



EXTRAORDINARY GENERAL MEETING OF SHAREHOLDERS

ADDRESS BY MARK JOHNSON CHAIRMAN AUSTRALIAN GAS LIGHT COMPANY

6 April 2005

Good morning Ladies and Gentlemen and welcome to the Extraordinary General Meeting of AGL Shareholders. I am your Chairman, Mark Johnson, and I would like to welcome you all here today.

The meeting today is in addition to the usual Annual General Meeting.

This means that, unlike the Annual General Meeting, today's meeting will not consider the annual financial statements or election of Directors. Instead the business before the meeting is to consider and approve an equal reduction of capital. I will therefore restrict my remarks to the special business that is properly before this meeting.

The purpose of the Extraordinary General Meeting is for Shareholders of the Australian Gas Light Company to consider, and if thought fit, pass a resolution approving the equal reduction of capital of 50 cents per share.

This reduction in capital is part of an overall \$515 million capital management program to return capital to Shareholders.

For those Shareholders who attended the last Annual General Meeting in October, you may recall I reported to you that the Board thought some of the cash that would soon be in the Company from the sale of NGC, would be better used by Shareholders than by the Company. The net sale proceeds received in December 2004 were around \$778 million.

This money made our already strong balance sheet even stronger. In the opinion of your Directors, the \$515 million capital management program will still leave AGL with sufficient financial resources to make any strategic investments or take other opportunities which are likely to present themselves in the next year or two.

In coming to a decision about the make up of the capital management program the Board considered factors such as simplicity, equity of treatment between Shareholders, the availability of franking credits and how tax effective it would be for Shareholders.

We examined several combinations for returning capital such as an off-market share buy-back, a capital return, special dividend and an on-market share buy-back.

Your Board considered that the capital management program the Company announced in February is the most effective and equitable combination of initiatives to return excess funds to you.

In particular, the Board considered that this combination was likely to be more attractive to the widest cross section of AGL Shareholders and would achieve the best results for the Company and its long term Shareholders.

Components of the Capital Management Program

The capital management program has three components. Given that a number of you have asked questions about these components I would like to touch on each of them briefly.

- The first component is a special dividend of 30 cents per share franked to 90 per cent. This was paid to Shareholders on 24 March, along with the interim dividend of 31 cents per share which was also franked to 90 per cent. The special dividend payment resulted in around \$137 million being returned to Shareholders. The special dividend does not affect the number of shares on issue in the Company.
- The second component is a capital return of 50 cents per share or approximately \$228 million across all issued shares. This is the matter before the meeting today as it requires an ordinary resolution of Shareholders. Like the special dividend, the capital return does not affect the number of shares on issue in the Company.
- The last component is an on-market share buy-back of up to \$150 million which is scheduled to commence in May 2005. This program will be implemented in accordance with the ASX Listing Rules. Any shares bought back by AGL's independent broker will be cancelled and will therefore reduce the number of shares on issue in the Company. The Board fixed on \$150 million as appropriate because market experience has shown that a buy-back of this amount should be achievable for AGL over an acceptable time frame.

Equal Reduction of Capital – 50 cents per share

It might be sensible at this point to make a few remarks in response to four issues that a number of Shareholders have raised about the matter before today's meeting, that is the 50 cents per share equal reduction of capital. I will take them in turn.

First, how tax effective is the reduction of capital for smaller Shareholders?

AGL applied for a ruling from the Tax Office about the taxation status of the reduction of capital. The Tax Office has given a draft ruling that no part of the 50 cents per share will be deemed to be a taxable dividend. Rather, the capital return will result in a reduction of the cost base for shares held as investments (on capital account). Without taking Shareholders' specific circumstances into account, this means that the capital reduction should be tax free at the time the cash is returned to Shareholders. If Shareholders subsequently decide to sell their shares, any taxable capital gain on the sale would be calculated using this lower cost base.

Secondly, Shareholders have asked specifically about the "record date" and its significance.

To participate in the capital reduction and be eligible for the capital return you must be registered as the holder of shares in AGL on the "record date" of 13 April 2005. This date is when AGL's Share Registry is closed for administrative purposes to determine which Shareholders are entitled to the capital return. The last day on which you can purchase AGL shares and still participate in the capital return is today. AGL shares will trade "ex capital return" from tomorrow. If approved by Shareholders the capital return will be paid on 29 April.

Thirdly, Shareholders have asked about the relationship between the capital return and the on-market share buy-back.

These two components of the capital management program are independent of each other. They operate differently and, as I explained earlier, have a different effect. The capital return reduces Shareholders' Funds on the balance sheet but does not change the number of shares on issue. By comparison, the on-market share buy-back reduces the number of AGL shares on issue as various Shareholders sell their shares to AGL after which they are cancelled.

Finally, Shareholders have asked about the impact of the reduction of capital on the share rights of around 100 AGL senior employees issued under the Company's Long Term Incentive Plan.

Under the Incentive Plan employees are issued with share rights which vest over three years. For example, in 2003 and 2004 senior employees were issued with rights that vest progressively to 30 June 2008.

The value of these rights will be diminished by both the reduction of capital (50 cents per share) and the special dividend (30 cents per share). Your Board has determined to maintain the value of these share rights by making a cash payment of 80 cents per share right. This will be made at the time those rights vest. This puts those employees in the same position they were in when the initial share rights were issued to them under the incentive plan. In the view of the Board this is appropriate and consistent with the terms of the plan. The total monetary amounts to all 100 participants are approximately \$232,000 in 2006, \$268,000 in 2007 and \$142,000 in 2008.

In the view of your Board the reduction of capital is fair and reasonable to all Shareholders and does not prejudice creditors. In addition the Board believes that the reduction of capital is in AGL's best interests.

To improve returns to all Shareholders and maintain the Company's position as a leader in the energy industry, AGL aims to be the lowest cost and most efficient energy company in Australia. This drive for efficiency must be combined with excellent customer service standards.

AGL continues to explore opportunities to invest in power generation and in upstream gas supplies. The object here is to reduce the cost and price volatility of the wholesale electricity and gas AGL on-sells to more than three million customers.

Conditions in energy markets will remain extremely competitive. The lack of a national energy market leads to inefficiencies and risks, which raise costs to all consumers.

Within this framework AGL has strong cash flows and a strong balance sheet, to allow it to develop sensible strategic opportunities. It has a strong management team focussed on continual improvement of the Company's operations.

Completion of the capital management program would leave AGL with an unchanged "A" credit rating and a gearing ratio of around 29%. In the Board's view the capital management program will not hinder AGL's capacity to seek improved earnings performance and strategic growth.

Conclusion

It only remains for me, on behalf of the Board, to thank you for attending and demonstrating your continuing interest in AGL by taking part in this Meeting.