



Appendix 4D
The Australian Gas Light Company
ABN 95 052 167 405
Half Year Report

Results for announcement to the market
For the half year ended 31 December 2005

Extracts from this report for announcement to the market

\$A Million

Revenue from ordinary activities	Up	4.3%	To	2,086.9
Profit after income tax from continuing operations	Up	2.0%	To	282.2
Net profit after income tax attributable to Shareholders of the Parent Entity	Down	69.9%	To	282.2 *
* The prior year comparative includes the profit on sale of NGC				
Dividends	Amount per ordinary share		Franked amount per ordinary share	
Interim dividend	31 ¢		31 ¢	
Prior interim dividend	31 ¢		28 ¢	
Record date for determining entitlements to the dividend:				
Interim dividend	10 March 2006 to be paid on 23 March 2006			
Prior interim dividend	11 March 2005 paid on 24 March 2005			
Brief explanation of revenue, net profit and dividends:				
A detailed analysis of these results is found in the directors' report of the half year report attached to this announcement.				
Profit from ordinary activities after tax includes significant revenues and expenses as detailed in Note 4(c).				
The interim dividend in respect of ordinary shares for the half year ended 31 December 2005 has not been recognised in the half year report as the interim dividend was declared subsequent to 31 December 2005.				

This half year report is to be read in conjunction with the most recent annual financial report.



The Australian Gas Light Company and Controlled Entities
Half Year Report
For the half year ended 31 December 2005

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The Australian Gas Light Company and Controlled Entities
ABN 95 052 167 405

Directors' Report for the Half Year Ended 31 December 2005 (Incorporating the commentary by Directors and dividend announcement made to the Australian Stock Exchange Limited on 28th February 2006)

The Directors' Report on The Australian Gas Light Company consolidated entity for the half year ended 31 December 2005 in accordance with Section 306 of the Corporations Act 2001.

Results

Profit after income tax attributable to Shareholders has decreased by \$654.5 million to \$282.2 million over the previous corresponding half year, resulting in a 69.9% decrease in basic earnings per share to 61.8 cents.

The result for the half year included the following one-off significant items after tax:

Equity accounted profit relating to APT entering tax consolidations	\$ 4.8m
Profit on sale of Windimurra Power Station	\$ 0.2m
Tax consolidation benefit arising from Gas Networks increasing tax cost base	\$50.0m
Demerger Costs (accruals to 31 December 2005)	\$(6.9)m

	Excluding Significant items		Including Significant items	
	31 Dec 2005 \$m	31 Dec 2004 \$m	31 Dec 2005 \$m	31 Dec 2004 \$m
Profit before finance costs, depreciation and amortisation and income tax (EBITDA)	462.4	425.7	457.6	432.7
Depreciation and amortisation	(80.6)	(78.7)	(80.6)	(78.7)
Profit before finance costs and income tax (EBIT)	381.8	347.0	377.0	354.0
Finance costs	(55.1)	(51.7)	(55.1)	(51.7)
Profit before income tax (PBT)	326.7	295.3	321.9	302.3
Income tax	(92.6)	(92.4)	(39.7)	(25.7)
Profit after income tax (PAT)	234.1	202.9	282.2	276.6
Profit from discontinued operations	-	56.0	-	680.2
Profit for the period	234.1	258.9	282.2	956.8
Minority interests	-	(20.1)	-	(20.1)
Profit after income tax attributable to Shareholders	234.1	238.8	282.2	936.7



The Australian Gas Light Company and Controlled Entities Financial Commentary – Discussion and Analysis of Financial Statements

Profit Attributable to shareholders

Profit after tax from continuing operations and excluding significant items was \$234.1 million reflecting basic earnings per share of 51.3 cents per share, a 6.9 cent per share increase over the prior half year comparative result. Reported profit after tax for the six months ended 31 December 2005 of \$282.2 million decreased by 69.9% over the profit after tax for the six month period ended 31 December 2004 of \$936.7 million, resulting in a decrease in basic earnings per share of 69.9% to 61.8 cents per share.

The strong underlying profit result is offset in part by larger retail marketing costs in response to continued higher levels of retail competition and a warmer winter than the prior year.

Cash Flow

During the half year, reported operating cash flow decreased by 29.3% over the previous corresponding period to \$243.7 million. Cash flow after stay in business capital expenditure decreased by \$88.8 million (30.0%) to \$207.3 million and cash flow available for expansion of the business, after stay in business capital expenditure and payment of dividends decreased by 51.3% to \$61.3 million.

AGL's net debt has increased by 121.6% compared with the June 2005 level, to \$2,768.4 million at 31 December 2005. The net debt position results in AGL's gearing level increasing to 37.2% at 31 December 2005, from 21.2% six months earlier.

Interim Dividend

The Directors have declared an interim dividend of 31 cents per share for the half year, consistent with the dividend of 31 cents declared in the previous comparable period. The 31 cent dividend will be franked to 31 cents (100%) compared with 28 cents (90.3%) for the previous comparable period.

The Record date to determine Shareholders' entitlements to the interim dividend is 10 March 2006.

Review of Operations

Profit from ordinary activities (including significant items) before finance costs and tax was \$377.0 million arising from the following activities:

◆ **Gas Networks - EBIT \$68.1 million (2004 \$74.1 million) down 8.1%**

For the six months to 31 December 2005, Gas Networks contributed \$68.1 million to earnings before finance costs and tax which is a decrease of \$6.0 million compared to the same six month period for the prior year. This result was mainly impacted by a decrease in tariff volumes largely due to unfavourable weather and the implementation of the regulatory final decision handed down by IPART in June 2005 which resulted in a real reduction in average tariff prices by 4.1% and contract prices by 15.3%.

Gas transported on the AGL gas distribution network in NSW was 48.7 PJ, a decrease of 1.4 PJ compared to the same period last year. Tariff market volumes decreased by 0.4 PJ and contract market volumes decreased by 1.0 PJ. Tariff market volumes were reduced by warmer weather as Sydney experienced the warmest winter and third warmest spring on record. The decrease in contract market volumes is substantially attributable to the reduction in operations of four major industrial customers but also includes a lesser impact from closures of a number of smaller plants.

New site growth, mostly in new housing, saw a net increase of 13,491 customer sites and 88 km of gas mains added to the network since June 2005. The NSW gas distribution network now comprises 23,629 km of gas mains and transports natural gas to 965,082 customer sites.

Significant capital projects during the period included continuation of the Sydney Primary Loop project and the Bathurst gas network rehabilitation project.

◆ **Electricity Networks - EBIT \$47.7 million (2004 \$39.0 million) up 22.3%**

For the six months to 31 December 2005, Electricity Networks EBIT was \$47.7 million, an increase of \$8.7 million over the same six months period for the prior year. This result is largely due to higher sales revenue of approximately \$12 million, resulting from higher customer usage during the period which included an abnormally warm month in December 2005, as well as the impact of the increases in network tariffs that applied for the 2005 calendar year.



AGL's Electricity network of poles and wires in the north-west suburbs of Melbourne transports electricity to 290,100 customers. New site growth saw a further 4,396 sites added to the network since 30 June 2005. Electricity delivered was 2,138 GWh, consistent with the same period last year. The distribution network was extended by a further 74 km since June 2005, bringing the total network length to 10,359 km.

Significant capital projects commenced or completed over the past six months include the augmentation of the Keilor Terminal Station to Sunbury 66kv loop, a new feeder at North Heidelberg and the installation of a third transformer at North Heidelberg substation.

◆ **Agility - EBIT \$31.9 million (2004 \$32.2 million) down 0.9%**

Agility is the leading manager, operator and developer of energy infrastructure assets across Australia.

The marginally lower reported EBIT result was influenced by the timing of the finalisation of contracts between the first and second half of the financial year. In addition, increased one off costs associated with the integration of recent acquisitions and new orders will generate additional EBIT in the second half of the financial year.

During this period Agility also continued to broaden its footprint, winning in excess of \$100.0 million of additional external work from various clients across Australia, including:

- the first electricity contract in WA with Western Power;
- expanding into gas operations in Victoria by winning an initial gas contract with Alinta Network Services;
- continuing to expand electricity activities in NSW with the successful tendering for O&M work with Transgrid;
- being awarded a multi-million dollar contract for the Sydney Water Wet Weather Overflow Reduction Program;
- continuing to expand both underground and overhead electricity activities to Energex and Ergon in Qld;
- expanding activities with Powerco gas O&M operations in Tasmania; and
- commencing the provision of services to the PNG Gas Pipeline project based around an owner engineer, operational support role.

These contract wins have added to Agility's overall order book of future revenue, which now stands at \$211.6 million as at December 2005. Agility continues to pursue opportunities in New South Wales, Queensland, Western Australia, Tasmania and Victoria in the Gas, Electricity and Water industries.

The recent acquisitions of the Oakland and Yambah businesses during the 2005 calendar year have also further strengthened Agility's electricity capabilities in Queensland. Both were private businesses specialising in providing underground reticulation services to electricity distributors, principally Energex. Further acquisitions are expected during the second half of the 2006 financial year.

◆ **Retail Energy \$153.8 million (2004 \$141.9 million) up 8.4%**

AGL's Retail Energy division is responsible for the purchase, sale and marketing of gas and electricity to AGL's 1.5 million electricity customer accounts and 1.3 million gas customer accounts across Australia.

During the six months to 31 December 2005, Retail Energy contributed \$153.8 million to profit before finance costs and tax compared with \$141.9 million for the previous corresponding period. This increase was driven primarily by favourable electricity purchase costs against a very competitive retail environment and a warmer winter than for the previous corresponding period.

There was an overall decrease of 18,520 customer accounts compared to the previous corresponding period, with the number of dual fuel customer accounts (ie. where AGL supplies both gas and electricity) increasing by 148,306 to 1,071,250 accounts.

Profit before finance costs and tax to sales revenue for Retail Energy was 8.8% for the period to 31 December 2005, up from 8.2% in the prior period. The favourable profit before finance costs and tax led to this improvement.

Natural Gas

Total natural gas sales of 70.1 PJ were 1.2 PJ lower than the previous corresponding period.

Sales to mass market customers decreased by 1.8 PJ to 34.1 PJ. This decrease in volume was primarily due to a warmer winter in 2005 than 2004 which reduced residential consumption in NSW and VIC. The decrease was partly offset by an increase in gas customer numbers which follows the opening of the SA gas mass market to competition in 2004.

Sales to contract market customers were largely in line with the previous corresponding period across all regions, with a small increase of 0.6 PJ to 36.0 PJ. Sales to the contract market in Victoria increased by 0.4 PJ to 14.1 PJ; in NSW they decreased by 0.2 PJ to 18.8 PJ and in SA increased by 0.4 PJ to 3.1 PJ.

Electricity

Total electricity sales volume of 10,970 GWh was 429 GWh lower than last year due to lower customer numbers and warmer weather, which led to lower average consumption.

Sales to mass market customers decreased by 163 GWh to 4,913 GWh as a result of customer losses in Victoria and SA and a warmer winter than in the prior period.

Sales to contract market customers decreased by 266 GWh to 6,057 GWh. In the Victorian contract market, volume was largely in line with the prior period at 2,365 GWh. The NSW/ACT contract market sales volumes decreased by 315 GWh to 1,875 GWh due to the loss of Department of Defence sites from 1 July 2005.

In SA contract market volumes increased by 69 GWh to 1,506 GWh and in the QLD contract market sales were unchanged from the prior period.

◆ Merchant Energy \$34.4 million (2004 \$19.3 million) up 78.2%

The Merchant Energy division is responsible for AGL's Power Generation assets, including the recently acquired Southern Hydro, gas extraction and exploration (Sydney Gas JV) together with the Wholesale Gas and Energy Services businesses previously within the former Energy Sales & Marketing divisional structure.

During the period ended 31 December 2005, Merchant Energy contributed \$34.4 million to profit before finance costs and tax compared with \$19.3 million for the previous corresponding period. This favourable result was driven by an increased contribution from Merchant Energy's Power Generation assets, including the 32.5% investment in Loy Yang Power and a \$6.5m fair value profit from the A-IFRS requirement to restate derivatives to market value.

Power Generation

AGL Power Generation, including the contribution from Loy Yang Power, provided a profit contribution before finance costs and tax of \$19.5 million; up \$6.9 million (54.8%) on last year. Operating & maintenance cost efficiencies contributed \$0.8m for the Somerton & Hallett Power Stations. An improved result from the investment in Loy Yang contributed an additional \$6.4m to profit for the period.

Power Generation – Wholly Owned Gas Fired

AGL's two gas-fired power stations - 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 additional fuel supply 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.

Power Generation – Wholly Owned Hydro

The acquisition of Southern Hydro on 30 November 2005 significantly strengthens AGL's upstream generation capacity providing an internal hedge against some of AGL's exposure to volatility in electricity pool prices.

Southern Hydro provided a one month operating profit before finance costs and tax of \$1.7m for the current period.

Power Generation - Investments

The 2006 financial year contribution of \$6.8 million EBIT comprised equity accounted profit of \$1.0 million and loan note interest revenue of \$5.8 million from the 32.5% ownership interest in Loy Yang Power.

During the year, the development phase of the Hallett (Brown Hill) Wind Farm project was completed. The 95 MWh Hallett Wind Farm is located at Brown Hill, adjacent to the Hallett Power Station, 215km north of Adelaide in South Australia. Board approval was achieved on 5 December 2005 to begin the construction phase of the Wind Farm.



The project will be constructed over a 27 month period with handover of the wind farm expected to occur at the end of March 2008.

Further growth of AGL's generation portfolio is planned through investments in renewable energy projects, expansion of existing power generation plants or the development and construction of further gas peaking plants to support those that currently exist.

Wholesale Gas

The new business division of Merchant Energy created out of the previous Energy, Sales and Marketing (ES&M) and Power Generation divisions, incorporates ES&M's Wholesale Gas business under the new management structure. The Wholesale gas division is responsible for sourcing and selling gas to AGL's major external wholesale customers. Such customers include third party generators, major industry (One Steel) and other retailers.

Wholesale gas sales increased by 10.6 PJ to 25.5 PJ primarily due to the acquisition of Terra Gas Trader in January 2005 (11.5 PJ), partly offset by lower sales volumes to National Power (0.6 PJ) and ActewAGL (0.3 PJ).

Sydney Gas Joint Venture

The Sydney Gas JV was formed on the acquisition of a 50% per cent interest in Sydney Gas Limited's (SGL) production leases and exploration licences, including the Camden Gas Project, for a total up-front payment of \$42.25 million which is included in property, plant and equipment, oil and gas rights in the consolidated balance sheet. The JV will allow AGL to participate in the development and production of coal seam gas in SGL's current assets and permits. AGL is the operator of the Camden Gas Project Joint Venture.

◆ **Energy Investments and LPG - contribution \$60.3 million (2004 \$52.2 million) up 15.5%**

Australian Pipeline Trust (APT)

AGL's share of equity accounted profits from its 30% investment in the Australian Pipeline Trust totalled \$15.1 million (2004 \$8.1 million). The result for the current half year includes a share of APT's significant items (AGL share \$4.8m) associated with the tax benefit arising from APT's entry into tax consolidation.

The improved underlying result for the current half year reflects a full six month contribution from the GGT and Parmelia Pipelines (acquired in August 2004), and the 30% minority interest in the Ballera to Mt Isa Pipeline (acquired in February 2005).

ActewAGL

AGL's share of profits from its 50% investment in the ActewAGL distribution and retail partnerships in the Capital region totalled \$26.8 million (2004 \$29.3 million).

Warmer than average weather has resulted in lower gas volumes, and the first half of 2005/06 reflects revised gas network tariff charges following the regulatory reset in January 2005. Slightly higher electricity volumes and the continued focus on operating cost control have offset these impacts.

Despite increasing competitive pressures, retail customer numbers are in line with the previous corresponding period. However, lower gas volumes and higher electricity cost of sales have resulted in decreased equity accounted profits when compared with the prior corresponding period.

Elgas

AGL's 50% interest in Auscom Holdings (Elgas), which distributes and retails LPG in Australia, made a \$7.8 million equity accounted contribution (2004 \$9.6 million). This decrease is attributable to lower energy sales volumes resulting from warmer trading conditions, and pressure on margins arising from continued high world LPG prices.

The supply reliability offered by the Sydney LPG Cavern led to improved Cavern volumes during the half year as a number of refineries experienced production problems.

HC Extractions

HC Extractions, which produces LPG, contributed an EBIT of \$4.9 million, an increase of \$2.5 million on the previous corresponding period. The increase is attributable to additional revenue earned from continued high levels of the Saudi Contract Price of propane.



Gas Valpo

AGL's wholly-owned investment in Gas Valpo, a natural gas distribution company in Chile, contributed \$5.7 million to earnings before interest and tax during the six months ended 31 December 2005 (2004 \$2.8 million). This increase is due to a number of factors including increased sales to residential, commercial and industrial customers, and the appreciation of the Chilean peso against both the US dollar and Australian dollar since the previous corresponding period.

Favourable weather conditions in Argentina during the first half of 2005/06, have enabled GasValpo to partially mitigate the impact of continued gas restrictions by undertaking spot gas purchases to optimise gas supply to its industrial customers.

◆ **Unallocated items - expense of \$19.3 million (2004 \$14.3 million) up 35.0%**

Unallocated expense items of \$19.3 million were \$5.0 million higher than in the previous corresponding period. This includes \$9.8 million of costs relating to the demerger which have been treated as a significant item.

◆ **Finance costs - expense \$55.1 million (2004 expense \$51.7 million) up 6.6%**

Finance costs from continuing operations increased by \$3.4 million over the previous corresponding period primarily as a result of additional debt in relation to the acquisition of Southern Hydro.

◆ **Tax expense \$39.7 million (2004 expense \$25.7 million) up 54.5%**

The increase in tax expense from continuing operations of \$14.0 million to \$39.7 million compared with the previous corresponding period is largely attributable to the tax benefit adjustment on tax consolidation of \$50.0 million related to AGL Gas Networks. This compares to the \$65.8 million tax benefit on tax consolidation recorded in the previous corresponding period, relating to AGL Electricity.

Australian equivalents to International Financial Reporting Standards

This report is AGL's first report under Australian equivalents to International Financial Reporting Standards (A-IFRS) and comparatives have been restated as required on transition. Refer to Note 3 for further information.

Outlook

As noted elsewhere in the report AGL has announced a proposal to demerge the consolidated entity into an energy business and an infrastructure business. Detailed dividend outlook statements for AGL and the demerged businesses for the 2006 financial year are contained in the Scheme Booklet released on 13 February 2006. If the demerger proceeds, AGL in its current form will not pay a final dividend for the 2006 financial year. It is anticipated that participating shareholders in the demerger that continue to hold AGL Energy shares and AGL Infrastructure shares (as described in the Scheme Booklet) will receive dividend payments from both AGL Energy and AGL Infrastructure in September 2006. Subject to no significant changes in market conditions, the AGL Board considers that the dividend outlook for 2006 will be achieved but is subject to the risks, disadvantages and assumptions of the demerger explained in detail in the Scheme Booklet.

The Scheme Booklet contains detailed information on AGL Energy and AGL Infrastructure which will be useful in providing shareholders with additional information on operating and financial prospects of the demerged entities. The Scheme Booklet can be found on the AGL website www.agl.com.au.



Directors in Office

The names of Directors of the Parent Entity who held office during or since the end of the half year are:

	<i>First Appointed</i>
Mark Roderick Granger Johnson – Chairman	7 April 1988 (<i>appointed Chairman 3 December 2003</i>)
Gregory John Walton Martin – Managing Director	1 March 2001
Sir Ronald Brierley	21 January 1987
Graham John Reaney	7 April 1988
David Charles Keith Allen AO	22 October 1996
Carolyn Judith Hewson	22 October 1996
Anthony Bowen Daniels (OAM)	24 August 1999 (retired 18 October 2005)
Maxwell Gilbert Ould	1 January 2004
David Paul Craig	11 May 2005

Rounding of Amounts to Nearest \$0.1 Million

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

Lead Auditors' Independence Declaration under Section 307c of the Corporations Act 2001

The lead auditors' independence declaration is set out on page 10 and forms part of the Directors Report for the half year ended 31 December 2005.

This Report is made in accordance with a resolution of the Board of Directors and is signed for and on behalf of the Board this 28th day of February 2006.

M R G Johnson
Chairman

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060

Grosvenor Place
225 George Street
Sydney NSW 2000
PO Box N250 Grosvenor Place
Sydney NSW 1217 Australia

DX 10307SSE
Tel: +61 (0) 2 9322 7000
Fax: +61 (0) 2 9322 7001
www.deloitte.com.au

The Board of Directors
The Australian Gas Light Company
72 Christie Street
ST LEONARDS NSW 2065

28 February 2006

Dear Board Members

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 ("AGL").

As lead audit partner for the audit of the financial statements of AGL for the half year ended 31 December 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 audit, other than a contravention covered by ASIC Class Order 05/910; and
- (ii) any applicable code of professional conduct in relation to the audit.

The independence of Deloitte in respect to the audit of the financial statements of The Australian Gas Light Company for the half year ended 31 December 2005 has not been impaired by this inadvertent contravention of the auditor independence requirements of the Corporations Act 2001.

Yours sincerely



DELOITTE TOUCHE TOHMATSU



G Coullas
Partner
Chartered Accountants



**The Australian Gas Light Company and Controlled Entities
Consolidated Income Statement
For the half year ended 31 December 2005**

	Note	31 Dec 2005 \$m	31 Dec 2004 \$m
Continuing Operations			
Revenue from ordinary activities	4(a)	2,086.9	2,000.7
Expenses from ordinary activities	4(b)	(1,680.0)	(1,610.6)
Equity accounted share of profits of associates and joint venture entities	6	50.7	42.6
Profit from ordinary activities before finance costs, depreciation and amortisation		457.6	432.7
Depreciation and amortisation		(80.6)	(78.7)
Profit from ordinary activities before finance costs and income tax		377.0	354.0
Finance costs		(55.1)	(51.7)
Profit from continuing operations before income tax		321.9	302.3
Income tax expense *		(39.7)	(25.7)
Profit after income tax from continuing operations		282.2	276.6
Profit from discontinued operations		-	680.2
Profit for the period		282.2	956.8
Profit attributable to minority interests		-	(20.1)
Net Profit after income tax attributable to Shareholders of the Parent Entity		282.2	936.7

* Includes tax effect of significant items of \$52.9 million (2004 \$66.7m) refer note 4(c)

Earnings per share – including significant items

Basic for profit for the half year (cents)	61.8	205.2
Basic for profit from continuing operations (cents)	61.8	60.6
Diluted for profit for the half year (cents)	61.7	205.0
Diluted for profit from continuing operations (cents)	61.7	60.6

Earnings per share – excluding significant items

Basic for profit for the half year (cents)	51.3	52.3
Basic for profit from continuing operations (cents)	51.3	44.4
Diluted for profit for the half year (cents)	51.2	52.3
Diluted for profit from continuing operations (cents)	51.2	44.4

Weighted average number of ordinary shares

Basic (millions)	456.4	456.6
Diluted (millions)	457.2	457.0



**The Australian Gas Light Company and Controlled Entities
Consolidated Balance Sheet
As at 31 December 2005**

	31 Dec 2005 \$m	30 June 2005 \$m
Current assets		
Cash and cash equivalents	251.6	394.2
Receivables	880.8	807.1
Inventories	12.1	14.0
Financial Assets	90.7	-
Non-current assets classified as held for sale	15.2	15.2
Other	60.9	78.3
Total current assets	1,311.3	1,308.8
Non-current assets		
Receivables	118.1	123.7
Equity accounted investments	997.2	971.9
Property, plant and equipment, oil and gas rights	4,590.6	3,782.4
Intangible assets	2,379.6	1,534.1
Deferred Tax assets	247.2	126.9
Financial assets	90.2	-
Pension assets	11.9	10.1
Other	15.8	23.0
Total non-current assets	8,450.6	6,572.1
Total assets	9,761.9	7,880.9
Current liabilities		
Payables	488.6	433.3
Interest Bearing Liabilities	1,667.9	236.3
Financial liabilities	191.8	-
Provisions	58.7	60.5
Current tax liabilities	77.3	86.0
Unearned revenue	3.7	8.9
Total current liabilities	2,488.0	825.0
Non-current liabilities		
Interest Bearing Liabilities	1,352.1	1,406.9
Financial liabilities	213.5	-
Provisions	48.3	46.0
Deferred tax liabilities	979.4	945.9
Unearned revenue	5.6	5.1
Total non-current liabilities	2,598.9	2,403.9
Total liabilities	5,086.9	3,228.9
Net assets	4,675.0	4,652.0
Equity		
Issued Capital	1,999.1	2,010.1
Reserves	(80.4)	(8.6)
Retained profits	2,756.3	2,650.5
Equity attributable to Shareholders of the Parent Entity	4,675.0	4,652.0
Total equity	4,675.0	4,652.0



**The Australian Gas Light Company and Controlled Entities
Consolidated Cash Flow Statement
For the half year ended 31 December 2005**

	31 Dec 2005 \$m	31 Dec 2004 \$m
Cash flows from operating activities		
Receipts from customers	2,494.4	2,671.9
Payments to suppliers and employees	(2,149.5)	(2,196.1)
Dividends received	46.5	45.7
Interest received	13.2	4.2
Finance costs paid	(54.5)	(68.6)
Income tax paid	(106.4)	(112.2)
Net cash provided by operating activities	<u>243.7</u>	<u>344.9</u>
Cash flows from investing activities		
Payment for property, plant and equipment , oil and gas rights	(186.2)	(92.8)
Payment for investments	-	(22.1)
Payment for intangible assets	-	(0.2)
Payments for purchase of controlled entities	(1,461.2)	-
Loans advanced	(5.6)	-
Proceeds from sale of property, plant and equipment	0.6	31.9
Proceeds from sale of controlled entities	-	777.8
Proceeds from loan repayments	0.2	2.9
Net cash (used in) provided by investing activities	<u>(1,652.2)</u>	<u>697.5</u>
Cash flows from financing activities		
Payment for share buy-back	(14.0)	-
Proceeds from borrowings and hedge receipts on foreign currency borrowings	1,625.4	273.0
Repayment of borrowings and hedge payments on foreign currency borrowings	(182.6)	(524.6)
Dividends paid	(146.0)	(170.1)
Net cash provided by (used in) financing activities	<u>1,282.8</u>	<u>(421.7)</u>
Net increase/(decrease) in cash held	(125.7)	620.7
Cash at the beginning of the financial period	377.0	1.4
Effects of exchange rate changes on the balance of cash held in foreign currencies	0.3	-
Cash at the end of the financial period	<u><u>251.6</u></u>	<u><u>622.1</u></u>



The Australian Gas Light Company and Controlled Entities
Statement of recognised income and expense
For the half year ended 31 December 2005

	31 Dec 2005 \$m	31 Dec 2004 \$m
Cash flow hedges:		
Gain/(loss) taken to equity	129.9	-
Transferred to profit or loss for the period	(83.5)	-
Translation of foreign operations:		
Exchange differences taken to equity	21.9	(5.3)
Share based payments expense	(0.7)	2.6
Actuarial gain/(loss) on defined benefit funds	-	(1.5)
Share of increments in reserves attributable to associates	2.6	(1.6)
Income tax on items taken directly to or transferred from equity	(18.5)	(0.1)
Other	(0.2)	-
Net income recognised directly in equity	51.5	(5.9)
Profit for period	282.2	956.8
Total recognised income and expense for the period	333.7	950.9
Attributable to:		
Equity holders of the parent	333.7	930.8
Minority interests	-	20.1
	333.7	950.9

Reconciliation of Consolidated Statement of recognised income and expense to equity movements

	Reserves \$m	Retained Profits \$m
Opening balance at 30 June 2005	(8.6)	2,650.5
Current period adjustments	51.5	-
* A-IFRS transitional adjustments current period	(123.3)	(30.4)
Profit for period	-	282.2
Dividend paid	-	(146.0)
Closing balance at 31 December 2005	(80.4)	2,756.3
* A-IFRS transitional adjustments current period		
Fair value at date of transition of qualifying hedges	(176.2)	-
Income tax benefit thereon	52.9	-
Share of increments in earnings attributable to associates	-	19.3
Fair value at date of transition of derivatives that do not qualify as hedges	-	(71.0)
Income tax benefit thereon	-	21.3
	(123.3)	(30.4)

The Australian Gas Light Company and Controlled Entities
Notes to the Financial Statements
For the half year ended 31 December 2005

Note 1 - Regulation

On 11 October 2002 the Parent Entity, previously established as an unincorporated organisation by Act of Council, 8 William IV, 7 September 1837, was converted into a body corporate and registered under the Corporations Act 2001.

Note 2 – Statement of significant accounting policies

(a) Basis of preparation of financial report

The half year financial report is a general purpose financial report and is prepared in accordance with the Corporations Act 2001, applicable Accounting Standard AASB 134 Interim Financial Reporting, Urgent Issues Group Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board as applicable to the half year report.

The half year report does not include all of the disclosures of the type normally included in the annual financial report. The half year financial report should be read in conjunction with the annual financial report of The Australian Gas Light Company as at 30 June 2005, which was based on Australian Accounting Standards applicable before 1 July 2005.

The half year financial report is prepared on the basis of historical cost and, except where otherwise stated, is not adjusted to take account of either changing money values or current valuations of non-current assets. The carrying value of recognised assets and liabilities that are hedged are adjusted to record changes in the fair value attributable to the risks being hedged.

The accounting policies applied in the preparation and presentation of the financial report are consistent with those applied in previous years, except as disclosed below.

(b) Statement of compliance

The consolidated entity changed its accounting policies on 1 July 2005 to comply with AIFRS. The transition to AIFRS is accounted for in accordance with AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards, with 1 July 2004 as the date of transition. An explanation of how the transition from superseded policies to AIFRS has affected the consolidated entity's financial position, financial performance and cash flows is discussed in Note 3. Compliance with AIFRS ensures that the half year report complies with International Financial Reporting Standards (IFRS).

This is the first half year financial report prepared under AIFRS and comparatives for the half year ended 31 December 2004 and full year 30 June 2005 have been restated accordingly. The consolidated entity has not restated comparative financial information for financial instruments, including derivatives, as permitted under the first time adoption transitional provisions. The accounting policies for financial instruments applicable to the comparative information are consistent with those adopted and disclosed in the financial report for the year ended 30 June 2005.

(c) Principles of consolidation

The consolidated financial report of the consolidated entity comprises The Australian Gas Light Company (the Parent Entity) and each of its controlled entities. Adjustments have been made to achieve consistency where entities adopt accounting policies which differ from the consolidated entity. All inter-entity balances and transactions are eliminated on consolidation.

(d) Business Combinations

The directors have elected under s.334(5) of the Corporations Act 2001 to apply the revised Accounting Standard AASB 3 Business Combinations, even though the Standard is not required to be applied until annual reporting periods beginning on or after 1 January 2006.

(e) Receivables

Debtors, loans receivable and other receivables are carried at amounts due or amounts expected to be realised, whichever is the lesser.

Unbilled revenue represents estimated gas and electricity services supplied to customers but unbilled at the end of the financial period.

Receivables are normally recognised when control of goods and services provided by the consolidated entity passes to the buyers.

Notes to the Financial Statements

For the half year ended 31 December 2005

Note 2 – Statement of significant accounting policies (continued)

(f) Inventories

Stocks and materials are valued at the lower of cost and estimated net realisable value. Costs, including an appropriate portion of fixed and variable overhead expenses, are assigned to inventory on hand by the method most appropriate to each particular class of inventory, with the majority being valued on a first-in-first-out basis.

(g) Investments

Investments in associates and jointly controlled entities are shown at cost plus the consolidated entity's share of the post-acquisition undistributed profits and reserves of the associates or jointly controlled entities. The results of associates and jointly controlled entities are accounted for by using the equity method of accounting.

Interests in jointly controlled assets and operations are recognised by including in the financial report under the appropriate categories the consolidated entity's relevant proportion of joint venture revenues, expenses, assets and liabilities.

Interests in partnerships that are not joint ventures are shown at cost plus the consolidated entity's share of the undistributed profits of the partnerships. The consolidated entity's share of the profits of partnerships is recognised as it is earned.

Investments in other entities are initially recognised at cost. After initial recognition, these investments are stated at fair value less any impairment. Dividend income or distributions from such entities are brought to account as profit from ordinary activities.

(h) Property, plant and equipment

Purchased assets

Items of property, plant and equipment are initially brought to account at cost which includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located. For major qualifying assets, cost includes, where applicable, finance and other costs incurred during construction or represents, where applicable, the fair value of assets acquired on the purchase of controlled entities.

Property, plant and equipment, other than freehold land and buildings, are stated at cost less accumulated depreciation and impairment.

Property, plant and equipment, other than freehold land, leasehold improvements and surplus properties held for sale, are depreciated at rates based upon the expected useful lives of the assets. Depreciation rates are reviewed annually and, if necessary, adjusted to reflect the most recent assessments of useful lives.

Leasehold improvements are amortised over the periods of the relevant leases or the expected useful lives of the improvements, whichever are the shorter.

Leased assets

Assets acquired under finance leases are capitalised and amortised over their expected useful lives. Corresponding liabilities are also established and lease payments are allocated between interest expense and lease liabilities with the interest component being charged against profits as incurred.

Payments made under operating leases are expensed as incurred.

(i) Intangibles

All potential intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair value can be measured reliably. The useful lives of these intangible assets are assessed to be either finite or indefinite.

Goodwill

Goodwill represents the excess of acquisition costs over the fair values of the identifiable assets, liabilities and contingent liabilities acquired. Goodwill is not amortised but is tested for impairment annually and whenever there is an indication that the goodwill may be impaired. Any impairment is recognised immediately in profit or loss and is not subsequently reversed.

As at the acquisition date, any goodwill acquired is allocated to each of the cash-generating units expected to benefit from the combination's synergies.

Licences

The consolidated entity's licences are carried at cost, cost representing the fair value of the licences acquired.

Notes to the Financial Statements

For the half year ended 31 December 2005

Note 2 – Statement of significant accounting policies (continued)

The licences have an indefinite useful life and, accordingly, are not amortised.

(j) Finance Costs

Finance costs relating to long-term debt held at amortised cost are amortised using the effective yield method. Finance costs relating to debt held at fair value through profit or loss are expensed. Finance costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset.

(k) Recoverable amount of non-current assets

At each reporting date, the consolidated entity reviews the carrying amount of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the consolidated entity estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Goodwill and intangible assets with indefinite useful lives are tested for impairment annually and whenever there is an indication of impairment. An impairment of goodwill is not subsequently reversed.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than the carrying amount of the asset (or cash-generating unit) it is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease.

A reversal of an impairment loss is recognised as an increase to the estimated recoverable amount of the asset (or cash-generating unit) but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the reversal of the impairment loss is treated as a revaluation increase.

(l) Non-current assets held for sale

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition and the sale of the asset (or disposal group) is expected to be completed within one year from the date of classification.

(m) Payables

Creditors and other payables, including accruals not yet billed, are recognised when the consolidated entity becomes obliged to make future payments principally as a result of purchases of goods and services.

(n) Interest bearing liabilities

Borrowings are recorded initially at fair value, net of transaction costs.

Subsequent to initial recognition, borrowings are measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

Customer deposits are recognised on receipt of refundable deposits held as security over future gas and electricity usage by customers. Interest is accrued at nominal rates over the period the deposits are held.

(o) Provisions

Provisions are recognised when the Group has a present obligation, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a

Notes to the Financial Statements

For the half year ended 31 December 2005

Note 2 – Statement of significant accounting policies (continued)

provision is measured using the cashflows estimated to settle the present obligation, its carrying amount is the present value of those cashflows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that recovery will be received and the amount of the receivable can be measured reliably.

(p) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the taxation authority or for receivables and payables which are recognised inclusive of GST. Cash flows are included in the statement of cash flows on a gross basis. GST, which is recoverable or payable to the taxation authority, is classified as operating cash flows.

(q) Taxation

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items.

Deferred tax assets and liabilities are not recognised when they arise from the initial recognition of assets and liabilities (other than from a business combination) which affects neither taxable income nor accounting profit. Deferred tax liabilities are not recognised when they arise from investments in subsidiaries, branches, associates and joint ventures where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets are only recognised to the extent that it is probable that they will be realised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability settled based on tax rates (and tax laws) that have been enacted or substantively enacted by the reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the consolidated entity expects, at the reporting date, to recover or settle the carrying amounts of its assets and liabilities.

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period.

Current and deferred tax is recognised as an expense or income in the income statement, except when it relates to items credited directly to equity, in which case the deferred tax is also recognised in equity.

(r) Restoration and rehabilitation costs

The initial cost of property, plant and equipment includes the initial estimate, discounted to present value, of dismantling, removing the item and restoring the site on which it is located where the obligation arises when the item is acquired or through use for purposes other than to produce inventories.

(s) Employee benefits

Liabilities for wages, salaries and annual leave and other employee benefits which are expected to be settled within twelve months of reporting date are accrued at nominal amounts, calculated on the basis of wage and salary rates expected to apply at the time of settlement, plus relevant employment on-costs.

Liabilities for other employee benefits, which are not expected to be settled within twelve months of reporting date, are accrued at nominal amounts calculated on the basis of wage salary rates expected to apply at the time of settlement. The liabilities ascertained using this method are not materially different from the liabilities determined using the present value method of the estimated future cash flows to be made.

The directors have elected under s.334(5) of the Corporations Act 2001 to apply Accounting Standard AASB 119 *Employee Benefits*, even though the Standard is not required to be applied until annual reporting periods beginning on or after 1 January 2006.

Contributions to defined contributions superannuation plans are expensed when incurred.

Notes to the Financial Statements

For the half year ended 31 December 2005

Note 2 – Statement of significant accounting policies (continued)

For defined benefit superannuation plans, the net difference between the defined benefit obligation and the fair value of the plan assets is recognised as an expense except for actuarial gains and losses which are recognised directly in retained earnings in the period in which they occur.

The defined benefit obligation represents the present value of the defined benefit obligation, adjusted for unrecognised past service cost, net of the fair value of the plan assets. Any asset resulting from this calculation is limited to past service cost, plus the present value of available refunds and reductions in future contributions to the plan.

(t) Share-based Payments

The Group provides benefits to employees (including directors) of the Group in the form of share-based payment transactions. Share-based payments granted after 7 November 2002 that were unvested at 1 January 2005, are measured at fair value at grant date and expensed over the vesting period. Fair value is measured using the share price for AGL shares at grant date adjusted for the non-receipt of dividends over the vesting period. Vesting is not conditional upon a market condition. No expense is recognised for share-based payments that do not vest.

(u) Revenue Recognition

Gas and electricity services revenue represents accounts rendered plus an accrual for unbilled revenue at the end of the financial period.

Revenue from the provision of services, including revenue from construction contracts, represents consideration received or receivable determined, where appropriate, in accordance with the percentage of completion method, with the stage of completion of each contract determined by reference to the proportion that contract costs for work performed to date bears to the estimated total contract costs.

Customer contributions towards infrastructure are recognised as revenue in the periods in which the infrastructure is completed.

(v) Foreign currencies

The functional and presentation currency of The Australian Gas Light Company and its Australian subsidiaries is Australian dollars. The functional currency of the subsidiaries in Chile is the Chilean Peso.

Translation of foreign currency transactions

Foreign currency transactions are converted to Australian dollars at exchange rates ruling at the dates of those transactions. Amounts payable and receivable in foreign currencies at balance date are converted to Australian dollars at exchange rates ruling on that date.

Exchange differences arising from the conversion of amounts payable and receivable in foreign currencies are brought to account as gains or losses in the periods in which the differences arise except for exchange differences on transactions entered into in order to hedge certain foreign currency risks (refer separate note on Derivative Financial Instruments).

Translation of foreign currency financial statements

Assets and liabilities of overseas subsidiaries are translated into Australian dollars at exchange rates ruling at reporting date. Profits and losses of such controlled entities are translated at average exchange rates ruling during the year. Exchange differences arising on translation are taken directly to the foreign currency translation reserve and recognised in profit or loss on disposal of the overseas subsidiary.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity on or after the date of transition to A-IFRS are treated as assets and liabilities of the foreign entity and translated at exchange rates prevailing at the reporting date. Goodwill arising on acquisitions before the date of transition to A-IFRS is treated as an Australian dollar denominated asset.

(w) Derivative financial instruments

The directors have elected under s.334(5) of the Corporations Act 2001 to apply Accounting Standard AASB 2005-1 even though the Standard is not required to be applied until annual reporting periods beginning on or after 1 January 2006. This Standard contains amendments to AASB 139 *Financial Instruments: Recognition and Measurement* which permit the foreign currency risk of a highly probable intragroup forecast transaction to qualify as the hedged item in consolidated financial statements.

Notes to the Financial Statements

For the half year ended 31 December 2005

Note 2 – Statement of significant accounting policies (continued)

The Group uses derivative financial instruments to manage its exposure to interest rate risk, foreign exchange rate risk and electricity purchase risk. As permitted under the AIFRS first time adoption transitional provisions, comparative financial information for financial instruments, including derivatives, has not been restated. The following accounting policies apply for the period from 1 July 2005. The accounting policies for financial instruments applicable to the comparative period are consistent with those adopted and disclosed in the financial report for the year ended 30 June 2005. Financial instruments including derivatives are included in the Balance Sheet as Financial Assets or Financial Liabilities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which case, the timing of the recognition in profit or loss depends on the nature of the hedge relationship. Hedges are classified as fair value hedges when they hedge the exposure to changes in the fair value of recognised assets or liabilities or firm commitments; cash flow hedges where they hedge exposure to variability in cash flows from highly probable forecast transactions or hedges of net investments in foreign operations

Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in profit or loss immediately, together with any changes in the fair value of the hedge asset or liability that is attributable to the hedged risk.

Hedge accounting is discontinued when the hedge instrument expires or is sold, terminated, exercised or no longer qualifies for hedge accounting. The adjustment to the carrying amount of the hedged item arising from the hedge risk is amortised to profit or loss from that date.

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are deferred in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss.

Amounts deferred in equity are recycled in profit or loss in the periods when the hedged item is recognised in profit or loss. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss deferred in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was deferred in equity is recognised immediately in profit or loss.

Hedges of net investments in foreign operations

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instruments relating to the effective portion of the hedge is recognised in the foreign currency translation reserve; the gain or loss relating to the ineffective portion is recognised immediately in profit or loss. Gains and losses deferred in the foreign currency translation reserve are recognised immediately in profit or loss when the foreign operation is disposed of.

Embedded derivatives

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of their host contracts and the host contracts are not measured at fair value with changes in fair value recognised in profit or loss.

(x) Cash flows

For the purpose of the statements of cash flows, cash includes cash on hand, cash held at call with financial institutions and money market investments, net of bank overdrafts and money market borrowings.

Notes to the Financial Statements

For the year ended 30 June 2005

Note 3 – First-time Adoption of Australian Equivalents to International Financial Reporting Standards

The impacts of adopting AIFRS on the total equity and profit after tax as reported under Australian Accounting Standards applicable before 1 July 2005 (AGAAP) are illustrated below.

(i) Reconciliation of total equity as presented under AGAAP to that under A-IFRS

	Consolidated		
	30 June 2005 \$m	31 Dec 2004 \$m	1 July 2004 \$m
Total equity under AGAAP	3,267.6	3,814.4	3,154.6
Total A-IFRS equity adjustments at date of transition	1,308.4	1,308.4	n/a
<i>Adjustments to equity:</i>			
Recognition of defined benefit superannuation asset (a)	5.9	2.7	5.7
Write back of goodwill amortisation (b)	39.5	19.7	-
Adjustments relating to NGC (c)	54.5	54.5	(5.4)
Changes in equity accounted investments (d)	(1.2)	(1.0)	(0.5)
Election made to measure certain property, plant and equipment held by associates at fair value and use that fair value as the deemed cost of this property, plant and equipment at date of transition (e)	(4.6)	(2.3)	370.7
Election made to measure certain property plant and equipment at fair value and use that fair value as deemed cost at the date of transition (f)	(31.6)	(15.8)	1,578.0
Recognition of share based payments (g)	5.2	3.3	(14.2)
Tax effect of A-IFRS adjustments (h)	8.3	6.9	(625.9)
Total AIFRS equity adjustments at date of transition			1,308.4
Total equity under A-IFRS	4,652.0	5,190.8	4,463.0

- (a) AASB 119 *Employee Benefits* ("AASB 119") requires the recognition of a defined benefit superannuation asset or liability. This was not recognised under AGAAP. AGL has elected to early adopt the revised AASB 119 and has chosen to recognise actuarial gains and losses through retained earnings. Other superannuation costs are recognised in the Income Statement.
- (b) Goodwill is not amortised under AASB 3 *Business Combinations* but was amortised under AGAAP. An adjustment has been made to reverse the goodwill amortisation expense since the date of transition. In accordance with AASB 1 *First Time Adoption of Australian Equivalents to International Financial Reporting Standards* ("AASB 1") AGL has elected not to restate past business combinations, accordingly no adjustment in respect of accumulated goodwill amortisation is required at the date of transition of 1 July 2004. In addition, under A-IFRS AGL concluded that the gas and electricity retail licences do not meet the criteria for recognition as separately identifiable intangible assets, and under AASB 1 these licences were reclassified to goodwill at the date of transition at their net book value of \$1,170.0 million.
- (c) AGL disposed of its interests in NGC in December 2004. Additional deferred tax liabilities and other transitional adjustments were recognised on transition to A-IFRS, which resulted in an increase of \$54.5 million in equity in respect of the sale of NGC.
- (d) A-IFRS transitional adjustments made by AGL's equity accounted investees have resulted in adjustments to AGL's carrying value of those investments under A-IFRS.
- (e) On transition to AIFRS an election has been made in accordance with AASB 1 to measure certain property, plant and equipment at fair value and use that fair value as the deemed cost of this property, plant and equipment. The adjustment to retained earnings at 1 July 2004 of \$370.7 million is a result of the equity accounted investments in Australian Pipeline Trust and ActewAGL Distribution Partnership increasing by \$140.7 million (after income tax) and \$230.0 million respectively to reflect AGL's share of the increase in equity accounted reserves arising from the increase in the carrying value of property, plant and equipment held by these associates. An adjustment has also been made in respect of the increased depreciation arising from the increase in the carrying value of property, plant and equipment held by these associates to reflect the reduction

Notes to the Financial Statements

For the year ended 30 June 2005

Note 3 – First-time Adoption of Australian Equivalents to International Financial Reporting Standards

in AGL's share of equity accounted profits in respect of the half year ended 31 December 2004 (\$2.3 million) and the year ended 30 June 2005 (\$4.6 million). This was a change from the A-IFRS elections proposed in the financial statements for the year ended 30 June 2005.

- (f) On transition to A-IFRS an election has been made in accordance with AASB 1 to measure the New South Wales gas distribution network property, plant and equipment at fair value and use that fair value as the deemed cost of this property, plant and equipment. This has resulted in an increase of \$1,578.0 million in the carrying value of this property, plant and equipment. As a result of the increased carrying value of the property, plant and equipment, increased depreciation charges are reflected in the financial statements for the half year ended 31 December 2004 (\$15.8 million) and the year ended 30 June 2005 (\$31.6 million). This was a change from the A-IFRS elections proposed in the financial statements for the year ended 30 June 2005.
- (g) In accordance with AASB 2 *Share Based Payments* the rights issued under the AGL Share Loan Plan are treated as in substance options and are required to be expensed. On transition the AGL Share Loan plan receivable of \$14.2 million was debited to equity. An adjustment has also been made to expense the fair value of the share based payments over their vesting period in the half year ended 31 December 2004 and the year ended 30 June 2005.
- (h) The tax effect of A-IFRS on transition, and ongoing, arises from the recognition of deferred taxes associated with fair value adjustments in relation to business combinations, investments, the adoption of fair value as deemed costs in respect of certain property plant and equipment (\$542.4 million) and from previously categorised permanent differences between the book and tax carrying amounts of property, plant and equipment.

Notes to the Financial Statements

For the year ended 30 June 2005

Note 3 – First-time Adoption of Australian Equivalents to International Financial Reporting Standards (continued)

(ii) Reconciliation of profit from ordinary activities after tax under AGAAP to that under A-IFRS

	Consolidated	
	Year ended 30 June 2005 \$m	Half year ended 31 Dec 2004 \$m
Profit from ordinary activities after tax as previously reported	848.3	887.8
Defined benefit superannuation plan expense (a)	8.5	4.2
Recognition of share based payment expense (b)	(4.1)	(1.8)
Write back of goodwill amortisation (c)	39.5	19.7
Adjustments relating to NGC (d)	37.3	37.3
Changes in equity accounted investments (e)	2.8	0.7
Reduction in equity accounted profits in respect of the election to adopt the fair value of property plant and equipment as deemed cost at the date of transition in respect of certain equity accounted investments (f)	(4.6)	(2.3)
Additional depreciation in respect of the election to adopt the fair value of certain property plant and equipment as deemed cost (g)	(31.6)	(15.8)
Tax effect of A-IFRS adjustments (h)	8.3	6.9
Profit after tax under A-IFRS	904.4	936.7

- (a) AASB 119 *Employee Benefits* ("AASB 119") requires defined benefit superannuation current service costs to be recognised in the Income Statement during the period. AGL have elected to recognise actuarial gains and losses directly in retained earnings in accordance with AASB 119. Under AGAAP, superannuation contributions were recognised as an expense as they were paid or became payable.
- (b) Share based payments are required to be recognised in the Income Statement under AASB 2 *Share-based Payments* but were not required to be expensed under AGAAP, hence an adjustment has been made to expense the fair value of the share based payments over their vesting period.
- (c) Goodwill is not amortised under AASB 3 *Business Combinations* but was amortised under AGAAP. An adjustment has been made to reverse the goodwill amortisation expense since the date of transition.
- (d) AGL disposed of its interests in NGC in December 2004. Additional deferred tax liabilities and other transitional adjustments were recognised on transition to AIFRS, which resulted in an increase of \$37.3 million in the reported profit on sale of NGC under A-IFRS.
- (e) A-IFRS transitional adjustments made by AGL's equity accounted investees have resulted in adjustments to AGL's equity accounted share of profits recognised under A-IFRS.
- (f) On transition to AIFRS an election has been made in accordance with AASB 1 to measure certain property, plant and equipment held by associates at fair value and use that fair value as the deemed cost of this property, plant and equipment. An adjustment has been made in respect of the increased depreciation arising from the increase in the carrying value of property, plant and equipment held by these associates to reflect the reduction in AGL's share of equity accounted profits in respect of the half year ended 31 December 2004 (\$2.3 million) and in the year ended 30 June 2005 (\$4.6 million).
- (g) On transition to AIFRS an election has been made in accordance with AASB 1 to measure the New South Wales gas distribution network property, plant and equipment at fair value and use that fair value as the deemed cost of this property, plant and equipment. As a result of the increased carrying value of the property, plant and equipment, increased depreciation charges are reflected in the financial statements for the half year ended 31 December 2004 (\$15.8 million) and the year ended 30 June 2005 (\$31.6 million).
- (h) This adjustment represents the impact on current tax expense in respect of the AIFRS adjustments, in accordance with AASB 112 *Income Taxes*.

(iii) Explanation of material adjustments to the cash flow statements

There are no material differences between the cash flow statements presented under A-IFRS and those presented under AGAAP.



The Australian Gas Light Company and Controlled Entities
Notes to the Financial Statements
For the half year ended 31 December 2005

	31 Dec 2005 \$m	31 Dec 2004 \$m
Note 4 – Revenues/expenses from ordinary activities		
Profit before income tax includes the following revenues and expenses whose disclosure is relevant in explaining the performance of the entity.		
(a) Revenue from ordinary activities		
Sales of goods		
Operating activities	1,872.3	1,799.8
Provision of services		
Construction contracts	12.3	12.9
Other operating activities	193.9	164.7
Interest		
Associates and joint venture entities	5.8	5.2
Other operating entities	0.7	0.4
Disposals of assets	-	
Operating activities	0.6	0.9
Sale of Breakfast Point	-	14.7
Sale of Windimurra power station	0.2	-
Rents		
Other activities	0.3	0.3
Write-back of provisions no longer required		
Doubtful debts	0.3	1.1
Employee benefits	-	0.6
Other revenue		
Other	0.5	0.1
	2,086.9	2,000.7
(b) Expenses from ordinary activities		
Cost of goods sold	1,375.0	1,332.4
Administrative costs	57.0	62.5
Employee benefits	244.4	213.9
Expense of share-based payments	3.6	1.8
	1,680.0	1,610.6



**The Australian Gas Light Company and Controlled Entities
Notes to the Financial Statements
For the half year ended 31 December 2005**

	31 Dec 2005 \$m	31 Dec 2004 \$m
Note 4 – Revenues/expenses from ordinary activities (continued)		
(c) Significant items (net profit before tax)		
Equity accounted profit relating to APT entering tax consolidation	4.8	-
(Income tax expense applicable \$nil million)		
Profit on sale of Windimurra power station	0.2	-
(Income tax expense applicable \$nil million)		
Demerger costs	(9.8)	-
(Income tax benefit applicable \$2.9 million)		
Tax Consolidation Benefit *	50.0	64.8
(Income tax expense applicable \$nil million, 2004 gross benefit \$65.9 million less costs \$1.6 million (tax benefit \$0.5 million))		
Sale of NGC	-	628.2
(Income tax expense applicable \$4.0 million)		
Sale of Breakfast Point	-	14.7
(Income tax expense applicable \$nil million)		
Property Rehabilitation	-	(6.1)
(Income tax benefit applicable \$0.3 million)		
* Tax consolidation benefit on increasing tax cost base for Electricity Networks 2004 and Gas Networks 2005		

(d) Seasonality of Operations

The energy business operates in an environment that is dependent upon weather as one of the key drivers of supply and demand. Fluctuations in seasonal weather patterns, particularly those over the short term, can have a positive or negative effect on the reported result. AGL prepares detailed forecasts of the key drivers of profitability and hedges associated risks as described in the financial statements at 30 June 2005. However, it is not possible to consistently predict this seasonality and some variability is common.

	31 Dec 2005 \$m	31 Dec 2004 \$m
Note 5 – Dividends		
<i>Dividends paid during the half year</i>		
Final dividend paid 23 September 2005 (2004 - 24 September 2004)		
Franked amount ((32 cents per share) (2004 - 23 cents per share))	146.0	104.9
Unfranked amount ((Nil cents per share) (2004 - 8 cents per share))	-	36.5
Total amount ((32 cents per share) (2004 - 31 cents per share))	146.0	141.4
<i>Dividends proposed and not recognised as a provision #</i>		
Proposed interim dividend 23 March 2006 (2005 - 24 March 2005)		
Franked amount (([31] cents per share) (2005 - 28 cents per share))	141.3	127.8
Unfranked (([nil] cents per share) (2005 - 3 cents per share))	-	13.7
Total (([31] cents per share) (2005 - 31 cents per share))	141.3	141.5

The interim dividend in respect of ordinary shares for the half year ended 31 December 2005 has not been recognised in this financial report because the interim dividend was not declared prior to 31 December 2005.

In addition to the interim dividend paid on 24 March 2005, a special dividend of 30 cents per share was paid on the same date. No such dividend is proposed for the half year ended 31 December 2005.

The Australian Gas Light Company Dividend Reinvestment Plan was suspended on 14 October 2003.



The Australian Gas Light Company and Controlled Entities
Notes to the Financial Statements
For the half year ended 31 December 2005

Note 6 – Material interests in equity accounted associates and joint ventures

	Percentage of ownership interest held at end of period		Contribution to net profit	
	31 Dec 2005 %	31 Dec 2004 %	31 Dec 2005 \$m	31 Dec 2004 \$m
Equity accounted associates and joint ventures				
Auscom Holdings Pty Limited	50.0	50.0	7.8	9.6
Australian Pipeline Trust	30.0	30.0	15.1	8.1
ActewAGL	50.0	50.0	26.8	29.5
Greater Energy Alliance Corporation Pty Limited	32.5	32.5	1.0	(4.7)
Agility Diona	50.0	50.0	-	0.1
Agility Kembla	50.0	50.0	-	-
Camden Gas Project	50.0	-	-	-
Sydney Exploration	50.0	-	-	-
Hunter Exploration	50.0	-	-	-
APC PNG Project	50.0	50.0	-	-
Total			50.7	42.6



The Australian Gas Light Company and Controlled Entities
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For the half year ended 31 December 2005

Note 7 – Segment Information

(a) Segment revenues

	External Sales Revenue		Other External Revenue		Inter-Segment Revenue		Equity Accounted Share of Net Profits		Total	
	31 Dec 05	31 Dec 04	31 Dec 05	31 Dec 04	31 Dec 05	31 Dec 04	31 Dec 05	31 Dec 04	31 Dec 05	31 Dec 04
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Energy Networks										
Gas networks	34.1	27.5	0.7	0.7	138.5	149.6	-	-	173.3	177.8
Electricity networks	49.1	38.8	-	-	59.6	57.5	-	-	108.7	96.3
	83.2	66.3	0.7	0.7	198.1	207.1	-	-	282.0	274.1
Agility	92.7	65.6	0.4	1.2	143.9	143.5	-	0.1	237.0	210.4
Retail Energy	1,728.9	1,714.0	0.4	0.1	9.7	16.5	-	-	1,739.0	1,730.6
Merchant Energy	125.1	74.1	6.3	5.2	759.6 *	18.9	1.0	(4.7)	892.0	93.5
Energy Investments	45.6	32.1	0.1	0.4	-	-	49.7	47.2	95.4	79.7
New Zealand business	-	206.7	-	784.0	-	-	-	-	-	990.7
Property	0.1	-	0.1	36.8	0.1	0.1	-	-	0.3	36.9
Telecommunications	-	-	-	0.6	-	-	-	-	-	0.6
Segment totals	2,075.6	2,158.8	8.0	829.0	1,111.4	386.1	50.7	42.6	3,245.7	3,416.5
Unallocated items	3.3	3.6	-	-	-	-	-	-	3.3	3.6
	2,078.9	2,162.4	8.0	829.0	1,111.4	386.1	50.7	42.6	3,249.0	3,420.1
Less: eliminations	-	-	-	-	(1,111.4)	(386.1)	-	-	(1,111.4)	(386.1)
	2,078.9	2,162.4	8.0	829.0	-	-	50.7	42.6	2,137.6	3,034.0

* The inter-segment revenue for Merchant Energy represents the sale of energy to Retail Energy during the period and the prior period comparatives have not been restated.

Revenue is principally derived from:

- (i) *Energy Networks* – distribution of gas and electricity.
Agility – provision of infrastructure management and maintenance services.
Retail Energy – sale of natural gas and electricity.
Merchant Energy – generation and sale of electricity and wholesale sale of gas.
Energy Investments – investments in pipeline and energy utility entities.
New Zealand business (discontinued) – investments in New Zealand entities involved in the gas and electricity industries.
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.
- (iii) Since 1 April 2005 the previous Energy Sales & Marketing and Power Generation segments have been reported under the new segments, Retail Energy and Merchant Energy



The Australian Gas Light Company and Controlled Entities
Notes to the Financial Statements
For the half year ended 31 December 2005

Note 7 – Segment Information (continued)

(b) Segment results – profits/(losses)

	Segment Results - Profits/(Losses)		Depreciation and Amortisation		Other Non-Cash Expenses	
	31 Dec 05	31 Dec 04	31 Dec 05	31 Dec 04	31 Dec 05	31 Dec 04
	\$m	\$m	\$m	\$m	\$m	\$m
Continuing Operations						
Energy Networks						
Gas networks	68.1	74.1	36.5	36.0	1.1	0.8
Electricity networks	47.7	39.0	9.2	11.9	-	0.2
	<u>115.8</u>	<u>113.1</u>	<u>45.7</u>	<u>47.9</u>	<u>1.1</u>	<u>1.0</u>
Agility	31.9	32.2	2.6	1.8	7.2	5.5
Retail Energy	153.8	141.9	7.9	8.0	20.8	22.9
Merchant Energy	34.4	19.3	10.0	7.6	2.2	0.2
Energy Investments	60.3	52.2	3.0	2.7	0.2	0.3
Property	0.1	8.6	0.4	0.6	0.1	0.1
Telecommunications	-	1.0	-	-	-	-
Segment totals	<u>396.3</u>	<u>368.3</u>	<u>69.6</u>	<u>68.6</u>	<u>31.6</u>	<u>30.0</u>
Unallocated items	<u>(19.3)</u>	<u>(14.3)</u>	<u>11.0</u>	<u>10.1</u>	<u>18.4</u>	<u>11.4</u>
	<u>377.0</u>	<u>354.0</u>	<u>80.6</u>	<u>78.7</u>	<u>50.0</u>	<u>41.4</u>
Less: finance costs	<u>(55.1)</u>	<u>(51.7)</u>				
Profit from continuing operations	<u>321.9</u>	<u>302.3</u>				
Income tax attributable to ordinary activities	<u>(39.7)</u>	<u>(25.7)</u>				
Profit from continuing operations after income tax	<u>282.2</u>	<u>276.6</u>				
Discontinued Operations						
New Zealand business						
	-	702.6	-	30.5	-	-
Segment Totals	-	<u>702.6</u>	-	<u>30.5</u>	-	-
Less: finance costs	-	<u>(10.3)</u>				
Profit from discontinued operations	-	<u>692.3</u>				
Income tax attributable to ordinary activities	-	<u>(12.1)</u>				
Profit from discontinued operations after income tax	-	<u>680.2</u>				
Profit after income tax	<u>282.2</u>	<u>956.8</u>				

Profit from ordinary activities before finance costs includes the following significant items, detailed in Note 4(c), as allocated to relevant segments:

- (i) Merchant Energy \$0.2 million (2004 \$Nil)
- (ii) Energy Investments \$4.8 million (2004 \$Nil)
- (iii) Property \$Nil (2004 \$8.6 million)
- (iv) Unallocated items \$(9.8) million (2004 \$(1.6) million)
- (v) New Zealand Business \$Nil (2004 \$624.2 million)
- (vi) Income tax attributable to ordinary activities \$52.9 million (2004 \$66.7 million)



Note 7 – Segment Information (continued)

(c) Segment assets and liabilities

	Assets		Liabilities		Equity Accounted Investments *		Acquisition of Non-Current Assets *	
	31 Dec 05	31 Dec 04	31 Dec 05	31 Dec 04	31 Dec 05	31 Dec 04	31 Dec 05	31 Dec 04
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Energy Networks								
Gas networks	2,793.9	2,788.2	653.6	688.3	-	-	36.0	31.6
Electricity networks	768.1	961.9	23.9	18.8	-	-	23.1	20.4
	<u>3,562.0</u>	<u>3,750.1</u>	<u>677.5</u>	<u>707.1</u>	-	-	<u>59.1</u>	<u>52.0</u>
Agility	144.9	72.3	67.1	69.9	-	0.3	11.0	2.7
Retail Energy	2,123.5	1,967.3	531.1	517.0	0.9	0.9	0.4	3.6
Merchant Energy	2,355.5	594.8	450.6	53.1	126.0	104.8	1,661.5	5.6
Energy Investments	1,078.6	1,048.0	177.9	175.3	870.3	875.4	9.4	2.7
New Zealand business	-	-	-	-	-	-	-	14.5
Property	36.9	37.9	14.1	12.7	-	-	7.1	1.6
Telecommunications	-	0.2	0.1	1.4	-	-	-	-
Segment totals	<u>9,301.4</u>	<u>7,470.6</u>	<u>1,918.4</u>	<u>1,536.5</u>	<u>997.2</u>	<u>981.4</u>	<u>1,748.5</u>	<u>82.7</u>
Unallocated items	460.5	752.4	3,168.5	1,495.7	-	-	18.4	6.1
Consolidated totals	<u>9,761.9</u>	<u>8,223.0</u>	<u>5,086.9</u>	<u>3,032.2</u>	<u>997.2</u>	<u>981.4</u>	<u>1,766.9</u>	<u>88.8</u>

* included in Assets total

The Australian Gas Light Company and Controlled Entities
Notes to the Financial Statements
For the half year ended 31 December 2005
Note 7 – Segment Information (continued)

(d) Funds employed

	Energy Networks		Agility	Retail Energy	Merchant Energy	Energy Investments	Property	Telecom – munications
	Gas networks	Electricity networks						
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Current assets								
Cash	-	-	0.5	2.8	13.6	4.8	-	-
Receivables	13.3	15.5	48.4	718.1	51.3	21.4	4.7	-
Inventories	-	-	4.3	6.0	0.2	1.5	-	-
Financial assets	-	-	-	0	90.7	-	-	-
Other	1.1	-	3.5	46.9	6.0	0.2	14.2	-
Non-current assets								
Receivables	-	-	-	-	117.7	0.5	-	-
Equity accounted investments	-	-	-	0.9	126.0	870.2	-	-
Property, plant and equipment, oil and gas rights	2,769.6	435.4	27.1	65.9	1,003.5	143.4	13.9	-
Intangibles	8.4	278.2	40.8	1,185.0	869.1	29.0	0.5	-
Deferred tax assets	0.5	39.0	12.3	91.0	25.5	7.6	3.6	-
Financial assets	-	-	-	-	51.9	-	-	-
Other	1.0	-	8.0	6.9	-	-	-	-
Total assets	2,793.9	768.1	144.9	2,123.5	2,355.5	1,078.6	36.9	-
Current liabilities								
Payables	4.3	7.4	26.5	370.6	32.9	10.0	4.1	-
Provisions	1.0	0.3	13.7	10.4	12.1	1.7	5.4	-
Tax liabilities	24.5	12.8	6.1	21.6	5.1	14.1	0.1	-
Unearned revenue	-	0.8	0.5	2.0	-	0.4	0.1	-
Financial liabilities	-	-	-	-	191.8	-	-	-
Non-current liabilities								
Provisions	0.2	-	20.1	12.8	2.1	0.1	3.1	-
Deferred tax liabilities	623.1	2.5	-	107.8	81.9	102.7	1.3	-
Unearned revenue	0.5	-	-	3.9	1.2	-	-	-
Financial liabilities	-	-	-	-	115.8	-	-	-
Funds employed	2,140.3	744.3	78.0	1,594.4	1,912.6	949.6	22.8	-
Guarantee support	-	-	3.0	5.2	331.5	0.3	-	-

The Australian Gas Light Company and Controlled Entities
Notes to the Financial Statements
For the half year ended 31 December 2005

Note 7 – Segment Information (continued)

	Energy Networks		Agility	Retail Energy	Merchant Energy	Energy Investments	Property	Telecommunications
	Gas networks	Electricity networks						
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Before income tax	68.1	47.7	31.9	153.8	34.2	55.5	0.1	-
After income tax	48.1	33.7	22.2	47.3	10.8	44.4	0.1	(0.1)
Before income tax	3.2	5.7	79.2	10.1	2.8	5.9	0.5	(4.1)
After income tax	2.3	4.0	55.2	3.1	0.9	4.7	0.3	12.1
*Weighted where appropriate								
Before income tax	3.2	5.7	75.0	10.1	2.2	5.9	0.5	n/a
After income tax	2.3	4.0	52.3	3.1	0.7	4.7	0.3	12.1

(h) Geographical segments

	External Revenues		Assets		Acquisition of Non-Current Assets	
	31 Dec 05	31 Dec 04	31 Dec 05	31 Dec 04	31 Dec 05	31 Dec 04
	\$m	\$m	\$m	\$m	\$m	\$m
Australia	2,053.9	1,980.3	9,589.3	8,080.6	1,765.8	68.2
New Zealand (discontinued)	-	990.7	-	-	-	14.5
Other	33.0	20.4	172.6	142.4	1.1	6.1
	2,086.9	2,991.4	9,761.9	8,223.0	1,766.9	88.8



The Australian Gas Light Company and Controlled Entities
Notes to the Financial Statements
For the half year ended 31 December 2005

Note 8 - Contingent liabilities and contingent assets

	31 Dec 05	30 Jun 05
	\$m	\$m
(a) Contingent liabilities		
Bank guarantees in respect of the consolidated entity	13.3	8.5
Guarantees and warranties in respect of controlled entities	41.2	35.5
Guarantees in respect of associates	5.0	5.0
Guarantees in respect of other entities *	24.2	21.8
Contingent consideration under contract	51.0	-
	134.7	70.8

* AGL has provided a guarantee over a \$25.0 million bank facility utilised by TransACT. As at 31 December 2005 the facility had been drawn down to the amount of \$23.3 million (June 2005 \$20.8 million) and is included in guarantees in respect of other entities.

Other contingent liabilities

- (i) Claims and possible claims, indeterminable in amount, have arisen in the course of business against entities in the consolidated entity. Based on legal advice obtained, the directors of the Parent Entity (AGL) believe that any resultant liability will not materially affect the financial position of the consolidated entity.
- (ii) AGL has undertaken to provide financial support, as and when required, to certain wholly-owned controlled entities, so as to enable those controlled entities to pay their debts as and when such debts become due and payable.
- (iii) AGL has provided warranties and indemnities to certain third parties in relation to the performance of contracts by various wholly-owned controlled entities.

(b) Contingent assets

AGL is party to an agreement in relation to the disposal of various entities to an associated entity (Australian Pipeline Trust). Under the agreement the parties have agreed that to the extent to which duty payable by the purchaser is otherwise than as estimated under the Share Sale agreement, an adjustment payment would be made. During the period discussions with relevant state revenue offices on duty relief continued and AGL is close to finalising the matter with each of them. The amount of the potential payment payable by the purchaser has not been recognised at 31 December 2005, as it cannot be reliably measured at this stage.

Note 9 – Discontinued operations

On 14 December 2004 the company completed the divestment of its 66.05% shareholding in NGC Holdings Limited (NGC). The shareholding was sold to Vector Limited, a New Zealand based energy company.

The results of NGC for the period up to when it was sold have been presented below:

	31 Dec 2005	31 Dec 2004
	\$m	\$m
Revenue	-	206.7
Expenses (including finance costs)	-	(142.6)
Pre-tax profit	-	64.1
Income tax expense	-	(8.1)
Net profit attributable to discontinued operations	-	56.0



The Australian Gas Light Company and Controlled Entities
Notes to the Financial Statements
For the half year ended 31 December 2005

Note 9 – Discontinued operations (continued)

The net cash flows of NGC for the period up to when it was sold were as follows:

	31 Dec 2005	31 Dec 2004
	\$m	\$m
Operating cash flows	-	54.9
Investing cash flows	-	(9.6)
Financing cash flows	-	(41.7)
Net cash (outflow)/inflow	-	3.6

Note 10 – Tax Consolidation

Legislation to allow groups comprising a parent entity and its Australian resident wholly-owned entities to elect to consolidate and be treated as a single entity for income tax purposes was substantively enacted on 21 October 2002.

AGL and its wholly-owned Australian resident entities are eligible to consolidate for tax purposes under this legislation and have elected to be taxed as a single entity from 1 July 2003. The implementation of the tax consolidation system has been formally notified to the Australian Taxation Office. The head entity within the tax consolidated group for the purposes of the tax consolidation system is The Australian Gas Light Company.

Note 11 – Issued Capital

	Number '000	\$m
Issued and fully paid ordinary shares	455,909	
<i>Movements in ordinary shares on issue:</i>		
At 1 July 2005	456,576	2,010.1
Issued	15	0.2
Share buy back	(682)	(11.2)
At 31 December 2005	455,909	1,999.1

Note 12 – Change in composition of entity

Acquisition of Southern Hydro group

On 30 November 2005, AGL acquired 100% of the share capital of Meridian Energy Australia Holdings Ltd, an unlisted company that owned the Southern Hydro group which has the largest privately owned, renewable hydro and electricity generation portfolio in Australia.

The fair value of the acquisition was \$1,452.2 million including costs directly attributable to the acquisition totalling \$12.1 million.

From the date of acquisition, the Southern Hydro group has contributed \$1.7 million to operating profit before finance costs and tax. It is not practicable to determine the profit or revenue for the Group as if the acquisition had taken place at the beginning of the year as the risk management policies under AGL are different to those adopted by the Southern Hydro group prior to the acquisition. The risk management policies include policies on energy trading which affect the operational performance of the entity.

The acquisition has only recently been completed and work is continuing on finalising and assigning fair values to the Southern Hydro group's identifiable assets, liabilities and contingent liabilities. For this reason the accounting for the acquisition has been determined provisionally.



The Australian Gas Light Company and Controlled Entities
Notes to the Financial Statements
For the half year ended 31 December 2005

Note 12 – Change in composition of entity (continued)

The provisional fair value of the assets and liabilities of the Southern Hydro group as at the date of the acquisition are:

	Provisional fair value recognised on acquisition \$m	Carrying value at acquisition \$m
Cash and cash equivalents	11.0	11.0
Receivables	43.7	43.7
Inventories	0.2	0.2
Property, plant and equipment	701.2	716.2
Deferred income tax asset	29.9	32.2
Financial assets	41.7	41.7
Intangible Assets	835.1	120.2
Other Assets	1.4	1.4
Total Assets	1,664.2	966.6
Interest Bearing Liabilities	6.9	6.9
Payables	27.5	27.5
Provisions	14.9	7.6
Financial Liabilities	80.6	80.6
Deferred income tax liability	68.6	89.6
Other Liabilities	13.5	13.5
Total Liabilities	212.0	225.7
Net assets	1,452.2	740.9

Subject to finalisation of the provisional acquisition accounting, all identifiable intangible assets have been recognised separately from goodwill. Goodwill arises from various portfolio benefits that will arise from integrating the activities of the Southern Hydro business with that of AGL. These benefits include risk minimisation from the replacement of contracted hedge position with physical fast-start generation assets and other cost reduction opportunities. The acquisition and associated portfolio benefits will assist AGL in delivering lower average wholesale energy costs at times of peak electricity demand and enhance AGL's retail market competitiveness.

The acquisition of Southern Hydro was funded from debt facilities which are classified as a current liability at 31 December 2005. AGL refinanced these facilities with an average maturity of 3.25 years in February 2006. As a result subsequent to the period end the deficiency of current assets to current liabilities disclosed in the consolidated balance sheet at 31 December 2005 has been eliminated at the date of these financial statements.

Demerger of AGL

On 31 October 2005, the Board of The Australian Gas Light Company announced a proposal for a demerger of the consolidated entity into an Energy Business and an Infrastructure Business. A scheme booklet was released to shareholders on 13 February 2006. As this demerger is subject to shareholder and court approval, these interim financial statements do not include any impacts arising from the demerger.

The demerger involves a significant restructure of the AGL group and shareholders are recommended to read the scheme booklet for details of these important changes and the resulting effect on AGL.

Note 13 – Subsequent events

On 16 January 2006, AGL finalised an agreement with Oil Search Limited for the acquisition of a ten per cent interest in the Papua New Guinea Gas Project for approximately \$543 million including \$13 million of acquisition costs. The investment includes interests in PNG gas and oil reserves, production and processing infrastructure.

In addition, AGL has also become the first customer to convert its conditional Gas Sale Agreement with the PNG Gas Producers, into a binding Sale and Purchase Agreement. This \$4.5 billion agreement, which provides for AGL to purchase 1,500PJ's of PNG natural gas over a 20 year period, is now only conditional on the PNG Project reaching financial close. Currently, this is still scheduled to take place in the second half of 2006.



Completion of the acquisition occurred on 17 February 2006, at which time AGL became a full equity participant in the PNG Gas Project and associated oil projects.

Alinta Limited became a 19.9 per cent shareholder in AGL in February 2006 and it has announced it intends to put a merger proposal to AGL. Once this has been received the AGL Board will be in a position to give it due consideration and provide advice to Shareholders.

Note 14 - Information on audits or review

1. This report has been prepared in accordance with AASB Standards, other AASB authoritative pronouncements and Urgent Issues Group Interpretations or other standards acceptable to ASX.
2. This report does give a true and fair view of the matters disclosed.
3. This report is based on accounts to which one of the following applies.



The accounts have been audited.



The accounts have been subject to review.



The accounts are in the process of being audited or subject to review.



The accounts have *not* yet been audited or reviewed.

4. The entity has a formally constituted audit and risk management committee.

M R G Johnson
Chairman

28 February 2006



**The Australian Gas Light Company and Controlled Entities
Notes to the Financial Statements
For the half year ended 31 December 2005**

Directors' Declaration for the Half Year Ended 31 December 2005

The directors of The Australian Gas Light Company declare that the accompanying financial statements and the notes to the financial statements:

- (a) comply with accounting standards; and
- (b) give a true and fair view of the financial position and performance of the consolidated entity.

The directors also declare that, in their opinion:

- (a) there are reasonable grounds to believe that the Parent Entity will be able to pay its debts as and when they become due and payable; and
- (b) the accompanying financial statements and the notes thereto are in accordance with the Corporations Act 2001.

This declaration is made in accordance with a resolution of the directors.

M R G Johnson
Chairman

Sydney, 28 February 2006

G J W Martin
Director



Deloitte Touche Tohmatsu
ABN 74 490 121 060

Grosvenor Place
225 George Street
Sydney NSW 2000
PO Box N250 Grosvenor Place
Sydney NSW 1217 Australia

DX 10307SSE
Tel: +61 (0) 2 9322 7000
Fax: +61 (0) 2 9322 7001
www.deloitte.com.au

Independent audit report to the members of The Australian Gas Light Company

Scope

The financial report and directors' responsibility

The financial report comprises the balance sheet, income statement, cash flow statement, statement of recognised income and expense, selected explanatory notes and the directors' declaration for the consolidated entity for the half-year ended 31 December 2005 as set out on pages 10 to 36. The consolidated entity comprises both The Australian Gas Light Company (the company) and the entities it controlled at the end of the half-year or from time to time during the half-year.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report in accordance with Accounting Standards in Australia and the Corporations Act 2001. This includes responsibility for the maintenance of adequate financial records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit approach

We have conducted an independent audit of the financial report in order to express an opinion on it, so as to enable the company to lodge the financial report with the Australian Securities and Investments Commission. Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal controls, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with the Corporations Act 2001 and Accounting Standards AASB 134 "Interim Financial Reporting" and AASB 1 "First-time Adoption of Australian Equivalents to International Reporting Standards" so as to present a view which is consistent with our understanding of the consolidated entity's financial position, and performance as represented by the results of its operations, its changes in equity and its cash flows.

Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

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

Audit Opinion

In our opinion, the half-year financial report of The Australian Gas Light Company is in accordance with the Corporations Act 2001, including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2005 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standards AASB 134 "Interim Financial Reporting" and AASB 1 "First-time Adoption of Australian Equivalents to International Reporting" and the Corporations Regulations 2001.



DELOITTE TOUCHE TOHMATSU



G Coultas
Partner
Chartered Accountants
Sydney, 28 February 2006