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Dear AGL Shareholder

On 24 February 2005, AGL announced a programme to return capital to AGL Shareholders.

The programme has three components:

- a special dividend of 30 cents per share (franked to 90 per cent);
- a capital return of 50 cents per share; and
- an on-market share buy-back of up to \$150 million.

The capital return requires an Extraordinary Meeting of Shareholders, and a notice for a meeting on 6 April 2005 is attached. Explanatory Notes and a Proxy Form are also attached.

Capital Management

For some time the Board has been considering a capital management program which is tax effective for Shareholders, and provides the Company with sufficient capital to make strategic investments.

Factors such as simplicity, equity between Shareholders, availability of franking credits, as well as other legal considerations were considered. Combinations of an off-market share buy-back, a capital return, a special dividend and on-market share buy-backs were also examined.

The programme which has been announced appeared to be the most effective and equitable combination of initiatives to return excess capital to AGL Shareholders.

Special Dividend

The Company intends to pay the special dividend of 30 cents at the same time as the interim dividend of 31 cents on 24 March 2005, both of which will be 90 per cent franked. This compares with an interim ordinary dividend in the prior corresponding period of 29 cents per share, which was 75 per cent franked.

Capital Return

The capital return of 50 cents requires Shareholders' approval. The motion, if approved, will result in the Company reducing its share capital and returning to Shareholders approximately \$228 million. The number of shares on issue in the Company would not change.

If Shareholders approve this motion, the capital return would be paid late in April.

Your Board encourages you to attend and vote at the Extraordinary Meeting of Shareholders to be held at 10 am on 6 April 2005 at the Wesley Conference Centre, 220 Pitt Street, Sydney. Alternatively, if you are unable to attend in person, you may use the Proxy Form to nominate another person to vote on your behalf.

On-market share buy-back

It is intended that the on-market buy-back of shares in the Company will commence in May 2005 after payment of the special dividend and after the capital return, if approved by Shareholders, is made.

Future performance of the Company

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

AGL also continues to explore opportunities 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.

The capital management programme will not hinder AGL's capacity to seek improved earnings performance and strategic growth. Your Board unanimously recommends Shareholders support the capital return.

Yours faithfully



Mark Johnson
Chairman
4 March 2005

Tell us what you think:

Your Board is committed to continually improving communication with Shareholders. Any suggestions would be warmly received and you should contact the Company Secretary, Jane McAloon with any comments you have on (02) 9921 2680 or jmcaloon@agl.com.au.