the performance of senior leadership team members are a mixture of individual/team goals and leadership behaviours.

A detailed report covering the CLERP 9 requirements of the Corporations Act 2001 follows.

### Remuneration Policy

The People and Performance Committee of the Board is responsible for reviewing the remuneration strategy and remuneration arrangements for the Board, the Managing Director and the senior leadership team reporting to the Managing Director, and makes recommendations to the Board. The Committee has access to independent external advisers as required.

The purpose of the People and Performance Committee, in relation to remuneration, is to ensure that appropriate remuneration procedures and programs are in place to:

- Achieve clear alignment between the needs and requirements of key stakeholder groups (ie. customers,

Shareholders and communities) and the objectives and values of AGL people;

- Reward AGL people for excellent performance and keep them committed and motivated;
- Achieve compliance with relevant legislation and corporate governance principles on remuneration practices and employment policies; and
- Effectively overview remuneration practice, including incentives, superannuation and retirement benefits, for all levels, enabling AGL to attract and retain people who create value for Shareholders.

Further detail on the role of the People and Performance Committee is on page 32 of this Annual Report.

### Directors

Non-executive Directors receive fees determined by the Board within the aggregate limit approved by Shareholders at a General Meeting. The present limit of \$1.2 million was approved at the Annual General Meeting in October 2003.

Directors' fees are determined by the Board with reference to advice and data from AGL's remuneration specialists and from external remuneration advisers. The data and advice includes market comparison of remuneration paid to non-executive Directors of companies in comparator groups across the ASX Top 100, but specifically ASX companies in the range of 21 to 50 by market capitalisation. It also distinguishes how responsibilities and time commitments of individual Directors are recognised.

The structure of the remuneration is a base fee plus a Committee fee, where applicable, for participation by a non-executive Director in any of the Board's Committees. Chairing a Committee attracts a higher fee rate. This structure ensures the remuneration reflects the general responsibilities of individual Directors as well as the extra responsibilities and workload involved in participating in a Committee. The Chairman of the Board receives no extra remuneration for participation in or chairing Committees. Directors' fees are reviewed annually.

As the focus of the Board is on the long-term strategic direction of AGL, there is no direct link between non-executive Director remuneration and the short-term results of AGL. Superannuation contributions, as required under the Superannuation Guarantee Charge (SGC) legislation, are also provided for non-executive Directors. These are deducted from the level of remuneration set and included as part of their total remuneration under the approved maximum aggregate fee pool. Directors' superannuation contributions were previously made to the AGL Executive Superannuation Fund, a defined benefit fund. This Fund was closed during the year and Directors' SGC contributions are now made to a complying superannuation fund of their choice.

Directors are encouraged to have at least 20% of their base fees (after SGC contributions) allocated to the purchase of AGL shares. The purchase of AGL shares is done under

the AGL Share Purchase Plan. The terms of this Plan were approved by Shareholders at the Annual General Meeting in 1997. These shares are acquired by a trustee on market at market price during identified trading windows and are not vested in the Directors' ownership until ten years after purchase or until the Director retires from the Board, whichever is the earlier. All Directors are required to hold a minimum of 2,000 AGL shares.

Directors who joined the Board before December 2002 were eligible to a deferred benefit payable on retirement from the Board. This arrangement was approved by Shareholders in 1985.

With effect from 1 January 2004, the Directors' retirement benefits scheme was closed and the accrued value of the benefits was determined for eligible Directors. This value was reported in the 2004 Annual Report. All eligible Directors utilised their entitlements to purchase shares under the AGL Share Purchase Plan. This is reflected in the value of equity holdings reported in the Full Financial Report.

No options have been granted over any securities or interests of the Company or the consolidated entity.

The Board has a process of review of individual Board members by the Chairman and their peers, consistent with the ASX Corporate Governance Principles on Board accountability. It is also intended that Sub-Committees of the Board will be similarly reviewed on a regular basis. This program is also part of the strategic overview of Directors addressed under the Charter of the People and Performance Committee.

In line with Board renewal and succession plans, a new non-executive Director, David Craig, was appointed on 11 May 2005. Mr Craig, a Chartered Accountant, is the Chief Financial Officer of Australand Property Group and was previously Global Transition Finance Leader with IBM's Business Consulting Services, after a long career at PWC Consulting culminating in the position of Global Chief Financial Officer. Tony Daniels, a Director since 1999, has chosen to retire from the Board at the next Annual General Meeting. His substantial contribution to the work of the Board will be missed. Mr Daniels has had a distinguished business career and has many accomplishments across a range of industries. He has made this experience available to his colleagues, always in a considered, concise, relevant and constructive fashion.

### **Managing Director and Senior Leadership Team**

The remuneration of the Managing Director and senior leaders is delivered through a combination of fixed remuneration and short and long-term incentives. The target level of these components for individual roles is determined by remuneration market comparison. This ensures that AGL is able to attract and retain key people in critical roles. The market comparators assessed are organisations of comparable business complexity as well as general market comparisons based on functional job requirements. External advisers provide AGL with market data and commentary on these comparators.

### **Remuneration Elements**

The total remuneration of senior leaders has three elements as described below.

The Total Fixed Remuneration (TFR) and Short-Term Incentives make up the cash component. Long-Term Incentives are delivered through share rights. TFR includes the cost of funding superannuation benefits and provision for up to two cars through novated lease arrangements.

These remuneration elements (including Incentive Plans employees are eligible to participate in) and the objectives of the various elements are as follows:

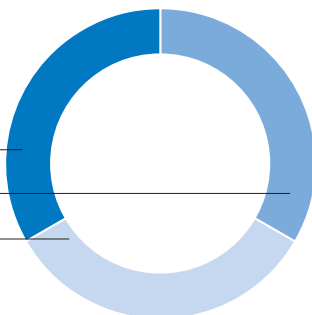
- Total Fixed Remuneration is the amount of non-variable remuneration specified in an employee's contract of employment. Superannuation contributions are deducted from the employee's TFR. The cost (including any component for Fringe Benefits Tax) for other items such as novated vehicle lease payments is also deducted. The amount of TFR is established with reference to remuneration market research, considering the scope and nature of the role and the individual senior leader's performance and experience;
- Short-Term Incentive Payments (STI) are subject to the achievement of a nominal growth in Earnings Per Share (EPS) hurdle and individual performance targets which are set at the commencement of the financial year. These targets are chosen for their relevance to business targets and therefore align individual performance with business outcomes and provide transparent linkages between rewards and the individual's performance. STI can vary annually based on individual performance against the specified targets. The STI can be paid in cash, or at the individual's election, in accordance with ATO rules, salary sacrificed and taken as equity, or as a contribution to the employee's superannuation fund; and
- Long-Term Incentive Payments (LTI) are delivered through the granting of share rights in accordance with the terms of the AGL Long-Term Incentive Plan (LTIP), the terms of which are provided on the AGL website. The award of the rights is linked to AGL's performance as measured by growth in Economic Profit. The LTIP awards reflect AGL's achieved business success and the progressive vesting of the share rights ensures retention of key talent and high-potential employees.

The balance between fixed and variable remuneration is kept under review for competitiveness and market relevance.

The relative proportions of the remuneration mix between fixed and variable/at risk increases with the level of responsibility and/or criticality of role. In respect of the 2004/2005 financial year, the typical maximum remuneration mix within the senior roles in AGL is as follows:

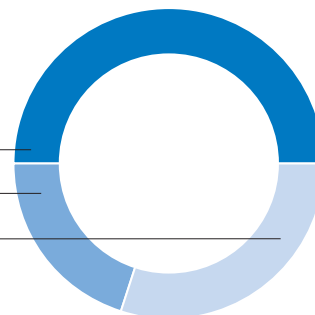
**Managing Director's Remuneration Split**

Total Fixed Remuneration	33.33%
Short-Term Incentive	33.33%
Long-Term Incentive	33.33%



**Senior Leaders' Remuneration Split**

Total Fixed Remuneration	50%
Short-Term Incentive	20%
Long-Term Incentive	30%



**Performance Linkage**

*(a) Short-Term Incentive*

To be eligible to receive a STI each senior leader must demonstrate and role model AGL's values and perform efficiently in their role. This is confirmed through annual assessment using the AGL Performance Planning and Review Process.

The actual level of STI paid for each individual is determined at the end of the financial year by assessment of that individual's performance against key-value drivers of the business which include financial, strategic/risk performance and leadership outcomes, which were identified and agreed at the beginning of the financial year. These measures are included on a 'Dashboard' for each individual. This 'Dashboard' also identifies how performance will be measured at threshold, target and stretch points. No STI is payable for any component where the threshold level has not been reached.

The maximum short-term incentive payment is 40% of TFR for senior leaders and 100% of TFR for the Managing Director. Each individual has different weightings on their key-value drivers depending on their role within AGL. Typically the weightings may be: financial performance of business unit 50%, strategic/risk performance 30%, leadership 20%.

*(b) Long-Term Incentive*

Allocation of the LTI is directly linked to Company performance measured by the three-year rolling average growth in Economic Profit (EP) which is used to create a pool of funds from which the LTI are allocated. The LTI pool is determined annually and the growth in EP determines the size of the LTI pool.

Year 1 Growth in EP	+	Year 2 Growth in EP	+	Year 3 Growth in EP		x15%	=	Long-term incentive plan pool
3 years								

EP has been chosen as it provides a transparent basis for the award of equity to the senior leadership team. This is because the measure of EP provides a basis for Shareholder assessment of the way in which the funds they have provided to the Company have been utilised to produce earnings at or above a minimum rate of return. The measure also ensures that the awards are based on the actual performance of the Company at or above the expected rate of return, rather than anticipated performance.

Once earned, LTI is delivered as share rights, which vest annually in equal tranches over three years commencing from the first anniversary of the granting of the share rights. This vesting schedule encourages retention of those receiving the award. It also continues to focus attention on ongoing Company performance as reflected in the value of AGL shares.

As an example, if a senior leader is allocated a LTI of \$140,000 at a share price of \$14.00, the senior leader would receive 10,000 share rights. These would vest in equal tranches over the next three years: 3,334 in 2006, 3,333 in 2007 and 3,333 in 2008.

Once the LTI pool is established, senior leaders are allocated an award based on a percentage of their TFR. The maximum long-term incentive payment for senior leaders is 60% of TFR and for the Managing Director it is 100% of TFR. Note the total amount of an incentive payment a senior leader can receive from both STI and LTI is 100% of TFR. For the Managing Director it is 200% of TFR.

Of the growth in Economic Profit (as calculated above), 82% is available for Shareholders and reinvestment in the business. 15% is used for the annual LTI and up to 3% for discretionary LTI awards.

The criteria that the Board utilises when exercising their discretion are:

- Outstanding current performance;
- Outstanding potential;
- Recognition for contribution to a key business activity or project; and
- Attraction/retention strategy of key people.

The percentages for distribution to employees are determined from external advice so as to give AGL comparability in remuneration against our competitors.

## Economic Profit

As described above, EP growth is the performance measure used as the gateway for LTI. EP is utilised as it aligns profit, capital management and cash flow. It thus reflects the Company's performance in creating Shareholder wealth.

For the Long-Term Incentive Plan, Economic Profit is defined as:

Group EBITDA	—	(Funds employed x pre-tax weighted average cost of capital)
Where EBITDA = Earnings before interest, tax, depreciation and amortisation		

For 2005, this means that the EP growth, averaged over a three year period (2003–2005) is \$52.0 million. Applying the 15% for annual long-term incentives provides a pool of \$7.7 million which has been provisionally allocated for the award of share rights to 117 senior people.

## AGL Company Performance

The Company performance information provided below is to meet the reporting requirements of CLERP 9.

Year ended 30 June	2001	2002	2003	2004	2005
EPS (cents)	0.635	0.664	0.732	0.795	0.847
Dividends (cents)	0.52	0.52	0.55	0.60	0.93
Increase/decrease in adjusted share price (%)	-14.8	16.2	11.2	10.8	17.3

Notes:

- EPS excludes significant items;
- Dividends relate to financial years not when they were paid;
- 2005 includes a special dividend of 30 cents per share; and
- Adjusted share price is adjusted for all capital changes including returns of capital.

## Service Agreements

Senior leaders have service agreements which specify their remuneration components described above. These arrangements provide for their participation in the short and long-term incentive arrangements in accordance with the terms of the Plans. The terms of these Plans can be varied by the Board, although such variations cannot be applied retrospectively.

Details of contract duration, notice period for termination, and termination payments are provided in the table below:

Executive	Position	Contract duration	Notice period for termination by either Company or employee	Termination payments
Greg Martin	Managing Director	Fixed term	6 months	18 months TFR
Greg Hayes	Chief Financial Officer	No fixed term	3 months	12 months TFR
Michael Fraser	Group General Manager, Merchant Energy	No fixed term	6 months	Up to 78 weeks TFR
Phil James	Group General Manager, Retail Energy	No fixed term	3 months	Up to 72 weeks TFR
Mark Harper	Group General Manager, Operations	No fixed term	3 months	Up to 72 weeks TFR
Jane McAloon	Group Manager, Corporate and External Services	No fixed term	3 months	12 months TFR

The practice for all new external senior leader appointments in relation to notice periods and termination payments is to have a notice period of three months and termination payments of nine months of TFR.

STI are payable to those employed at the end of the financial year or, on termination in the circumstances of death, retirement on grounds of age or invalidity, on a pro-rata basis, and at the discretion of the Board in other circumstances.

The terms of the LTIP specify the circumstances in which performance rights vest on termination. These are on death, retirement on grounds of age or invalidity and at the discretion of the Board in other circumstances, such as redundancy.

As identified in AGL's 2003 and 2004 Annual Reports, there is provision in the contract of the Group General Manager Merchant Energy for payment of retention fees. The initial retention fee of \$352,975 was paid in September 2003. A further retention fee will be paid if he continues with the Company until 31 August 2006 and a final retention fee if he continues until 31 August 2009. A pro-rated proportion of the retention fee is payable if AGL terminates the contract before the vesting dates, except on summary dismissal.

## Equity

Previously the Company operated Share Loan Plans under which shares were granted and funded by loan. These Plans have been replaced by the LTIP described above. However, some individuals still have loans relating to awards previously made and the details of these have been disclosed in previous Annual Reports. The value of interest on loans provided to fund these shares is identified in the remuneration details below.

## Share Purchase Participation

AGL offers its employees participation in the following Share Plans: the AGL Share Reward Plan, the AGL Long-Term Incentive Plan, the AGL Share Purchase Plan, the AGL Share Loan Plan and the AGL Management Share Plan. The last two Plans are now closed but employees still have shareholdings under these Plans.

The total number of employees participating in the five AGL Share Plans is 2,173 and the total number of shares held is 3,254,229.

## Remuneration of Non-Executive Directors

Specified Directors <sup>(a)</sup>	Primary Benefits			Post Employment Benefits		Equity Benefits	Total
	Salary & Fees	Cash Bonus	Non-Monetary	Superannuation	Retirement Benefits	Equity <sup>(b)</sup>	
Mark Johnson	12,020	0	0	11,485	0	235,245	258,750
Charles Allen	126,515	0	0	11,485	0	0	138,000
Sir Ronald Brierley	4,715	0	0	11,485	0	98,800	115,000
Tony Daniels	94,767	0	0	11,485	0	31,748	138,000
Max Ould	57,674	0	0	11,485	0	57,974	127,133
Carolyn Hewson	65,171	0	0	11,485	0	65,656	142,312
Graham Reaney	92,515	0	0	11,485	0	57,000	161,000
	453,377	0	0	80,395	0	546,423	1,080,195

(a) David Craig was appointed on 11 May 2005 and has accrued \$16,113 in respect of his Director's fees which will be apportioned when paid in accordance with the Directors' remuneration terms.

(b) Value of shares acquired under the Share Purchase Plan from allocation of fees.

## Remuneration of Managing Director and Specified Executives

Name	Primary Benefits			Post Employment Benefits		Equity Benefits			Total
	Salary & Fees	Short-Term Incentives <sup>(g)</sup>	Non-Monetary Benefits <sup>(a)</sup>	Superannuation	Retirement Benefits	Equity <sup>(c)</sup>	Value of Equity <sup>(c)</sup> as a Percentage of Total	Other <sup>(e)</sup>	
Greg Martin	949,256	615,000	82,671	196,031		629,477	23.6	192,567	2,665,002
Greg Hayes	704,770	302,417	42,547	38,539		452,702	29.4	0	1,540,975
Michael Fraser	602,447	226,452	4,317	114,219		353,895	26.4	36,746	1,338,076
Les Fisk <sup>(f)</sup>	81,420	0	0	14,228	443,000	396,245 <sup>(d)</sup>	41.3	24,919	959,812
Phil James	305,120	159,087	23,475	125,381 <sup>(b)</sup>		215,675	25.5	16,704	845,442
Mark Harper	354,073	157,945	19,432	52,796		208,295	25.8	14,395	806,937
Jane McAloon	357,990	147,505	21,055	38,702		154,328	21.2	7,065	726,645

(a) Includes the value of benefits such as cars, representational spouse travel and Fringe Benefits Tax.

(b) Includes salary sacrifice contributions.

(c) The amortisation of share rights issued under the LTIP recognising that they vest generally over a three-year period.

(d) Includes the value of vested shares issued under the LTIP on termination.

(e) Represents the interest on loans provided to fund shares under AGL Share Loan plans.

(f) Ceased AGL employment in September 2004.

(g) Earned in respect of 2004/2005 financial year and paid in September 2005.

## Details of awards granted to Directors and Specified Executives

Name	Held at 30 June 2004	Granted during the current year	Grant date	Value per share at grant date (\$)	Lapsed	Vested	Held at 30 June 2005
Greg Martin	55,249	65,223	1/09/2004	12.93	0	18,417	102,055
Greg Hayes	60,194	29,699	1/09/2004	12.93	0	5,065	84,828
Michael Fraser	38,675	32,483	1/09/2004	12.93	0	12,892	58,266
Les Fisk	24,476	20,557	1/09/2004	12.93	0	45,033 <sup>(a)</sup>	0
Phil James	23,570	19,796	1/09/2004	12.93	0	7,857	35,509
Mark Harper	22,763	19,119	1/09/2004	12.93	0	7,588	34,294
Jane McAloon	16,253	14,502	1/09/2004	12.93	0	5,418	25,337

(a) Includes rights that vested on termination.

This Directors' Report is made in accordance with a resolution of the Board of Directors and is signed for and on behalf of the Board on 25 August 2005.



**Mark Johnson**  
Chairman

# Consolidated Statement of Financial Performance.

## For the Year Ended 30 June 2005

	Consolidated	
	2005	2004
	\$m	\$m
Revenues from ordinary activities	4,915.4	4,201.7
Expenses from ordinary activities	(3,747.4)	(3,355.8)
Equity accounted share of profits of associates and joint venture entities	85.3	91.8
Profit from ordinary activities before borrowing costs, depreciation and amortisation	1,253.3	937.7
Depreciation and amortisation	(198.8)	(236.7)
	1,054.5	701.0
Borrowing costs	(111.5)	(134.0)
<b>Profit from ordinary activities before income tax</b>	<b>943.0</b>	<b>567.0</b>
Income tax attributable to ordinary activities	(74.8)	(187.5)
<b>Profit from ordinary activities after income tax</b>	<b>868.2</b>	<b>379.5</b>
Outside equity interests in operating profit after income tax	(19.9)	(30.0)
<b>Profit after income tax attributable to Shareholders of the Parent Entity</b>	<b>848.3</b>	<b>349.5</b>
Increase (decrease) in foreign currency translation reserve arising on translation of financial reports of foreign controlled operations	(4.7)	7.4
Total revenue, expense and valuation adjustments attributable to Shareholders of the Parent Entity recognised directly in equity	(4.7)	7.4
<b>Total changes in equity other than those resulting from transactions with Shareholders as owners</b>	<b>843.6</b>	<b>356.9</b>
<b>Earnings per share including significant items</b>		
Basic (cents)	185.8	76.8
Diluted (cents)	185.5	76.8
<b>Earnings per share excluding significant items</b>		
Basic (cents)	84.7	79.5
Diluted (cents)	84.6	79.5
<b>Weighted average number of ordinary shares on issue used in the calculation of basic and diluted earnings per share</b>		
Basic (millions)	456.5	454.9
Diluted (millions)	457.2	455.3

# Consolidated Statement of Financial Position.

## For the Year Ended 30 June 2005

	Consolidated	
	2005	2004
	\$m	\$m
<b>Current assets</b>		
Cash	394.2	18.0
Receivables	808.3	841.1
Inventories	14.0	23.7
Property, plant and equipment	15.2	21.8
Other assets	78.4	110.9
<b>Total current assets</b>	<b>1,310.1</b>	<b>1,015.5</b>
<b>Non-current assets</b>		
Receivables	131.6	130.3
Equity accounted investments	607.5	601.2
Other financial assets	-	2.0
Property, plant and equipment	2,120.1	2,916.6
Intangible assets	1,479.2	1,614.0
Deferred expenditure	138.1	147.8
Deferred tax assets	125.9	112.7
Other assets	15.7	34.0
<b>Total non-current assets</b>	<b>4,618.1</b>	<b>5,558.6</b>
<b>Total assets</b>	<b>5,928.2</b>	<b>6,574.1</b>
<b>Current liabilities</b>		
Payables	433.2	456.1
Interest bearing liabilities	236.4	546.1
Provisions	60.5	110.5
Current tax liabilities	85.9	76.6
Unearned revenue	8.9	12.3
<b>Total current liabilities</b>	<b>824.9</b>	<b>1,201.6</b>
<b>Non-current liabilities</b>		
Interest bearing liabilities	1,406.9	1,643.6
Provisions	46.0	48.4
Deferred tax liabilities	377.7	518.5
Unearned revenue	5.1	7.4
<b>Total non-current liabilities</b>	<b>1,835.7</b>	<b>2,217.9</b>
<b>Total liabilities</b>	<b>2,660.6</b>	<b>3,419.5</b>
<b>Net assets</b>	<b>3,267.6</b>	<b>3,154.6</b>
<b>Equity</b>		
Contributed equity	2,010.1	2,239.7
Reserves	(8.8)	(4.1)
Retained profits	1,266.3	814.2
<b>Equity attributable to Shareholders of the Parent Entity</b>	<b>3,267.6</b>	<b>3,049.8</b>
Outside equity interests in controlled entities	-	104.8
<b>Total equity</b>	<b>3,267.6</b>	<b>3,154.6</b>

# Consolidated Statement of Cash Flows.

## For the Year Ended 30 June 2005

	Consolidated Inflows (Outflows)	
	2005 \$m	2004 \$m
<b>Cash flows from operating activities</b>		
Receipts from customers	4,842.3	5,031.7
Payments to suppliers and employees	(4,139.5)	(4,227.7)
Dividends received	92.7	74.8
Interest received	25.0	8.8
Borrowing costs paid	(116.1)	(132.2)
Income taxes paid	(147.0)	(118.2)
Net cash provided by operating activities	557.4	637.2
<b>Cash flows from investing activities</b>		
Payments for property, plant and equipment	(197.5)	(211.8)
Payments for investments	(22.0)	(120.7)
Payments for intangibles	(0.2)	(3.0)
Payments for acquisition of controlled entities	(19.0)	-
Loans advanced	(18.2)	(114.1)
Proceeds from sale of property, plant and equipment	47.4	5.6
Proceeds from disposal of investments	1.1	3.2
Proceeds from dingo blue settlement	-	20.9
Proceeds from sale of controlled entities	777.8	-
Proceeds from loan repayments	20.1	7.8
Net cash provided (used in) by investing activities	589.5	(412.1)
<b>Cash flows from financing activities</b>		
Proceeds from issue of shares	-	58.9
Capital return	(228.7)	-
Share buy-back	-	(155.8)
Proceeds from borrowings and hedge receipts on foreign currency borrowings	445.4	751.8
Repayment of borrowings and hedge payments on foreign currency borrowings	(539.2)	(639.0)
Dividends paid	(448.6)	(289.8)
Net cash used in financing activities	(771.1)	(273.9)
<b>Net increase (decrease) in cash held</b>	375.8	(48.8)
<b>Cash at the beginning of the financial year</b>	1.4	50.4
Effect of exchange rate changes on the balance of cash held in foreign currencies	(0.2)	(0.2)
<b>Cash at the end of the financial year</b>	377.0	1.4

# Financial Commentary.

## Discussion and Analysis of Financial Statements

### Profit Attributable to Shareholders

Profit after income tax attributable to AGL Shareholders has increased by \$498.8 million to \$848.3 million over the previous corresponding year, resulting in a 141.9% increase in basic earnings per share to 185.8 cents.

The result for the year included the following significant items after tax:

- Sale of NGC \$587.5 million
- Sale of Breakfast Point \$14.7 million
- Property rehabilitation \$(5.8 million)
- Tax Consolidation benefit \$64.8 million (gross benefit \$65.9 million less after tax costs of \$1.1 million)
- Property rationalisation and associated costs \$(6.7 million)
- Write down of Electricity Networks' assets \$(193.0 million)

	Excluding Significant items		Including Significant items	
	30 June 2005	30 June 2004	30 June 2005	30 June 2004
	\$m	\$m	\$m	\$m
Profit before borrowing costs, depreciation and amortisation and income tax (EBITDA)	895.3	950.5	1,253.3	937.7
Depreciation and amortisation	(198.8)	(236.7)	(198.8)	(236.7)
Profit before borrowing costs and income tax (EBIT)	696.5	713.8	1,054.5	701.0
Borrowing costs	(111.5)	(134.0)	(111.5)	(134.0)
Profit before income tax (PBT)	585.0	579.8	943.0	567.0
Income tax	(178.3)	(188.0)	(74.8)	(187.5)
Profit after income tax (PAT)	406.7	391.8	868.2	379.5
Outside equity interests	(19.9)	(30.0)	(19.9)	(30.0)
Profit after income tax attributable to Shareholders	386.8	361.8	848.3	349.5

### Cash Flow

During the year, operating cash flow decreased by 12.5% to \$557.4 million. Operating cash flow after stay-in-business capital expenditure decreased by 17.6% to \$458.7 million and cash flow available for expansion of the business, after stay-in-business capital expenditure and payment of the interim and final dividends decreased by 40.2% to \$175.8 million. The main reason for the decrease in operating cash flow year-on-year is that the current year includes NGC up until the date of its sale on 13 December 2004, whereas the prior year has a full twelve months operating cash flow contribution from NGC.

### Final Dividend

The Directors have declared a 2005 final dividend of 32 cents per share, franked to 32 cents (100%). The 2005 full-year dividend total of 63 cents per share (franked to 60 cents (95.2%)) per share represents an increase of 5% over the 2004 full-year dividend total of 60 cents (franked to 45 cents (75%)).

The Record date to determine Shareholders' entitlements to the 2005 final dividend is 15 September 2005 with payment on 23 September 2005. Shares will commence trading ex-dividend to the 2005 final dividend on 9 September 2005.

### Review of Operations

Profit from ordinary activities (including significant items) before borrowing costs and income tax was \$1,054.5 million (2004 \$701.0 million) arising from the following activities:

- **Energy Sales & Marketing – EBIT \$206.2 million (2004 \$218.8 million) down 5.8%**

AGL's Energy Sales & Marketing (ES&M) division is responsible for the sale and marketing of gas, electricity and energy services to AGL's 1.5 million electricity customers and 1.3 million gas customers across Australia.

During the year ended 30 June 2005, ES&M contributed \$206.2 million to profit before borrowing costs and tax compared with \$218.8 million for the previous year. This decrease was driven primarily by an increasingly competitive retail environment resulting in higher spending on marketing campaigns to acquire and retain customers (including incentives to customers), milder weather conditions across winter and summer in all states and lower management fee income resulting from the conclusion of an agreement with Alinta for the provision of transitional services following AGL's acquisition of Pulse Energy in 2002.

There was an overall increase of 16,081 customer accounts compared to the prior year, with the number of dual fuel customer accounts (ie. where AGL supplies both gas and electricity) increasing by 276,102 to 1,036,680 accounts.

Profit before borrowing costs and tax to sales revenue for ES&M was 5.9% for the year to 30 June 2005, down from 6.3% in the prior year. The acquisition of Terra Gas Trader in January 2005 and a changed customer mix contributed to this result.

In March 2005 the new business divisions of Merchant Energy and Retail Energy were created from the existing ES&M and Power Assets divisions. Segment reporting of Merchant Energy and Retail Energy will commence from the beginning of the 2005/2006 financial year.

### Natural Gas

Total natural gas sales of 172.9 PJ were 8.8 PJ higher than the prior year.

Sales to mass-market customers decreased by 4.0 PJ to 62.2 PJ. This decrease in volume was primarily due to a warmer winter in 2005 than 2004 which reduced residential consumption in NSW and Victoria. The decrease was offset by an increase in customer numbers, following the opening of the South Australian gas mass market to competition in July 2004.

Sales to contract market customers were largely in line with the prior year across all regions, with a small increase of 0.4 PJ to 69.0 PJ. Sales to the contract market in Victoria decreased by 0.2 PJ to 25.8 PJ; in NSW they increased by 0.3 PJ to 37.8 PJ and in South Australia increased by 0.2 PJ to 5.4 PJ.

Wholesale gas sales increased by 12.4 PJ to 41.8 PJ primarily due to the acquisition of Terra Gas Trader (13.7 PJ), offset by lower sales volumes to International Power (0.9 PJ) and Origin Energy (1.3 PJ).

### Electricity

Total electricity sales volume of 22,279 GWh was largely in line with the prior year, showing a slight decrease of 16 GWh.

Sales to mass-market customers decreased by 867 GWh to 9,766 GWh as a result of customer losses and a warmer winter than in the prior year. Customer losses in Victoria and South Australia were offset by an increase in NSW.

Sales to contract market customers increased by 851 GWh to 12,513 GWh. In the Victorian contract market, volume was up by 337 GWh to 4,693 GWh. The NSW/ACT contract market sales volumes increased by 476 GWh with 294 GWh of that increase attributable to the signing of the Department of Defence as a new customer.

In South Australia, contract market volume decreased by 158 GWh to 2,937 GWh due to the loss of Holden (118 GWh) and with OneSteel and BOC operating at reduced capacity for a period of time. In the Queensland contract market, sales increased by 197 GWh to 629 GWh due to the continued acquisition of business and commercial and industrial customers in the region.

### • Gas Networks – EBIT \$163.9 million (2004 \$164.1 million) down 0.1%

Gas transported on the AGL gas distribution network in NSW was 95.8 PJ, a decrease of 0.6 PJ compared to the prior year. This decrease was driven by the effect of warmer weather as Sydney experienced the warmest April and fifth warmest June in 144 years. New site growth, mostly in new housing, saw a net increase of 27,024 customer sites and 206 km of gas mains added to the network. The NSW gas distribution network now comprises 23,541 km of gas mains and transports natural gas to 951,591 customer sites.

Significant capital projects during the year included capacity upgrades of six major pressure regulating stations and commencement of the Bathurst gas network rehabilitation project. Preliminary design and route selection also commenced for the future reinforcement of Sydney's high pressure system.

In June 2005, the NSW Independent Pricing and Regulatory Tribunal (IPART) issued its final determination approving the prices, services, terms and conditions under which AGL Gas Networks will provide transportation services to retailers over the five year period to June 2010. It is anticipated that EBITDA will decrease by \$5 to \$10 million in the 2005/2006 financial year as a result of this decision.

### • Electricity Networks – EBIT (\$155.6 million) loss (2004 \$70.1 million profit) down 322.0%

Electricity distributed by the AGL Victorian electricity network was 4,174 GWh, an increase of 1.24%. This result was also affected by generally milder weather conditions throughout the year which has had an adverse impact on energy sales. Growth in customer sites connected continued to be strong with a net increase of 6,632 sites added to the network during the year. The distribution network was extended by a further 105 km, bringing the total network length to 10,285 km.

At the underlying level, the electricity network performed well with EBIT up 7.7%. The unfavourable reported result was due to the \$231.1 million write down of the carrying value of the Victorian electricity distribution network. The reassessment of fair value of the network resulted from a review of recent realised market values for Victorian distribution businesses, the tightening regulatory environment and an unfavourable draft determination by the Victorian Essential Services Commission (ESC) on distribution charges for 2006 to 2010. AGL considers the draft determination to be unreasonable, containing errors of fact and fundamental points of difference. This is particularly so in relation to growth forecasts and allowed operating and capital expenditure. The fair value of the network has been re-assessed after considering a range of potential improved regulatory outcomes. AGL continues to vigorously pursue key points of difference with the regulator and is prepared to take the matter to appeal if necessary.

The key priorities for the network include resolving the regulatory determination and effective network management to meet customer growth/connections, load demand and reliability targets.

• **Agility EBIT \$63.4 million (2004 \$55.5 million) up 14.2%**

Agility manages, operates and develops energy infrastructure assets across Australia. During the year ended June 2005, Agility contributed \$63.4 million to profit before borrowing costs and tax, an increase of \$7.9 million compared to the previous year.

The improvement in EBIT is a direct result of higher revenue which increased 6.0% in the year to \$428.7 million as well as ongoing cost efficiencies achieved.

Covering a range of services across the supply chain, from strategic asset management through to field-based construction services, Agility identifies each client's business requirements and seeks to help them achieve optimum performance in a cost efficient manner.

This year Agility's client and project portfolio expanded through winning new contracts, including:

- Sydney Water Corporation (SWC) Water Mains Rehabilitation contracts;
- Powerco Tasmanian Natural Gas Construction, Operation & Maintenance contracts;
- Energex Live Line Overhead Maintenance contract;
- Hammersley Iron Gas Lateral Construction contract;
- Santos Pipeline Repair contract;
- Ergon Live Line & Air Brake Switch Inspection & Maintenance contracts; and
- APA/Arrow Energy North Coal Seam Methane Plant Engineering Consultancy.

Agility is actively pursuing opportunities in NSW, Queensland, Western Australia, Tasmania and Victoria. Agility recently secured additional works for SWC and is now on its panel for repair and maintenance works, further cementing Agility's successful, on-going relationship with SWC.

Agility is now listed on Ergon Energy's Preferred Contractor Panel in Queensland. Due to a major growth phase in the Queensland electricity services market, Agility has strengthened its underground service capability by the acquisition of Oakland Construction Group, a preferred construction and maintenance services provider for Energex, which specialises in high-voltage underground electrical cable work in south-east Queensland.

• **Energy Investments & LPG – contribution \$96.0 million (2004 \$110.4 million) down 13.0%**

**Australian Pipeline Trust (APA)**

AGL's share of equity accounted profits from its 30% investment in the Australian Pipeline Trust totalled \$19.4 million (2004 \$38.0 million). Last year's result included two significant items, being a profit upon entry into tax consolidation (AGL share \$27.9 million) and a loss associated with the write-off of the Windimurra pipeline following the closure by Xstrata of its vanadium mine (AGL share \$4.2 million). The improved underlying result for the current year includes the positive net impact of the acquisition of the GGT and Parmelia pipelines in August 2004, together with the 30% minority interest in the Ballera to Mt Isa pipeline in February 2005.

**ActewAGL**

AGL's consolidated share of profits from its 50% investment in the ActewAGL distribution and retail partnerships in the Capital Region totalled \$53.0 million (2004 \$50.9 million). This result reflects successful customer retention, lower operating costs and higher capital contributions revenue offset by a warmer winter than the prior year and regulatory resets on the electricity and gas network tariff charges.

**Elgas**

AGL's 50% interest in Auscom Holdings (Elgas) which distributes and retails LPG in Australia, made a \$13.5 million equity accounted contribution, in line with \$13.9 million in the previous year. Warmer trading conditions in winter 2005 placed pressure on sales volumes, although profit levels were maintained due to the relatively strong Australian dollar. This has enabled the company to maintain margins despite international LPG prices reaching record levels in US dollar terms during the year.

**H C Extractions**

H C Extractions, which produces LPG, contributed an EBIT of \$6.0 million, an increase of \$4.6 million on the previous corresponding period. The increase is primarily due to additional revenue earned from the favourable movements in the Saudi contract propane price. A significant increase in production, mainly due to the previous year's production being adversely affected by plant and equipment damage and a longer major plant shutdown, also contributed to the improved result.

**GasValpo**

AGL's wholly-owned investment in GasValpo, a natural gas distribution company in Chile, contributed \$4.1 million to earnings before interest and tax during the year ended June 2005. The decrease from the prior year contribution of \$6.2 million is due to the recommencement of gas restrictions from Argentina in the summer of 2005, which has limited the supply of natural gas to GasValpo's industrial customers.

• **Power Generation – contribution \$31.2 million (2004 \$17.5 million) up 78.3%**

AGL Power Generation, including the contribution from Loy Yang Power, provided a profit contribution before borrowing costs and tax of \$31.2 million, up \$13.7 million on last year. This increase was primarily the result of a full-year contribution from Loy Yang Power of \$9.5 million. AGL purchased a 32.5% share in Loy Yang Power on 8 April 2004, which yielded a \$2.7 million contribution in the 2004 financial year.

**Power Generation – Wholly Owned**

AGL's two gas-fired power stations at Somerton in Victoria and Hallett in South Australia continue to play an important role in mitigating AGL's potential risk to the volatility of electricity spot prices during periods of peak electricity demand. Somerton has 150 MW of installed capacity while Hallett has 180 MW. Hallett has distillate as an alternative fuel which enhances security of supply. These plants tend to operate during the summer and winter seasons, but are available to supply the market throughout the year. Substantial investments in enhancements to the generators at these power stations have greatly improved start reliability. In addition, the Somerton power station provides network support to the AGL and SPI electricity networks in Victoria.

AGL's third gas-fired power station is at Cawse, a 20 MW plant located in Western Australia. It supplies electricity, steam and desalinated water to the OMG Cawse nickel mine (60 km north-west of Kalgoorlie).

**Power Generation – Investments**

As AGL purchased a 32.5% share in Loy Yang Power on 8 April 2004, the prior year results incorporated less than three months' contribution from this investment. The 2005 financial year contribution of \$9.5 million comprised the equity accounted loss of \$1.1 million and loan note interest revenue of \$10.6 million. This compares with a 2004 contribution of \$2.7 million comprising the equity accounted profit of \$0.1 million and loan note interest revenue of \$2.6 million. Less than expected generation revenue is the principal reason for the 2005 performance which has been adversely affected by lower pool prices and the slower than forecast take up rate of contracts by counterparties. This left Loy Yang Power with a higher average percentage of plant capacity exposed to pool prices during the year.

AGL currently supports renewable sources of power generation through its investment in landfill gas and biogas power stations, and financial contracts for a number of wind farm developments. Further growth of AGL's renewable energy portfolio is planned through investments in renewable energy projects.

• **New Zealand – contribution \$665.2 million (2004 \$129.4 million)**

On 14 December 2004 AGL completed the sale of its 66.05% interest in NGC Holdings Limited. The contribution during the period of \$665.2 million includes an amount of \$591.5 million, before income tax recognised as a significant item, relating to the gain on sale of the investment.

The sale proceeds were used to pay costs in relation to the transaction, with the remainder having been or still to be used to repay debt and fund the capital management program undertaken in calendar year 2005.

• **Property – contribution \$2.6 million (2004 \$0.5 million)**

The current period contribution of \$2.6 million includes an amount of \$14.7 million in relation to profit on the sale of Stage 6 of Breakfast Point offset by an expense of \$12.1 million in relation to remediation, rehabilitation and rationalisation of various properties. Both amounts were recorded as significant items.

• **Telecommunications – contribution \$2.2 million (2004 loss \$33.3 million)**

During the year, provisions previously raised regarding AGL's investments in telecommunications were written back in the accounts. The \$33.3 million loss in the previous corresponding period related to the write-off of the investments in TransACT and COMindico of \$25.0 million and \$23.5 million respectively offset by a gain of \$16.2 million following a settlement in relation to the investment in dingo blue. These amounts were all recognised as significant items. AGL has provided a guarantee in support of a \$25.0 million bank facility obtained by TransACT. The guarantee is limited to that facility and as at 30 June 2005 \$20.8 million has been drawn down on this facility. To date there has been no call on this guarantee.

The carrying value of AGL's investment in Telecommunications was \$nil at 30 June 2005 (2004 \$nil).

• **Unallocated items – expense \$20.6 million (2004 expense \$32.0 million) down 35.6%**

Unallocated items of \$20.6 million for the year to 30 June 2005 decreased by \$11.4 million. The decrease was due to the inclusion of interest income from the NGC sale proceeds, offset by the write-off of some deferred capital expenditure and costs associated with property rationalisation.

- **Borrowing costs - expense \$111.5 million (2004 expense \$134.0 million) down 16.8%**

Borrowing costs decreased by \$22.5 million to \$111.5 million primarily as a result of lower average outstanding debt during the year. The net debt position at June 2005 is lower than that at June 2004. This position arises primarily as a result of the sale of AGL's interest in NGC Holdings Limited. Most of the proceeds of sale were used to retire debt.

- **Tax expense \$74.8 million (2004 expense \$187.5 million) down 60.1%**

The decrease in tax expense by \$112.7 million to \$74.8 million during the year is largely attributable to the tax benefit of \$65.9 million recorded on entry into tax consolidation and \$38.1 million tax benefit arising from the write down of the Victorian Electricity Network. Both items were recorded as significant items.

# Notes to the Consolidated Financial Statements.

## For the Year Ended 30 June 2005

### Note 1 - Basis of Concise Financial Report

The Concise Financial Report relates to the consolidated entity consisting of The Australian Gas Light Company (the Parent Entity) and each of its controlled entities. The Report has been prepared in accordance with the requirements of the Corporations Act 2001 and Accounting Standard AASB 1039 'Concise Financial Reports'.

The financial statements and specific disclosures included in this Concise Financial Report have been derived from the Full Financial Report of the consolidated entity. The Concise Financial Report cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the Full Financial Report.

The accounting policies applied in the preparation and presentation of the Concise Financial Report are consistent with those applied in respect of the year ended 30 June 2004 except as disclosed below.

### Note 2 - Change in accounting estimates

There were no material changes in accounting estimates during the year ended 30 June 2005.

### Note 3 - Rounding of amounts

Unless otherwise specified, amounts in the Concise Financial Report are shown to the nearest tenth of a million dollars in accordance with ASIC Class Order 98/100 issued 10 July 1998. The Parent Entity is an entity to which the Class Order applies.

### Note 4 - Revenue

	2005 \$m	2004 \$m
Sales revenue	4,058.0	4,153.7
Other revenue	857.4	48.0
	4,915.4	4,201.7

### Note 5 - Dividends

#### Recognised amounts

#### Interim dividend paid 24 March 2005 (2004 - 26 March 2004)

Franked amount (28 cents per share (2004 - 22 cents per share))	127.8	100.4
Unfranked amount (3 cents per share (2004 - 7 cents per share))	13.7	31.9
Total amount (31 cents per share (2004 - 29 cents per share))	141.5	132.3

#### Special dividend paid 24 March 2005 (2004 - Nil)

Franked amount (27 cents per share (2004 - Nil))	123.6	-
Unfranked amount (3 cents per share (2004 - Nil))	13.7	-
Total amount (30 cents per share (2004 - Nil))	137.3	-

#### Final dividend paid 24 September 2004 (2004 - 26 September 2003)

Franked amount (23 cents per share (2004 - 18 cents per share))	104.9	81.0
Unfranked amount (8 cents per share (2004 - 11 cents per share))	36.5	49.5
Total amount (31 cents per share (2004 - 29 cents per share))	141.4	130.5
	420.2	262.8

#### Unrecognised Amounts

#### Proposed final dividend to be paid 23 September 2005\*

Franked amount 32 cents per share	141.8	104.9
Unfranked amount (Nil cents per share)	-	36.5
Total amount 32 cents per share	141.8	141.4

\*The final dividend in respect of ordinary shares for the year ended 30 June 2005 has not been recognised in this financial report as the final dividend was not declared on or before 30 June 2005.

## Note 6 – Segment information

### Business segments

#### 6(a) Segment revenues

	External Sales Revenue		Other External Revenue		Inter-Segment Revenue		Equity Accounted Share of Net Profits/ (Losses)		Total	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
<b>Energy Networks</b>										
Gas Networks	59.5	45.0	1.3	1.9	278.6	290.1	-	-	339.4	337.0
Electricity Networks	81.2	66.4	0.1	0.3	117.8	115.2	-	-	199.1	181.9
	140.7	111.4	1.4	2.2	396.4	405.3	-	-	538.5	518.9
<b>Agility</b>	146.4	129.6	1.8	3.2	280.5	271.3	-	0.2	428.7	404.3
<b>Energy Sales &amp; Marketing</b>	3,487.3	3,436.8	2.0	3.2	33.8	34.1	0.2	(0.2)	3,523.3	3,473.9
<b>Energy Investments</b>	62.2	50.1	0.7	4.5	-	0.6	86.2	105.2	149.1	160.4
<b>Power Generation</b>	8.1	8.9	10.6	0.1	37.5	39.0	(1.1)	2.7	55.1	50.7
<b>New Zealand business</b>	206.7	409.7	784.1	7.9	-	-	-	(0.2)	990.8	417.4
<b>Property</b>	-	-	37.0	0.9	1.3	0.1	-	-	38.3	1.0
<b>Telecommunications</b>	-	1.0	1.9	18.4	-	-	-	(15.9)	1.9	3.5
Segment totals	4,051.4	4,147.5	839.5	40.4	749.5	750.4	85.3	91.8	5,725.7	5,030.1
Unallocated items	6.6	6.2	17.9	7.6	-	(0.6)	-	-	24.5	13.2
	4,058.0	4,153.7	857.4	48.0	749.5	749.8	85.3	91.8	5,750.2	5,043.3
Less: eliminations	-	-	-	-	(749.5)	(749.8)	-	-	(749.5)	(749.8)
	4,058.0	4,153.7	857.4	48.0	-	-	85.3	91.8	5,000.7	4,293.5

Revenue is principally derived from:

- (i) **Energy Networks** – distribution of gas and electricity.  
**Agility** – provision of infrastructure management and maintenance services.  
**Energy Sales & Marketing** – sale of natural gas and electricity.  
**Energy Investments** – investments in pipeline and energy utility entities.  
**Power Generation** – generation and sale of electricity.  
**New Zealand business** – investments in New Zealand entities involved in the gas industry.  
**Property** – sale and rental of properties.  
**Telecommunications** – investment in entities involved in the telecommunications industry.
- (ii) Inter-segment pricing is made on an “arms-length”, commercial basis.

**Note 6 – Segment information (continued)****6(b) Segment results – profits/(losses)**

	Segment Results - Profits/(Losses)		Depreciation and Amortisation		Other Non-Cash Expenses	
	2005	2004	2005	2004	2005	2004
	\$m	\$m	\$m	\$m	\$m	\$m
<b>Energy Networks</b>						
Gas Networks	163.9	164.1	40.4	40.0	1.9	2.2
Electricity Networks	(155.6)	70.1	27.5	26.5	231.6	0.4
	8.3	234.2	67.9	66.5	233.5	2.6
<b>Agility</b>	63.4	55.5	3.8	3.2	13.0	15.0
<b>Energy Sales &amp; Marketing</b>	206.2	218.8	52.5	50.8	35.1	34.5
<b>Energy Investments</b>	96.0	110.4	5.6	5.9	1.6	1.2
<b>Power Generation</b>	31.2	17.5	15.5	14.9	0.4	4.5
<b>New Zealand business</b>	665.2	129.4	31.2	70.5	-	15.7
<b>Property</b>	2.6	0.5	1.2	1.1	0.1	0.3
<b>Telecommunications</b>	2.2	(33.3)	-	-	0.1	32.6
Segment totals	1,075.1	733.0	177.7	212.9	283.8	106.4
Unallocated items	(20.6)	(32.0)	21.1	23.8	21.6	19.6
	1,054.5	701.0	198.8	236.7	305.4	126.0
Less: borrowing costs	(111.5)	(134.0)				
<b>Profit from ordinary activities before income tax</b>	943.0	567.0				
Income tax attributable to ordinary activities	(74.8)	(187.5)				
<b>Profit from ordinary activities after income tax</b>	868.2	379.5				

Profit from ordinary activities before borrowing costs includes the following significant items, as allocated to relevant segments:

- (i) Electricity Networks \$(231.1) million (2004 \$Nil million)
- (ii) Energy Investments \$Nil million (2004 \$23.7 million)
- (iii) Power Generation \$Nil million (2004 \$(4.2) million)
- (iv) New Zealand business \$591.5 million (2004 \$Nil million)
- (v) Property \$2.6 million (2004 \$Nil million)
- (vi) Telecommunications \$Nil million (2004 \$(32.3) million)
- (vii) Unallocated items \$(5.0) million (2004 \$Nil million)
- (viii) Income tax attributable to ordinary activities \$103.5 million (2004 \$Nil million)

## 6(c) Segment assets and liabilities

	Assets <sup>(1)</sup>		Liabilities <sup>(1)</sup>		Equity Accounted Investments <sup>(2)</sup>		Acquisition of Non-Current Assets <sup>(2)</sup>	
	2005 \$m	2004 \$m	2005 \$m	2004 \$m	2005 \$m	2004 \$m	2005 \$m	2004 \$m
<b>Energy Networks</b>								
Gas Networks	1,248.3	1,219.0	7.3	217.5	-	-	69.2	66.4
Electricity Networks	713.1	949.6	7.5	76.0	-	-	42.4	32.6
	1,961.4	2,168.6	14.8	293.5	-	-	111.6	99.0
<b>Agility</b>	104.6	67.7	66.5	71.2	-	0.2	18.7	6.8
<b>Energy Sales &amp; Marketing</b>	2,021.8	2,102.3	388.0	553.9	0.9	1.0	5.6	10.5
<b>Energy Investments</b>	655.1	650.6	51.8	78.6	499.8	484.0	6.3	6.6
<b>Power Generation</b>	523.9	524.2	0.8	21.5	106.8	111.6	8.2	5.6
<b>New Zealand business</b>	-	864.0	-	594.4	-	4.4	14.5	55.1
<b>Property</b>	26.6	55.1	15.8	9.1	-	-	6.4	0.2
<b>Telecommunications</b>	-	0.2	-	2.5	-	-	-	-
Segment totals	5,293.4	6,432.7	537.7	1,624.7	607.5	601.2	171.3	183.8
Unallocated items	634.8	141.4	2,122.9	1,794.8	-	-	32.0	31.0
Consolidated total	5,928.2	6,574.1	2,660.6	3,419.5	607.5	601.2	203.3	214.8

(1) Current year figures include the impact of entering into tax consolidation. (2) Included in Assets total.

## 6(d) Funds employed

	Energy Networks		Agility	Energy Sales & Marketing	Energy Investments	Power Generation	Property	Tele-communications
	Gas Networks	Electricity Networks						
	2005 \$m	2005 \$m	2005 \$m	2005 \$m	2005 \$m	2005 \$m	2005 \$m	2005 \$m
<b>Current assets</b>								
Cash	-	-	0.1	8.9	3.2	-	-	-
Receivables	13.1	10.7	36.5	712.4	10.1	5.4	4.6	-
Inventories	-	-	3.1	9.6	1.3	-	-	-
Property, plant and equipment	1.0	-	-	-	-	-	14.2	-
Other	0.1	2.5	1.4	70.1	0.4	0.7	0.1	-
<b>Non-current assets</b>								
Receivables	-	-	-	-	0.4	123.3	-	-
Equity accounted investments	-	-	-	0.9	499.7	106.8	-	-
Other financial assets	-	-	-	-	-	-	-	-
Property, plant and equipment	1,217.2	409.1	22.0	46.1	120.4	284.8	7.2	-
Intangible assets	-	278.2	33.4	1,149.9	17.7	-	-	-
Deferred expenditure	15.8	12.6	0.9	16.7	1.9	2.9	0.5	-
Deferred tax assets	-	-	-	-	-	-	-	-
Other	1.1	-	7.2	7.2	-	-	-	-
<b>Total assets</b>	1,248.3	713.1	104.6	2,021.8	655.1	523.9	26.6	-
<b>Current liabilities</b>								
Payables	5.4	7.3	30.3	337.2	5.4	0.7	2.1	-
Provisions	1.2	0.2	16.2	12.9	1.5	0.1	10.3	-
Current tax liabilities	-	-	-	-	0.2	-	-	-
Unearned revenue	-	-	0.6	7.8	0.2	-	0.2	-
<b>Non-current liabilities</b>								
Payables	-	-	-	9.2	-	-	-	-
Provisions	0.2	-	19.2	14.5	-	-	3.2	-
Deferred tax liabilities	-	-	-	-	-	-	-	-
Unearned revenue	0.5	-	-	4.6	-	-	-	-
<b>Funds employed</b>	1,241.0	705.6	38.3	1,635.6	647.8	523.1	10.8	-
<b>Guarantee support</b>	-	-	2.9	269.3	-	-	-	-

**6(e) Profit from ordinary activities before borrowing costs and significant items**

	Energy Networks		Agility	Energy Sales & Marketing	Energy Investments	Power Generation	Property	Tele-communications
	Gas Networks	Electricity Networks						
	2005	2005						
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Before income tax	163.9	75.5	63.4	206.2	96.0	31.2	-	2.2
After income tax	112.9	51.5	44.3	132.2	75.2	22.1	-	2.7

**6(f) Profit from ordinary activities before borrowing costs and significant items/funds employed\* (%)**

Before income tax	14.6	9.6	350.6	11.8	15.1	6.1	n/a	n/a
After income tax	10.1	6.5	244.8	7.6	11.8	4.3	n/a	n/a

\* Weighted where appropriate.

**6(g) Profit from ordinary activities before borrowing costs and significant items/funds employed including guarantee support\* (%)**

Before income tax	14.6	9.6	287.1	10.0	15.1	6.1	n/a	n/a
After income tax	10.1	6.5	200.4	6.4	11.8	4.3	n/a	n/a

\* Weighted where appropriate.

**6(h) Geographical segments**

	External Revenues		Assets		Acquisition of Non-Current Assets	
	2005	2004	2005	2004	2005	2004
	\$m	\$m	\$m	\$m	\$m	\$m
Australia	3,884.7	3,749.3	5,779.2	5,563.0	182.5	153.2
New Zealand	990.7	417.6	-	864.0	14.5	55.1
Other	40.0	34.8	149.0	147.1	6.3	6.5
	4,915.4	4,201.7	5,928.2	6,574.1	203.3	214.8

## Note 7 - Remuneration of auditors

	Consolidated		Parent Entity	
	2005 \$000	2004 \$000	2005 \$000	2004 \$000
Remuneration of the auditor of the Parent Entity for:				
Auditing and reviewing the financial report	920	919	139	168
Other services:				
Tax consulting and compliance reviews	-	11	-	5
Audit assurance for debt offering	-	358	-	358
Other audit assurance services	86	101	5	16
Adoption of International Financial Reporting Standards	326	364	326	364
Regulatory audits	269	201	-	-
Other	-	-	-	51
	681	1,035	331	794
Remuneration of other auditors of controlled entities for auditing and reviewing the final report	68	271	-	-

## Note 8 - Events occurring after reporting date and not recognised in the financial report

On 5 July 2005 AGL announced its commitment to an investment in the upstream PNG Gas Project.

This investment comprises:

- A \$4.5 billion conditional Gas Supply Agreement with PNG Gas Project producers to purchase around 1,500 PJ of gas over 20 years from 2009; and
- A \$400 million conditional agreement with Oil Search Limited (Oil Search) to acquire an equity interest of 10% in the upstream PNG Gas Project.

### Capital Management

On 25 February 2005 AGL announced its intention to commence an on-market buy-back of its shares as part of its capital management program. On 2 August 2005, AGL lodged the necessary forms with ASIC to commence this process. AGL expects the buy-back program to be completed by the end of 2005.

## Note 9 – Impact of Adopting Australian equivalents to International Financial Reporting Standards

AGL changed its accounting policies on 1 July 2005 to comply with Australian equivalents to International Financial Reporting Standards (A-IFRS). The transition to A-IFRS is accounted for in accordance with Accounting Standard AASB 1 "First Time Adoption of Australian Equivalents to International Financial Reporting Standards", with 1 July 2004 as the date of transition, except for financial instruments, including derivatives, where the Company has elected to defer the transition date to 1 July 2005.

An explanation of how the transition from Generally Accepted Accounting Principles (AGAAP) to A-IFRS will affect AGL's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

AGL will prepare financial statements under A-IFRS for the first time for the half-year ending 31 December 2005. The Directors may, at any time until the completion of AGL's first A-IFRS compliant financial report, elect to revisit, and where considered necessary, revise the accounting policies applied in preparing the financial report.

At the date of this financial report, AGL has substantially completed the implementation of A-IFRS, including analysis and assessment of accounting policies. Finalisation of implementation requires sign off of systems capability in a live environment, particularly for financial instruments, and finalisation of documentation of internal accounting policies and the impact of associates and joint ventures.

The likely impacts are based on the following key assumptions that AGL will:

- Not restate previous Business Combinations (refer note (d) (iii));
- Adopt deemed cost valuations for Property, Plant & Equipment in order to maintain current carrying values (refer note (d) (viii));
- Reset the opening foreign currency translation reserve to zero (refer note (d) (ii));
- Not restate comparatives for AASB 132 Financial Instruments: Disclosure and Presentation and AASB 139 Financial Instruments: Recognition and Measurement (refer note (d) (xi)); and
- Adopt the retained earnings option for the recognition of

defined benefit fund actuarial gains and losses (refer note (d) (i)).

The following disclosures outline the likely impacts on the current year financial statements of AGL had they been prepared using A-IFRS, based on the Directors' accounting policy decisions current at the date of this financial report. Readers of the financial report should note that further developments in A-IFRS (for example, the release of further pronouncements by the Australian Accounting Standards Board and the Urgent Issues Group), if any, may result in changes to the accounting policy decisions made by the Directors and, consequently, the likely impact outlined in the following disclosure. The following financial impacts may also be affected by the finalisation of A-IFRS implementation by AGL's associated entities and joint ventures.

#### (a) Reconciliation of equity as presented under AGAAP to that under A-IFRS - The Australian Gas Light Company and Controlled Entities

	Note (refer paragraph (d))	2005 \$m**	1 July 2004* \$m
<b>Total equity under AGAAP</b>		3,267.6	3,154.6
<b>Total equity adjustments at date of transition</b>		(97.8)	N/A
<b>Adjustments to retained earnings (pre tax):</b>			
Recognition of defined benefit pension asset	(i)	4.8	5.7
Clearance of foreign currency translation reserve	(ii)	0.0	(4.1)
Write-back of goodwill amortisation	(iii)	39.9	0.0
Recognition of share-based payment expense	(iv)	(4.1)	(0.8)
Adjustments relating to NGC (which was disposed of in December 2004)	(v)	36.7	(5.4)
Tax effect of A-IFRS adjustments	(vi)	1.7	0.0
Tax effect on transition***	(vi)	0.0	(83.9)
<b>Total adjustments to retained earnings</b>		79.0	(88.5)
<b>Adjustments to other reserves (pre tax):</b>			
Recognition of share-based payment expense	(iv)	4.1	(13.4)
Clearance of foreign currency translation reserve	(ii)	0.0	4.1
<b>Total adjustments to other reserves</b>		4.1	(9.3)
<b>Total equity adjustments</b>		(14.7)	(97.8)
<b>Total equity under A-IFRS</b>		3,252.9	3,056.8

\* This column represents the adjustments as at the date of transition to A-IFRS.

\*\* This column represents the cumulative adjustments as at the date of transition to A-IFRS and those for the year ended 30 June 2005.

\*\*\* This figure includes the share attributable to Outside Equity Interests.

#### (b) Reconciliation of net profit under AGAAP to that under A-IFRS - The Australian Gas Light Company and Controlled Entities

Year ended 30 June 2005	Notes	2005 \$m
<b>Net profit as reported under AGAAP</b>		848.3
<b>Adjustments (pre tax):</b>		
Amortisation of goodwill	(iii)	39.9
Movement in defined benefit pension asset	(i)	8.5
Share-based payment expense	(iv)	(4.1)
Recognition of additional profit on disposal of NGC	(v)	36.7
Adjustment to income tax expense	(vi)	0.6
<b>Total adjustments</b>		81.6
<b>Net profit under A-IFRS</b>		929.9

**(c) Restated A-IFRS Statement of Cash Flows for the year ended 30 June 2005**

No material impacts are expected to the cash flows presented under AGAAP on adoption of A-IFRS.

**(d) Notes**

The information in the following notes provides a summary of the A-IFRS Standards as they affect AGL and should not be taken as an exhaustive explanation of all the impacts arising from implementation.

*(i) AASB 119 Employee Benefits*

AGL sponsors a number of defined benefit superannuation plans for employees. This standard requires the recognition of an asset or liability for the net difference between the defined benefit obligation and the fair value of the plan assets.

AGL's current policy for accounting for defined benefit funds is to expense contributions as they are paid or become payable and to fund any shortfall. AGL does not recognise any asset or liability for the net position of the defined benefit funds. The initial adjustment on transition will be through retained earnings.

In December 2004, the Australian Accounting Standards Board agreed to release an amended version of AASB 119 to permit all three options for recognition of actuarial gains and losses that were permitted under the International Standard IAS19. The previous AASB 119 only permitted recognition through profit or loss. The revised AASB 119 can be early adopted. The three options for recognition of actuarial gains and losses are:

- Full recognition through profit or loss;
- Full recognition through retained earnings; or
- The 'corridor' approach which permits smoothing of fluctuations outside of a 10% corridor.

AGL has elected to early adopt the revised AASB 119 for the annual reporting period beginning on 1 July 2005 and will apply the option of taking actuarial gains and losses to retained earnings. For the year ended 30 June 2005, total actuarial losses were \$3.7 million. In accordance with the requirements of AASB 1 First Time Adoption of A-IFRS, comparative period information is restated.

On transition, the estimated financial impact on opening net assets is +\$5.7 million (before tax) and the impact on the June 2005 profit results is +\$8.5 million (before tax).

*(ii) Foreign Currency Translation Reserve*

Under AASB 1, an entity has the option of resetting its opening foreign currency translation reserve (FCTR) to zero at the date of transition. If this option is selected, any gain or loss on disposal of a foreign operation will exclude the translation differences that arose before the date of transition to A-IFRS. At 30 June 2004, the balance in AGL's FCTR was a loss of \$4.1 million which arose from AGL's interests in New Zealand and Chile. AGL disposed of its interests in the New Zealand entity NGC in December 2004. On transition, AGL has elected to reset its FCTR to zero.

*(iii) AASB 3 Business Combinations*

Under this standard, goodwill will no longer be amortised but will be subject to impairment testing. Under A-IFRS, retail licenses will be accounted for as goodwill (refer note (vii)).

The amortisation of goodwill and the retail licenses for the year ended 30 June 2005 was \$39.9 million.

Under the provisions of AASB 1, an entity can elect to retrospectively restate some business combinations to comply with all of the requirements of A-IFRS (with all business combinations that occurred after the earliest restatement being restated) or an entity can elect to not restate any previous business combinations. Without these options, entities would have to undertake a restatement of all previous business combinations to ensure compliance with A-IFRS. If the election is made to restate some previous business combinations, or to not restate at all, AASB 1 still requires assets and liabilities that meet the recognition criteria under A-IFRS to be recognised at the date of transition and assets and liabilities that do not meet the recognition criteria to be derecognised. Adjustments to recognise or derecognise assets and liabilities are made against retained earnings except for adjustments that relate to intangible assets in which case the adjustment is made against goodwill.

Full retrospective application to all previous business combinations was considered impractical based on the fact that AGL, being Australia's second oldest company, was formed in 1837. As assets and liabilities are required to be recognised or derecognised in accordance with A-IFRS regardless of restatement, it was decided not to restate previous business combinations.

AGL has therefore elected to not apply AASB 3 retrospectively to past business combinations. Accordingly, the accumulated amortisation of goodwill and retail licenses at the date of transition of 1 July 2004 will not be reversed.

There is no financial impact on transition. The estimated financial impact on the 30 June 2005 profit results is +\$39.9 million.

*(iv) AASB 2 Share-Based Payments*

AASB 2 applies to all share-based payments that were issued after 7 November 2002 but were not vested by 1 January 2005. This standard requires share-based payments to be measured at fair value at grant date and expensed over the vesting period. The vesting period is determined by the conditions of the employee share ownership plan. This will result in a change to AGL's current accounting policy, which does not require share-based payments to be expensed. AGL has the following share plans that exist at the date of transition to A-IFRS:

- Management Share Plan;
- Share Loan Plan;
- Share Purchase Plan;
- Share Reward Plan; and
- Long-Term Incentive Plan.

The last issue under the Management Share Plan was in November 1996. At 30 June 2005, loans outstanding under this plan were \$0.3 million, however no adjustment has been made as this falls within the transitional provisions.

The Share Loan Plan will be treated as an insubstance option so the loan balance of \$14.2 million at the date of transition will be debited to an employee equity settled benefits reserve on transition. Dividends paid in the future for this plan will be accounted for as a partial exercise of the options and charged to the employee equity settled benefits reserve. This plan is now closed to new participants.

An expense is already recognised for the Share Purchase Plan so no further adjustments are required for A-IFRS.

An expense for the Share Reward Plan and Long-Term Incentive Plan will be recognised over the vesting period based on the fair value of the shares at grant date. The full annual expense for these share-based payments as calculated under this Standard has not been recognised in the period to 30 June 2005 due to the exemption for shares that vest prior to 1 January 2005. A full financial impact of these share plans is estimated to be \$8.0 million before tax. On transition, an adjustment between retained earnings and equity of \$0.8 million reflects the accumulated expense of the rights arising from the Long-Term Incentive Plan on transition date that do not vest until after 1 January 2005.

On transition, the estimated financial impact on opening net assets is -\$14.2 million (before tax) and the impact on the June 2005 profit results is -\$4.1 million (before tax).

*(v) Adjustments relating to NGC*

AGL disposed of its interests in NGC in December 2004. Additional deferred tax liabilities and other transitional adjustments were recognised on the transition to A-IFRS, which resulted in an increase to the reported profit on sale of NGC in December 2004. This is not an ongoing adjustment.

*(vi) AASB 112 Income Taxes*

In accordance with AGAAP, AGL's current accounting policy is to apply the "Income Statement" method to calculating income tax expense. Under this method, income tax expense was calculated on pre-tax accounting profits after adjustments for permanent differences. The tax effect of timing differences was recognised as either a deferred tax asset or deferred tax liability. AASB 112 adopts a "Balance Sheet" approach, which recognises deferred tax amounts for any differences between the accounting and tax value of assets and liabilities. As AASB 112 has a "Balance Sheet" approach to the calculation of deferred tax amounts rather than an "Income Statement" approach, this Standard will result in adjustments to currently recognised tax assets and tax liabilities. In addition the income tax expense and deferred tax amounts calculated under AASB 112 may be affected by other A-IFRS Standards and resulting adjustments to the extent that they impact on the carrying value of assets and liabilities.

On transition, the estimated financial impact on opening net assets is -\$83.9 million and the impact on the June 2005 profit results is +\$0.6 million. A reduction to the deferred tax liability of \$1.1 million arises from the recognition through retained earnings of actuarial losses.

The increase in the deferred tax liability on transition arises from the recognition of deferred taxes associated with fair value adjustments in relation to business combinations, investments in associates and from the previously categorised permanent differences between the book and tax carrying amounts of property, plant and equipment.

*(vii) AASB 138 Intangible Assets*

Under A-IFRS, AGL has formed the view that retail licenses do not meet the criteria for recognition as an identifiable intangible asset. In accordance with AASB 1 these retail licenses will be recognised as goodwill (written down value at 30 June 2004 of \$1,179.4 million). There will be no further amortisation of the licenses when reclassified but they will be subject to impairment testing.

*(viii) Property, Plant and Equipment*

AASB 1 provides four transitional options with respect to the valuation of property, plant and equipment. These options are available on an individual asset basis. These options are:

- Depreciated historical cost;
- Fair value as deemed cost;
- A previous GAAP revaluation which is then deemed to be cost; or
- Fair value at the date of a previous Initial Public Offering or privatisation.

### These options are also available for intangible assets

AGL has elected to choose those options that result in maintaining current carrying values. As a result there is no transitional or ongoing differences arising from this Standard. The basic grouping of assets and the valuation options adopted are:

Asset	A-IFRS Option
Assets held at cost	Depreciated historical cost
Gas Networks	Previous GAAP revaluation deemed as cost
Property	Previous GAAP revaluation deemed as cost
Distribution Licences	Fair value at date of privatisation

#### (ix) Impairment of Assets

Impairment testing is required to be undertaken whenever there is an indication of impairment and annually for goodwill and indefinite life intangibles. No impairment was identified at the date of transition of 1 July 2004. The write down of the networks business under AGAAP at 30 June 2005 was calculated consistently with the requirements under AASB 136. No other impairments have been identified to 30 June 2005.

#### (x) AASB 1 First Time Adoption of A-IFRS

AGL's date of transition to Australian equivalents to IFRS is 1 July 2004 and AGL will be required to prepare an opening Statement of Financial Position at that date. Financial statements under current Australian accounting standards are still required to be prepared for the year ended 30 June 2005. AGL's first A-IFRS financial report will be for the interim financial report for the period ending 31 December 2005.

Opening adjustments to comply with retrospective application of the A-IFRS standards will be made to retained earnings except for adjustments to intangibles acquired in a business combination, which will be made against goodwill.

#### (xi) AASB 139 Financial Instruments

This standard requires all derivatives, including embedded derivatives, to be measured at fair value on the Balance Sheet regardless of the use of the derivative. This standard will result in key differences in accounting policy.

AGL has decided to apply the exemption provided in AASB 1 First Time Adoption of Australian equivalents to International Financial Reporting Standards which permits entities to not apply the requirements of AASB 132 Financial Instruments, Presentation and Disclosure and AASB 139 Financial Instruments: Recognition and Measurement for the financial year ended 30 June 2005. AASB 139 contains strict documentation and designation criteria that must be met in order to achieve hedge accounting. Due to the complexities and uncertainties in AASB 139, particularly in relation to energy derivatives, AGL was not in a position to meet the documentation and designation requirements at 30 June 2004 and so has elected to not restate comparative information for AASB 132 and AASB 139. The standards will be applied from 1 July 2005.

This standard requires significant system changes to ensure that derivatives meet hedge accounting requirements. AGL has been developing its own in-house software to deal with the complexities of energy derivatives and is using off-the-shelf software for the management of treasury positions. This standard has strict hedge accounting criteria and where these are not met, movements in the fair value of derivatives will result in impacts on reported profit. From 1 July 2005, derivatives will be required to be fair valued and included on the Balance Sheet. AGL currently applies hedge accounting to derivatives, which are only recorded through profit on settlement.

#### Energy derivatives

AGL uses derivatives to help manage exposures to wholesale electricity and gas price fluctuations. These derivatives will mainly be classified as cash flow hedges. The Energy Supply Association of Australia, on behalf of a number of its members, has lodged a submission with the Urgent Issues Group seeking clarification on the application of this standard to the Australian electricity industry. This submission has been referred to the International Financial Reporting Interpretations Committee (IFRIC) and a final decision is pending. At 30 June 2005, the fair value of energy derivatives was a negative \$227.8 million. Adjustments arising from the transition to AASB 139 will include the recognition of this fair value.

#### Treasury derivatives

AGL uses treasury derivatives to help manage exposures to interest rate and foreign exchange movements. These derivatives will mainly be fair value hedges. AGL has restructured its portfolio to minimise the impact on fair value fluctuations through profit. At 30 June 2005, the fair value of treasury derivatives was a negative \$40.7 million. Adjustments arising from the transition to A-IFRS will include the recognition of this fair value as well as the fair value of the risks being hedged by these derivatives and foreign exchange differences.

## Independent Audit Report.

### To the Shareholders of The Australian Gas Light Company

#### Scope

We have audited the Concise Financial Report of The Australian Gas Light Company for the financial year ended 30 June 2005 as set out on pages 46 to 63, in order to express an opinion on it to the members of the Company. The Concise Financial Report includes the consolidated financial statements of the consolidated entity comprising the Company and the entities it controlled at the year's end or from time to time during the financial year. The Company's Directors are responsible for the Concise Financial Report.

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the Concise Financial Report is free of material misstatement. We have also performed an independent audit of the Full Financial Report of The Australian Gas Light Company for the year ended 30 June 2005. Our audit report on the Full Financial Report was signed on 25 August 2005, and was not subject to any qualification.


Our procedures in respect of the audit of the Concise Financial Report included testing that the information in the Concise Financial Report is consistent with the Full Financial Report, and examination on a test basis, of evidence supporting the amounts, discussion and analysis, and other disclosures which were not directly derived from the Full Financial Report. These procedures have been undertaken to form an opinion whether, in all material aspects, the Concise Financial Report is presented fairly in accordance with Accounting Standard AASB 1039 "Concise Financial Reports".

The audit opinion expressed in this report has been formed on the above basis.

#### Audit Opinion

In our opinion, the Concise Financial Report of The Australian Gas Light Company complies with Accounting Standard AASB 1039 "Concise Financial Reports".

  
DELOITTE TOUCHE TOHMATSU

  
Greg Couttas, Partner,  
Chartered Accountants, Sydney, 25 August 2005

**Deloitte.**

Liability limited by the Accountants' Scheme approved under the Professional Standards Act 1994 (NSW).

## Independence Declaration.

### To the Directors of The Australian Gas Light Company


In accordance with Section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the Directors of The Australian Gas Light Company.

As lead audit partner for the audit of the financial statements of The Australian Gas Light Company for the financial year ended 30 June 2005, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the Corporations Act 2001 in relation to the review; and
- (ii) any applicable code of professional conduct in relation to the review.

Yours faithfully

  
DELOITTE TOUCHE TOHMATSU

  
Greg Couttas, Partner,  
Chartered Accountants, Sydney, 25 August 2005

**Deloitte.**

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## Five-year summary.

	2005	2004	2003	2002	2001
<b>Statistics</b>					
Revenue excluding significant items (\$m)	4,100.2	4,183.4	4,051.6	3,197.2	3,277.2
Depreciation and amortisation (\$m)	198.8	244.3	249.9	219.8	198.2
EBIT excluding significant items (\$m)	696.5	713.8	688.6	552.1	519.4
Borrowing costs (\$m)	111.5	134.0	174.6	172.2	181.9
Tax expense excluding significant items (\$m)	178.3	188.0	171.6	116.3	108.7
Profit after tax and excluding significant items (\$m)	406.7	391.8	342.4	263.6	228.8
Profit attributable to Shareholders (\$m)	848.3	349.5	295.0	192.1	115.4
Shareholders' equity attributable to Shareholders of the Parent (\$m)	3,267.6	3,049.8	2,896.8	2,101.0	1,905.9
Net borrowings (\$m) <sup>(7)</sup>	1,249.0	2,171.1	1,990.6	2,496.8	2,580.7
Total assets (\$m)	5,928.2	6,574.1	6,394.5	6,016.5	6,003.2
Funds employed (\$m)	4,900.7	5,331.7	5,187.1	4,825.6	4,777.7
Net assets (\$m)	3,267.6	3,154.6	3,153.0	2,328.4	2,108.3
Operating cash flow (\$m)	557.4	637.2	542.2	344.3	297.4
Capital expenditure (\$m)	197.5	211.8	266.2	412.6	384.7
Number of employees	3,006	3,239	3,288	2,639	3,218
Issued shares (m)	456.6	456.2	450.2	382.2	359.8
Number of Shareholders	113,690	114,429	106,037	105,313	95,666
Market capitalisation (\$m)	6,497.4	5,533.7	4,929.2	3,764.7	3,051.1
<b>Performance Indicators</b>					
Net tangible assets attributable to Shareholders/share (\$)	3.92	3.15	2.77	3.17	2.46
Net assets attributable to Shareholders/share (\$)	7.16	6.69	6.43	5.50	5.30
Earnings/share <sup>(1)</sup>					
- excluding significant items (cents)	84.7	79.5	73.2	66.4	63.5
- including significant items (cents)	185.8	76.8	67.3	51.6	32.7
Dividends/share (cents)	63.0	60.0	55.0	52.0	52.0
Operating cash flow/share (cents) <sup>(2)</sup>	122.1	140.1	123.6	92.5	84.4
Profit before borrowing costs, tax and significant items /revenue (excluding significant items) (%)	17.0	17.1	17.0	17.3	15.8
Profit before borrowing costs, tax and significant items/simple average funds employed (%)	13.6	13.6	13.8	11.5	11.7
Earnings on Shareholders' equity <sup>(3)</sup>					
- excluding significant items (%)	12.2	12.2	12.8	12.3	12.1
- including significant items (%)	26.9	11.8	11.8	9.6	6.3
Debt : debt plus equity (%) <sup>(4)</sup>	27.7	40.8	38.7	51.7	55.0
Net borrowing costs cover (times) <sup>(5)</sup>	8.0	5.7	4.1	3.4	3.0
Current ratio <sup>(6)</sup>	1.59	0.85	1.13	0.67	0.56
Revenue (excluding significant items)/average employees (\$000)	1,313.1	1,281.9	1,367.2	1,091.8	1,057.7
EBIT (excluding significant items)/average employees (\$000)	223.1	218.7	232.4	188.5	167.6
Weighted average number of ordinary shares	456.5	454.9	438.5	372.3	353.0

(1) Profit after tax and outside equity interests; shares weighted for issues.

(2) Net cash provided by operating activities; shares weighted for issues.

(3) Profit after tax and outside equity interests; simple average Shareholders' equity.

(4) Net borrowings as a percentage of total equity.

(5) Net borrowing costs related to profit before borrowing costs, tax and significant items.

(6) Liquidity was supported by \$266.2 million of unused credit facilities at 30 June 2005 (refer Note 47(b) to the Full Financial Report).

(7) Interest bearing liabilities less interest and cash balances

## Shareholding information.

The following information is provided regarding the Issued Capital of the Company as at 15 August 2005:

1. The Issued Capital consisted of 456,592,018 fully-paid ordinary shares.
2. There were 114,851 holders of these ordinary shares.
3. There were 5,329 holders of less than 100 shares.
4. The distribution of holders was:

	No. of Holders	%
1 – 1,000 shares	56,869	49.51
1,001 – 5,000 shares	49,440	43.05
5,001 – 10,000 shares	5,601	4.88
10,001 – 100,000 shares	2,800	2.44
100,001 shares and over	141	0.12
	114,851	100

5. The location of holders was:

Location	No. of Holders	%	No. of Shares	%
Australia	110,056	95.82	446,564,300	97.81
USA and Canada	594	0.52	555,948	0.12
United Kingdom	453	0.39	751,311	0.16
New Zealand	3,167	2.76	7,334,002	1.61
Others	581	0.51	1,386,457	0.30
	114,851	100	456,592,018	100

6. The class of holders was:

Class of Holder	No. of Holders	%	No. of Shares	%
Individuals	75,641	65.86	134,636,916	29.49
Companies and other	39,210	34.14	321,955,102	70.51
	114,851	100	456,592,018	100

7. The twenty largest holders held 41.42% of the Issued Capital:

Twenty Largest Holders as at 15 August 2005	Fully-Paid Ordinary Shares	% of Total Issued Shares
National Nominees Limited	47,012,900	10.30
J P Morgan Nominees Australia Limited	46,993,144	10.29
Westpac Custodian Nominees Limited	32,424,755	7.10
Citicorp Nominees Pty Limited	11,215,959	2.46
RBC Global Services Australia Nominees Pty Ltd	8,655,695	1.90
ANZ Nominees Limited	8,640,299	1.89
Queensland Investment Corporation	8,156,825	1.79
Cogent Nominees Pty Limited	5,134,939	1.12
Australian Foundation Investment Company Limited	4,216,991	0.92
AMP Life Limited	2,894,499	0.63
Argo Investments Limited	2,091,664	0.46
HSBC Custody Nominees (Australia) Ltd	1,988,472	0.44
UBS Warburg Private Clients Nominee Pty Ltd	1,653,910	0.36
Government Superannuation Office	1,267,949	0.28
Labrador Pty Limited	1,263,150	0.28
Victorian Workcover Authority	1,190,857	0.26
Questor Financial Services Limited	1,175,321	0.26
PSS Board	1,173,453	0.26
Perpetual Trustee Company Limited	977,946	0.21
Custodial Services Limited	969,024	0.21
	189,097,752	41.42

## Shareholder information.

### Share Registry

Shareholders with enquiries about any aspect of their shareholdings are invited to contact the Company's Share Registry as follows:

Share Registry  
The Australian Gas Light Company  
Locked Bag 1837  
St Leonards NSW 2065  
Australia

Telephone: 02 9921 2259 (within Australia)  
61 2 9921 2259 (international)

Facsimile: 02 9921 2465 (within Australia)  
61 2 9921 2465 (international)

Email: [shareregistry@agl.com.au](mailto:shareregistry@agl.com.au)

When communicating with the Share Registry, it will assist if you can quote your current address together with your Security Reference Number (SRN) or Holder Identification Number (HIN) as shown on your Issuer Sponsored/CHES statements.

### The Final Dividend

The final dividend of 32 cents per share, 100% franked, will be paid on Friday 23 September 2005.

### Australian Stock Exchange Listing

The Company's shares are listed on the ASX, with Sydney being the home exchange. Details of share trading activity and share prices are published in the financial pages of most daily newspapers. The Company's ASX code is 'AGL'.

### AGL website

The AGL website address is: [www.agl.com.au](http://www.agl.com.au)

### Electronic payment of dividends to Shareholders' accounts

Shareholders may nominate a bank, building society or credit union account within Australia for the payment of dividends by direct credit. Payments are electronically credited on the dividend payment date and confirmed by a mailed payment advice. Shareholders wishing to take advantage of payment by direct credit should contact the Share Registry. An appropriate form can be downloaded from the Investor section of the AGL website.

### Dividend Reinvestment Plan

At the October 2003 Annual General Meeting the Chairman announced that the Dividend Reinvestment Plan was to be suspended for future dividends.

### Electronic copy of the Annual Report

Shareholders who wish to receive an electronic copy of the Annual Report are invited to provide their email address to the Share Registry. This can be done through the Investor section of the AGL website or by contacting the Share Registry. Alternatively an appropriate form can be downloaded from the website.

### Removal from the printed Annual Report mailing list

Shareholders who do not wish to receive the printed Annual Report should advise the Share Registry to remove their names from the mailing list. Those Shareholders will continue to receive all other Shareholder information. An appropriate form can be downloaded from the website.

### Change of address or banking details

Shareholders who are Issuer Sponsored should advise the Share Registry immediately of a change of address or banking details for dividends electronically credited to a bank account. All such changes must be advised in writing and cannot be accepted by telephone. Appropriate forms can be downloaded from the website.

Shareholders who are CHES Sponsored should instruct their sponsoring broker in writing to notify the Share Registry of any change.

### **Change of name**

Shareholders who are Issuer Sponsored should notify the Share Registry in writing immediately of a change of name. The written advice must be accompanied by supporting documentation. Appropriate forms can be downloaded from the website.

Shareholders who are CHESSE Sponsored should instruct their sponsoring broker in writing to notify the Share Registry of any change.

### **Tax File Number (TFN)**

While it is not compulsory to provide a TFN, if Shareholders have not provided a TFN or exemption category details, and an unfranked or partly-franked dividend is payable, the Company will be required to deduct tax from the unfranked portion of the dividend at the top marginal tax rate. TFN notification forms can be obtained by contacting the Share Registry or by downloading the appropriate form from the website.

### **Australian Business Number (ABN)**

As from July 2000, Australian companies have the option to quote their ABN in lieu of their TFN to avoid withholding tax being deducted from dividends which are unfranked.

### **Consolidation of shareholdings**

Shareholders who wish to consolidate their multiple shareholdings into one holding should advise the Share Registry or their sponsoring broker, whichever is applicable, in writing.

### **Full Financial Report**

Shareholders seeking a copy of the Full Financial Report should contact the Share Registry. The Full Financial Report is also available on the AGL website.

### **Privacy**

A copy of the AGL Privacy Statement is available on the AGL website.

### **Registered Office**

72 Christie Street, St Leonards NSW 2065 Australia  
Telephone 02 9921 2999 (within Australia)  
61 2 9921 2999 (international)

### **Company Secretary**

Jane McAloon