



Appendix 4E

The Australian Gas Light Company ABN 95 052 167 405

Preliminary Final Report

Results for announcement to the market for the financial year ended 30 June 2006

Extracts from this report for announcement to the market

\$A Million

Revenue	Up	9.5%	To	4,239.0
Profit from continuing operations after income tax attributable to Shareholders of the Parent Entity	Up	87.1%	To	457.0
Profit attributable to Shareholders of the Parent Entity	Down	49.5%	To	457.0
Dividends		Amount per ordinary share		Franked amount per ordinary share
Final dividend		36.5 ¢		36.5 ¢
Interim dividend		31.0 ¢		31.0 ¢
Record date for determining entitlements to the dividends:				
Final dividend	8 September 2006 to be paid on 22 September 2006			
Interim dividend	10 March 2006 paid on 23 March 2006.			
Brief explanation of revenues, profit after income tax and dividends:				
Revenue from continuing operations has risen 9.5% mainly due to the acquisitions of Southern Hydro and the investment in the PNG Upstream Gas project.				
Profit after income tax from continuing operations attributable to Shareholders of the Parent Entity is up 87.1% to \$457.0 million primarily due to the prior year write down of the Electricity Networks assets of \$193.0 million, included in continuing operations.				
Profit after income tax attributable to Shareholders of the Parent Entity has declined by 49.5% from \$904.4 million to \$457.0 million primarily due to the prior year including a significant profit on the sale of NGC, which is now reported as a discontinued operation.				
A detailed analysis of these results is found in the Directors' Report of the annual report attached to this announcement.				
Profit from continuing operations after income tax includes significant profits and losses before income tax as detailed in Note 6.				
The final dividend in respect of ordinary shares for the year ended 30 June 2006 has not been recognised in the preliminary final report as it was declared subsequent to 30 June 2006.				



**The Australian Gas Light Company and Subsidiaries
Preliminary Final Report
For the financial year ended 30 June 2006**

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The Australian Gas Light Company and Subsidiaries
ABN 95 052 167 405

Directors' Report for the Year Ended 30 June 2006 (Incorporating the commentary by Directors and dividend announcement made to the Australian Stock Exchange Limited on 16 August 2006)

The Directors' report on The Australian Gas Light Company consolidated entity for the year ended 30 June 2006 in accordance with Section 306 of the Corporations Act 2001.

Results

Profit after income tax attributable to Shareholders from continuing operations has increased by \$212.7 million to \$457.0 million over the previous corresponding year, resulting in an 87.3% increase in basic earnings per share from continuing operations to 100.2 cents.

The result for the year included the following one-off significant items after tax as detailed in Note 6:

Equity accounted profit relating to Australian Pipeline Trust (APA) entering tax consolidations	\$5.5m
Tax consolidation benefit arising from Gas Networks increasing tax cost base	\$46.3m
Demerger / Merger costs	(\$31.9m)
Sale of Breakfast Point property	\$23.3m
Write down of PNG Pipeline FEED costs	(\$18.3m)
Total significant items after income tax	<u>\$24.9m</u>

	Excluding Significant items		Including Significant items	
	30 June 2006 \$m	30 June 2005 \$m	30 June 2006 \$m	30 June 2005 \$m
Profit before finance costs, depreciation and amortisation and income tax (EBITDA)	982.8	781.1	940.9	547.6
Depreciation and amortisation	(205.6)	(159.7)	(205.6)	(159.7)
Profit before finance costs and income tax (EBIT)	777.2	621.4	735.3	387.9
Finance costs	(143.8)	(89.2)	(143.8)	(89.2)
Profit before income tax (PBT)	633.4	532.2	591.5	298.7
Income tax	(201.3)	(161.9)	(134.5)	(54.4)
Profit after income tax (PAT)	432.1	370.3	457.0	244.3
Profit from discontinued operations	-	56.0	-	680.2
Profit for the period	432.1	426.3	457.0	924.5
Minority interest	-	(20.1)	-	(20.1)
Profit after income tax attributable to Shareholders of the Parent Entity	432.1	406.2	457.0	904.4



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

Profit Attributable to Shareholders

Profit after income tax from continuing operations and excluding significant items was \$432.1 million reflecting basic earnings of 94.7 cents per share, a 13.6 cent per share increase over the prior comparative period. Reported profit from continuing operations was \$457.0 million representing an increase of 87.1% over the prior comparative period, resulting in an increase of 87.3% in basic earnings per share to 100.2 cents per share.

Cash Flow

During the year, operating cash flow decreased by 21.8% to \$436.0 million. Operating cash flow after stay-in-business capital expenditure decreased by 30.6% to \$318.2 million and cash flow available for expansion of the business, after stay-in-business capital expenditure and payment of dividends decreased by 79.2% to \$30.6 million.

Final Dividend

The Directors have declared a 2006 final dividend of 36.5 cents per share, franked to 36.5 cents (100%). The 2006 full year dividend total of 67.5 cents per share (franked to 67.5 cents (100%) per share) represents an increase of 7.1% over the 2005 full year dividend total of 63.0 cents (franked to 60.0 cents (95.2%)).

The Record date to determine Shareholders' entitlements to the 2006 final dividend is 8 September 2006 with payment on 22 September 2006. Shares will commence trading ex-dividend to the 2006 final dividend on 4 September 2006.

Review of Operations

Profit from continuing operations (including significant items) before finance costs and income tax was \$735.3 million (2005 \$387.9 million) arising from the following activities:

Energy Networks

AGL's ownership in gas and electricity distribution networks comprises two businesses: AGL Gas Networks (servicing Sydney, Newcastle, Wollongong and more than 20 New South Wales country centres) and AGL Electricity Networks (servicing 950 square km of north-west greater Melbourne). Both networks provide non-discriminatory regulated distribution services to licensed energy retailers, including AGL's retail business.

Gas Networks EBIT \$119.2 million (2005 \$132.4 million) down 10.0%

EBIT for the year was \$13.2 million lower than 2005 principally reflecting the full-year effect of reduced network tariffs following the implementation of the IPART approved 2006 to 2010 Access Arrangement in July 2005. Revenue from transportation tariffs comprised 96% of Gas Networks total revenue in both 2005 and 2006, and the impact of the regulatory decision, which effectively reduced 2006 transportation tariff revenues by 3.4%, was a dominant feature of the 2006 result.

The make up of transportation revenues continued to be dominated by services provided to residential and small business sites. While the continuing trend of reduced gas demand in large NSW industry had an unfavourable revenue impact relative to 2005, this impact was offset through increased residential and small business demand largely due to cooler temperatures during April to June.

Gas transported on the NSW network was 95.3 PJ, a decrease of 0.5 PJ compared to the corresponding period last year. This decrease is principally attributable to the large industrial market (1 PJ reduction). Consumption trends in the tariff market also continue to be depressed due largely to reduced water usage as a result of ongoing drought conditions.

New site growth saw a net increase of 23,442 customer sites and 180 km of gas mains added to the network. The NSW gas distribution network now comprises 23,721 km of gas mains and transports natural gas to 975,033 customer sites.



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

Significant capital projects for Gas Networks included an upgrade of eight major supply facilities and three sections of the low-pressure network to ensure continuing safe and reliable supply. The project to provide supply security to the Sydney high pressure network by constructing a new gas main between Liverpool and Marrickville in Sydney's inner west is well advanced. Engineering design and route selection for the project are complete, the pipe has been procured and construction work has begun.

Electricity Networks EBIT \$89.0 million (2005 \$152.3 million loss) up 158.4%

At the underlying level, Electricity Networks was up 12.9% on the previous year. This was largely due to a \$9.9 million improvement in total revenue relative to 2004/2005. The reduction in depreciation and amortisation was principally associated with the write down in network asset value in 2004/2005.

The total revenue was substantially driven by network sales revenue which was favourable as a result of higher TUOS (transmission use of system) tariffs during calendar 2006 and higher DUOS (distribution use of system) revenues from increased weather related volumes in the residential and small business customer group. The ESC's final decision on the 2006 to 2010 distribution network price review was implemented from 1 January 2006. The pricing impact on DUOS revenue as a result of this decision was approximately \$0.2 million adverse for the six month period.

Electricity distributed by the AGL electricity network was 4,209 GWh, an increase of 0.8% on last year. This result occurred through increased residential and small business consumption and is largely attributable to the warmer December and January and cooler May and June relative to the prior corresponding period.

Growth in customer sites was also strong with a net increase of 7,570 sites connected to the network during the year. Network length was extended by 133 km, bringing the total line length to 10,418 km.

Significant capital projects for Electricity Networks in 2005/2006 included the completion of a two-year project to construct a new sub-transmission line from Keilor to Sunbury to reinforce supply to Sunbury and surrounding areas, and the installation of a new transformer in North Heidelberg.

Agility EBIT \$70.3 million (2005 \$63.0 million) up 11.6%

Agility is the energy and utility infrastructure management and services company within AGL providing infrastructure development, construction, management and related services to both AGL-related and third-party clients throughout Australia. Agility currently manages and services AGL's NSW gas network and Victorian electricity network, APA's gas transmission assets and ActewAGL's gas networks.

Agility continued to deliver double digit growth for the year ended 30 June 2006, contributing \$70.3 million to profit before finance costs and tax, an increase of \$7.3 million, or 11.6%, compared to the previous year.

Higher revenues for the year drove the strong performance in EBIT, a result from both recent organic and acquisition growth plus the ongoing cost efficiencies achieved during the year. Agility revenue has increased to \$516.9 million from \$428.6 million in 2004/2005, representing a 20.6% increase. Revenue from third parties accounted for 20.5% of total revenue, an increase of 5.4% from 15.1% in 2004/2005.

The underground electricity businesses acquired in Queensland and Western Australia have contributed strongly to the overall Agility results with an additional \$32 million in revenue, helping firmly establish Agility's presence in the electricity markets in these states.

During the year, Agility won in excess of \$175 million in new contracts, an increase of \$68 million over the previous year.

Key third party contracts completed and/or in progress during the year include:

- the provision of electricity overhead and underground cabling services to Energex and Ergon in Queensland and Western Power in Western Australia;
- Sydney Water Wet Weather Overflow Reduction Program;
- construction and maintenance of the Powerco gas distribution network in Tasmania;
- ten year operating and maintenance contract on the Central Ranges pipeline in NSW;



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

- electricity contracts with TransGrid in New South Wales;
- construction of a gas pipeline lateral for Hamersley Iron in Western Australia; and
- gas network contracts with Alinta in Victoria.

In addition to the Wet Weather Overflow Reduction Program with Sydney Water, Agility, together with its partner, Veolia Water Australia, is on the shortlist for the Camellia Recycled Water Project in western Sydney. Agility is also working towards building water industry capability in other states to emulate its success in New South Wales.

Existing relationships

Agility has maintained its focus on providing a full range of services to its related customer base, those in which AGL has an interest, including AGL Energy Networks, ActewAGL and Australian Pipeline Trust (APA).

A number of significant projects were undertaken for these clients during the year including:

- ultrasonic pigging projects on the Moomba to Sydney Pipeline (MSP) for APA;
- stress corrosion cracking repair projects on the MSP for APA;
- goldline projects to rehabilitate gas mains in Bathurst and Cootamundra for AGL Gas Networks;
- initiation of the Sydney Primary Loop Project for AGL Gas Networks;
- completion of upgrading works on the Sunbury Zone Substation for AGL Electricity Networks.

Agility has also extended its service offerings to ActewAGL and is now actively involved in assisting ActewAGL with its electricity pole replacement program.

Acquisition growth

As part of its strategy to service a national market, Agility made two further acquisitions during 2005/2006.

Following its acquisition of Queensland based Oakland Construction in 2004/2005, Agility acquired another specialist high-voltage underground Queensland construction business in October 2005. The newly acquired business, Yambah Civil, brought with it further capability to service the highly active Queensland electricity market along with the additional experience of 30 new colleagues.

In January 2006, Agility acquired Cable Layers, another electricity asset construction business, but this time in Western Australia. The WA electricity market has been experiencing similar pressures to the Queensland market and the Cable Layers acquisition has firmly established Agility's presence in electricity on the western side of the nation while adding the skills and experience of 100 new employees.



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Retail Energy EBIT \$262.8 million (2005 \$221.2 million) up 18.8%

AGL's retail activities involve the marketing and sales of natural gas, electricity and energy-related products and services to Australia's largest retail customer base, comprising approximately 2.8 million residential and small business customer accounts. AGL's residential and small business customers are located in New South Wales, Victoria and South Australia, and its industrial and commercial customers are located in these states and Queensland.

AGL's retail activities contributed \$262.8 million to profit before finance costs and income tax compared with \$221.2 million for the previous corresponding period while profit before finance costs and income tax was 7.7% of sales revenue for the year to 30 June 2006, up from 6.6% from the previous corresponding period. The underlying net gains primarily driving this outcome were more favourable energy purchase costs resulting from the enhanced AGL merchant portfolio, favourable weather, acceptable regulatory outcomes and the positive impact on earnings from merchant derivative instruments following the transition to IFRS.

There was an overall decrease of 49,617 mass-market customer accounts compared to the previous corresponding period, with the number of dual fuel customer accounts, where AGL supplies both gas and electricity, increasing by 59,956 to 1,096,636 accounts. A core plank of AGL's retail strategy is to improve its dual fuel penetration.

Competition remains most active in the Victorian market, where AGL experienced a decrease of 54,132 mass market accounts year on year. Electricity account growth in New South Wales exceeded losses in South Australia and AGL's customer losses in the NSW gas market were low compared to industry benchmarks.

Natural Gas

Total natural gas sales of 138.9 PJ were 7.7 PJ higher than the previous corresponding period.

Sales to mass market customers were largely in line with the previous year, increasing 0.2 PJ to 62.4 PJ. Gas volume growth in South Australia and Victoria has more than offset volume losses in New South Wales.

Sales to contract market customers in the Industrial and Commercial segment increased by 7.5 PJ to 76.5 PJ. Sales growth was achieved in all states with New South Wales contributing 5.2 PJ of the growth year on year, the key driver being the transfer of Incitec to Retail Energy during the year to 30 June 2006 from Merchant Energy.

Electricity

Total electricity sales volume of 22,147 GWh was 132 GWh lower than last year, primarily due to the loss of a large contract market customer in the year.

Sales to mass market customers increased by 83 GWh to 9,849 GWh with growth through winning customers in New South Wales more than compensating for customer losses in Victoria and South Australia.

Sales to contract market customers in the Industrial and Commercial segment decreased by 215 GWh to 12,298 GWh. The New South Wales contract market sales volumes decreased by 444 GWh to 3,809 GWh, due to the loss of Xstrata. In the Victorian contract market, volume increased by 115 GWh to 4,808 GWh. In South Australia contract market volumes increased by 55 GWh to 2,992 GWh and in the Queensland contract market sales increased 60 GWh to 689 GWh.

Industrial and Commercial customer growth

AGL achieved real volume and margin growth in its larger industrial and commercial customer segments in the year. This resulted from targeted campaigns and increased channel marketing activity. AGL is well positioned for further growth in this segment in 2007. Innovative commercial solutions and a customer-focused approach to account management are proving to be significant differentiators for larger customers in this highly competitive market.

Improving customer service

AGL continually strives to meet the challenges of rising customer service expectations. This year, AGL introduced improvements to its integrated telephone call distribution and handling processes and further developed its capacity to handle more difficult service issues. Enhancements to the telephony platform improved AGL's ability to resolve service issues in one call. AGL continues to benchmark its service delivery standards against competitors and leading service providers across a range of non-energy service industries on a quarterly basis. Despite unprecedented levels of competitive activity, AGL maintained service delivery against all its key external benchmarks.



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

Improving profitability

In response to the increasing demands of customers, and to ensure continued growth, AGL is embarking on a major business transformation program. This program is a focused approach to delivering significant cost reductions and performance improvement across AGL's retail activities. It covers management of people, process, technology and data, and includes the progressive replacement of AGL's mass-market billing systems.

The program will help deliver AGL's key retail operational objectives, which are to:

- achieve operational excellence through simpler, standardised processes;
- develop more stringent approaches to measuring performance;
- reduce the overall cost-per-customer;
- maximise customer retention and profitable growth through improved customer management and service delivery;
- lower business and IT costs through the replacement of AGL's mass-market billing systems; and
- establish capability to capture future growth opportunities.

The business transformation program will also deliver a robust IT platform that will add value and competitive advantage over the medium term. It will also lower AGL's costs to acquire and serve customers.

Positioning for growth in Queensland

Queensland's residential energy market is expected to open to competition on 1 July 2007. This provides a vital opportunity for growth and AGL is currently developing market entry plans, which may be through the acquisition of an incumbent business as well as through customer sales and marketing efforts.

Retail regulation

During the year, regulated energy prices were varied in accordance with multi-year price agreements in South Australia (electricity), New South Wales (gas) and Victoria (gas and electricity). AGL continues to support national consistency in regulation of Australia's retail energy markets. During the year, the Ministerial Council on Energy progressed with the process to establish a national regulatory framework by 1 January 2008. This positive step will provide retailers with the opportunity to deliver more effective and consistent service to all customers regardless of location.

Merchant Energy EBIT \$147.2 million (2005 \$52.6 million) up 179.8%

AGL's merchant energy activities involve power generation, electricity trading and hedging, upstream gas and oil investments, gas trading, managing a portfolio of gas supply and transmission contracts as well as providing services to major and commercial customers.

For the year to 30 June 2006, Merchant Energy's contribution to profit before finance costs and income tax increased 179.8% from \$52.6 million to \$147.2 million. This result was achieved by the successful integration of the new businesses, PNG Upstream Gas project, Southern Hydro (renamed AGL Hydro post acquisition) and Sydney Gas together with a strong improvement from the existing business activities.

The existing businesses (excluding the impact of current year acquisitions) increased their total contribution to \$81.9 million, a 55.7% increase over the prior year result of \$52.6 million. The current year acquisitions, the investment in PNG Upstream Gas project, AGL Hydro and a 50% share of the Sydney Gas assets contributed \$65.3 million to the full year result.



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Power Generation and Trading

AGL's power generation portfolio includes the gas fired peaking generators, Somerton in Victoria and Hallett in South Australia, AGL's 32.5% investment in Loy Yang Power together with the November 2005 acquisition of AGL Hydro.

AGL now has a diverse power generation portfolio including base, peaking and intermediate generation plants, spread across traditional thermal generation (gas and coal) as well as renewable sources (including hydro, wind, landfill gas and biogas).

For the year to 30 June 2006, Power Generation increased profit contribution before finance costs and income tax to \$73.8 million, up \$41.2 million (126.4%) on last year (\$32.6 million). The result was delivered across all aspects of the business with the gas-fired peaking generators improving underlying performance by \$7.5 million to \$29.3 million and a contribution of \$22.8 million from AGL's Loy Yang investment, up \$12.0 million on the previous year. Further uplift came from the \$21.7 million contribution from AGL Hydro since its acquisition in November 2005. The substantial growth in AGL's power generation portfolio, which underpins AGL's strategy of growing its interests in upstream assets, delivered additional revenue as well as efficiency gains in relation to operating costs delivered through the increased scale and integration of the generation portfolio.

Included within the \$21.7 million contribution from AGL Hydro is a loss of \$0.6 million arising from the application of new Australian International Financial Reporting Standards (A-IFRS) requirements to that business' portfolio of electricity hedge contracts. The application of A-IFRS to the balance of the Merchant Energy trading portfolio of electricity hedge contracts resulted in a gain of \$9.1 million. The applicability of A-IFRS in respect of Financial Instruments commenced on 1 July 2005, resulting in no comparative being relevant for the prior year.

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 improvements to start reliability together with operating and maintenance cost efficiencies contributed to the \$7.5 million (34.4%) improvement to underlying performance.

Power Generation – Wholly-Owned Hydro

The acquisition of AGL Hydro in late 2005 for \$1,451.4 million (including transaction costs) significantly strengthens AGL's upstream generation capacity. The successful integration of this business into the generation portfolio of assets enabled a \$21.7 million contribution to profit before finance costs and income tax. In addition, portfolio benefits arising from this investment have accrued to AGL's retail energy segment in the form of lower electricity purchasing costs.

The AGL Hydro plant consists of a range of hydro stations and the Wattle Point wind farm. Plant with significant discretionary capabilities, and the capacity to respond to high wholesale market prices, are contracted internally to offset the demand of AGL's retail customers, thus limiting AGL's exposure to volatile electricity pool price outcomes. The less discretionary plant that is subject to run of river constraints, are largely contracted externally.

The discretionary hydro generation facilities are highly complementary with AGL's existing gas-fired peaking generation facilities at Hallett and Somerton. Whilst the water resource available for the hydro generators may at times be limited, this capacity is supplemented by gas fired plant which has no fuel constraints. Hydro generation adds significant value to the generation portfolio as it is able to start almost instantaneously. Given that AGL operates in a market where there is a price set for each five-minute period this fast-start capability is highly desirable.

Power Generation – Investments

The EBIT contribution for the year from the 32.5% investment in Loy Yang Power increased by \$12.0 million (111%) to \$22.8 million from \$10.8 million previously. The result comprised a share of the equity accounted profit of \$11.4 million and loan note interest revenue of \$11.4 million. Improvements to GEAC's underlying performance, primarily a result of higher revenues as a consequence of higher spot prices in the Victorian pool, increased AGL's share of the equity accounted profit from \$0.2 million in 2005 to \$11.4 million.



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Wholesale Gas

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

Wholesale Gas sales increased by 5.5 PJ to 47.2 PJ primarily due to the full year contribution from the acquisition of Terra Gas Trader in January 2005.

Gas Development

The Gas Development group was established as part of the Merchant Energy division in March 2005 with the objective of positioning AGL into the upstream gas production industry. Investing in this sector is aimed at providing AGL with direct access to competitive sources of gas and to providing the Company with wider investment opportunities in the upstream sector to help underpin long-term growth.

AGL took significant steps along the path to meeting its objectives with three key investments made during the past year:

- a 10% interest in the PNG Upstream Gas project for an initial payment of US\$395.6 million;
- a 50% interest in Sydney Gas Limited's (SGL) production leases and exploration licences; and
- an agreement to acquire 50 % interest in Australia's largest single producing CSM project – the Moranbah Gas Project.

The Gas Development group made a profit contribution before finance costs and tax of \$43.5 million in 2006 comprising \$43.3 million from the PNG Upstream Gas project and \$0.2 million from the coal seam methane (CSM) projects.

Gas Development – PNG Upstream Investment

On 17 February 2006 AGL completed the acquisition of a 10% interest in the PNG Upstream Gas project from Oil Search for an initial payment of US\$395.6 million (approximately \$528 million). The acquisition included an 11.9% interest in the PDL2 joint venture, which has been producing oil since 1991, and a 66.7% interest in the PDL4 joint venture, which has been producing oil since 1996. The balance of the purchase price is contingent upon PNG Upstream Gas project sanction and financial close. Following an independent audit of oil reserves completed in April 2006, the acquisition price was reduced by US\$17 million (approximately \$22 million). AGL has substantially hedged its expected production profile over the first four years with a mixture of swaps and options.

AGL's share of oil production since acquisition was 1.25 million barrels, while oil liftings totalled 1.06 million barrels with a realised sales price of US\$69.37 per barrel after taking into account the impact of settled hedges. Gross oil sales after settled hedges totalled \$98.7 million comprising gross revenue of \$99.0 million and a \$0.3 million loss on settled oil swaps. Other revenues primarily comprise oil pipeline tariffs of \$2.4 million. Depreciation and amortisation totalled \$38.2 million with an EBITDA margin of approximately 85%. The EBIT contribution in 2006 was \$43.3 million, comprising underlying EBIT of \$51.5 million and a loss of \$8.2 million arising from the application of AIFRS to the business' portfolio of oil hedge contracts.

The effective tax rate was 66.8% comprising a PNG tax rate of 50% and non-deductible depreciation and amortisation arising from AGL inheriting Oil Search's tax value, which was significantly lower than the purchase price.

Gas Development – CSM Joint Ventures

During the year AGL acquired 50% of the CSM interests of Sydney Gas Limited (SGL) and entered into an agreement to acquire 50% of the Moranbah Gas Project from BHP Billiton.

Sydney Basin Joint Ventures

Three joint ventures were formed on acquisition of 50% interests in SGL's production leases and exploration licences, including the producing Camden Gas Project, for a total initial payment of \$42.25 million. Contingent payments of up to \$51 million will be made if additional reserves are proven at Camden by December 2008, based upon an agreed reserve formula with reserves verified by an independent external expert. The joint ventures allow AGL to participate in the exploration, development and production of CSM across the Sydney Basin. Effective from 1 February 2006 AGL assumed the role of operator of the Camden Gas Project. Exploration activities in the Camden and Hunter regions, operated by SGL, continued during the year aimed at defining and assessing the potential of additional CSM resources.



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AGL's equity share of gas sales was 1.3 PJ since acquisition. Sales revenue totalled \$4.2 million and EBIT contribution in 2006 from the Sydney Basin joint ventures was \$0.2 million, after depreciation and amortisation of \$2.2 million. The current monthly production on an annualised basis is over 4.4 PJ, with AGL's share being 2.2 PJ.

The Camden Gas Project has two compressors installed at the Ray Beddoe Treatment Plant (2.5 TJ/d capacity) and Rosalind Park Gas Plant (12.0 TJ/d capacity). Compressor availability during the period of ownership was in excess of 95% and further compression capacity is to be installed at the Rosalind Park Gas Plant. Of the two compressors on order, one of these is expected to be commissioned by December 2006 with the second to be installed during the second half of the 2006/2007 financial year.

Moranbah Gas Project Joint Ventures

AGL announced a binding sale and purchase agreement on 21 June 2006 to acquire BHP Billiton's 50% interest in the Moranbah Gas Project for US\$68.7 million (approximately \$93 million). The assets acquired, which are operated by CH4 Gas Limited, also include a 99% interest in the ATP 364P exploration joint venture and all BHP Billiton's rights including a 5% override royalty under a 50-year agreement with CH4.

The transaction is expected to be finalised in August 2006 following satisfaction of the conditions precedent, which include third party and government consents. Accordingly there was no EBIT contribution from these assets in the current year.

Energy Investments & LPG – contribution \$89.9 million (2005 \$94.0 million) down 4.4%

ActewAGL (50% AGL ownership)

ActewAGL's profit contribution was \$49.3 million, marginally above its 2005 contribution of \$49.2 million. Colder weather in the final quarter of the financial year resulted in higher gas and electricity volumes, which were offset by a higher electricity cost of sales and the full-year impact of revised gas network tariff charges following the regulatory reset in January 2005.

ActewAGL is a joint venture between AGL and ACTEW Corporation, an ACT Government-owned enterprise. Established in 2000, it is the first utility joint venture in Australia between a private company and a publicly owned enterprise. It owns and operates the electricity and gas networks in the Australian Capital Territory and the gas networks in Queanbeyan, Nowra and the Palerang Council area (the former Yarralumla Shire) in New South Wales, as well as operating the Australian Capital Territory's water and sewerage assets. ActewAGL also manages the operations of the TransACT telecommunications services business. The joint venture has approximately 153,000 electricity and 107,000 natural gas customers. Despite increasing competitive pressures, retail customer numbers are in line with the prior year.

In April 2006, the Independent Competition and Regulatory Commission (ICRC) released its Final Decision on the retail electricity tariff in the ACT for franchise customers, those with consumption less than 100 MWh per annum. The ICRC concluded that the electricity market in the Australian Capital Territory is sufficiently competitive and recommended that the Transitional Franchise Tariff be discontinued from 1 July 2007.

Australian Pipeline Trust (30% AGL ownership)

Australian Pipeline Trust's contribution was \$27.3 million up 42% on its 2005 contribution of \$19.2 million. AGL's estimate of underlying earnings improved by 13% to \$21.8 million (AGL's 30% share) reflecting a full-year contribution from prior year asset acquisitions in Western Australia and Queensland, and increased contracted volumes with CS Energy on the Roma to Brisbane Pipeline (from February 2005). The result also includes a share of APA's significant items (AGL share \$5.5 million).

Australian Pipeline Trust (APA) owns, or has an interest in, more than 7,700 km of gas transmission pipelines across most Australian states and territories. APA also owns the Mondarra natural gas storage facility in Western Australia and a Coal Seam Methane processing facility at Kogan, west of Brisbane.

In March 2006, APA further diversified its portfolio by acquiring its first non-gas transmission asset – the Murraylink electricity transmission assets, which connect the Victorian and South Australian National Electricity Market regions.

In June 2006, APA announced that it had reached agreement with Babcock & Brown Infrastructure (BBI) for BBI, working in association with APA, to launch a scrip takeover offer for GasNet Australia. GasNet owns a 1,930km regulated high pressure gas transmission pipeline network in Victoria, among other assets. The effect of the agreement would see that upon successful completion of the offer, APA would acquire 50% of the GasNet business



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

in an equal joint venture with BBI. On 15 August 2006, Colonial First State Global Asset Management announced its intention to make a recommended offer to acquire all of the stapled securities in GasNet Australia for \$2.88 cash per stapled security. On the same day, the Board of GasNet Australia unanimously recommended that securityholders accept the offer, in the absence of a superior proposal.

The annual result includes a full-year contribution following the acquisition of the Parmelia and Goldfields pipeline assets in Western Australia (acquired in August 2004), and the 30% minority interest in the Ballera to Mt Isa pipeline (acquired in February 2005). In addition, the results include a share of APA's significant items arising from a prior year tax benefit following entry into tax consolidation (AGL share \$4.8 million) and the write-back of a provision following settlement of a tariff dispute (AGL share \$0.7 million).

Gas Valpo (100% AGL ownership)

Gas Valpo's contribution was \$14.6 million up 180.8% on its 2005 contribution of \$5.2 million. The result reflects the first full year contribution from gas sales to the government-owned oil company Enap, and increased sales to residential and commercial customers.

GasValpo is the largest regional gas distributor in Chile outside the Santiago metropolitan area. Situated in the coastal cities of Valparaíso and Viña del Mar, west of Santiago, GasValpo distributes and markets gas to approximately 41,000 residential and commercial customers, and 40 industrial customers.

GasValpo has continued to develop initiatives to minimise the overall impact of continuing gas restrictions from Argentina on industrial customers, including energy swaps and sourcing alternate gas suppliers.

In June 2006, GasValpo commissioned a biogas extraction facility utilising landfill gas from the privately operated El Molle landfill site, which services the cities of Viña del Mar and Valparaíso, and surrounding areas. Subject to the extraction of acceptable levels of landfill gas, additional investment will be considered to utilise the methane content of the gas as a renewable energy source.

The Chilean Government has continued to progress the development of Chile's first LNG supply terminal, which is proposed to be located in GasValpo's concession area, and deliver first gas in the fourth quarter of 2008. GasValpo has entered into a Memorandum of Understanding to participate in this project via the Government appointed project developer Enap (Empresa Nacional del Petróleo).

LPG

Elgas (50% AGL ownership) and H C Extractions (HCE) (100% AGL ownership)

Elgas and H C Extractions combined contribution was \$23.9 million up 17.1% on the combined contribution of \$20.4 million reflecting a year characterised by record high US dollar denominated international LPG prices.

Elgas is the largest distributor and marketer of LPG in Australia. It also owns and operates Australia's largest underground LPG storage facility (the Sydney LPG Cavern), located at Port Botany in Sydney.

Energy sales volumes were in line with the prior year, although the leisure market continues to grow. The continued high cost of LPG has made it difficult to grow new business sales volumes and placed pressure on margins. The Sydney LPG Cavern again proved itself as the supply hub for eastern Australia, with increased volumes resulting from its superior security and reliability compared to other supply sources. Lower Unigas volumes resulted from increased competition for retail market share in the automotive LPG sector, where overall volumes are improving as increasing numbers of new autogas vehicles enter the market.

HCE produces LPG and naphtha by processing refinery off-gases supplied by the adjacent Caltex oil refinery in Kurnell, Sydney, with all production sold back to Caltex.

Despite HCE production of 35,400 tonnes of LPG being 1,600 tonnes lower than last year due to lower levels of feed gas supplied from the refinery, high LPG prices resulted in an improved contribution.

PNG Pipeline FEED

Following a lack of sufficient committed foundation load and escalating construction costs, a decision was taken by the Australian Pipeline Consortium (APC – 50% AGL ownership) to write off Front End Engineering and Design (FEED) costs incurred to 30 June 2006 of \$25.1 million pre-tax. The pipeline route and associated cost build up were unable to be sufficiently determined without a final committed load. APC continues to work with upstream producers to evaluate alternative structures to bring PNG gas to eastern states markets.



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

Unallocated items - expense \$65.2 million (2005 expense \$27.8 million) up 134.5%

Unallocated expense items of \$65.2 million were \$37.4 million higher than in the previous corresponding period. The primary reason for the increase being the prior year result included \$5.0 million of restructuring costs while the current year includes \$45.6 million (pre-tax) of Demerger / Merger Costs. Both items have been treated as significant. The underlying unallocated expense items have fallen 14.0% this financial year to \$19.6 million.

Finance costs - expense \$143.8 million (2005 expense \$89.2 million) up 61.2%

Finance costs from continuing operations have increased by \$54.6 million over the previous corresponding period. This was due to increased funding costs resulting from additional debt raised in relation to the acquisition of Southern Hydro and the investment in the PNG Upstream Gas project. These were offset to some extent by favourable mark to market adjustments on treasury derivative products of approximately \$15 million.

Income tax - expense \$134.5 million (2005 expense \$54.4 million) up 147.2%

Income tax expense from continuing operations has increased by \$80.1 million over the prior corresponding period. The majority of this increase is explained by the prior year result including a higher benefit amount relating to tax consolidations of \$65.9 million compared to the current year of \$46.3 million and a \$38.1 million benefit from the write down of the Electricity Network assets.

Australian equivalents to International Financial Reporting Standards

This report is AGL's first full-year report under the Australian equivalents to International Financial Reporting Standards (A-IFRS) and comparatives have been restated as required on transition. Refer to Note 2 for further information.

Directors in Office

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

	<i>First Appointed</i>
Mark Roderick Granger Johnson – Chairman	7 April 1988
Paul Anthony – Managing Director	1 May 2006
Gregory John Walton Martin – Managing Director	1 March 2001 (retired 28 February 2006)
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.

Mark Johnson
Chairman



Australian Gas Light Company and Subsidiaries
Consolidated Income Statement
For the year ended 30 June 2006

	Note	2006 \$m	2005 \$m
Continuing operations			
Revenue	3	4,239.0	3,871.1
Other income	4	29.1	19.7
Expenses	5	(3,428.0)	(3,426.7)
Share of profits of associates and jointly controlled entities using the equity method	9	100.8	83.5
Profit before finance costs, depreciation and amortisation		940.9	547.6
Depreciation and amortisation		(205.6)	(159.7)
Profit before finance costs		735.3	387.9
Finance costs		(143.8)	(89.2)
Profit from continuing operations before income tax		591.5	298.7
Income tax expense		(134.5)	(54.4)
Profit from continuing operations after income tax		457.0	244.3
Profit from discontinued operations		-	680.2
Profit for the period		457.0	924.5
Profit attributable to minority interest		-	(20.1)
Profit attributable to shareholders of the Parent Entity		457.0	904.4
Earnings per share – including significant items (refer note 6)			
Basic for profit for the year (cents)		100.2	198.1
Basic for profit from continuing operations (cents)		100.2	53.5
Diluted for profit for the year (cents)		100.0	197.8
Diluted for profit from continuing operations (cents)		100.0	53.4
Earnings per share – excluding significant items			
Basic for profit for the year (cents)		94.7	89.0
Basic for profit from continuing operations (cents)		94.7	81.1
Diluted for profit for the year (cents)		94.6	88.9
Diluted for profit from continuing operations (cents)		94.6	81.0
Weighted average number of ordinary shares			
Basic (millions)		456.1	456.5
Diluted (millions)		456.9	457.2



The Australian Gas Light Company and Subsidiaries
Consolidated Balance Sheet
As at 30 June 2006

	2006 \$m	2005 \$m
Current assets		
Cash and cash equivalents	109.0	394.2
Trade and other receivables	940.8	807.0
Inventories	31.4	14.0
Other financial assets	198.5	-
Other assets	14.7	56.3
Non-current assets classified as held for sale	-	15.2
Total current assets	1,294.4	1,286.7
Non-current assets		
Trade and other receivables	22.3	0.4
Investments accounted for using the equity method	1,009.4	971.9
Exploration and evaluation assets	51.5	-
Oil and gas assets	498.5	-
Property, plant and equipment	4,602.4	3,782.4
Intangible assets	2,402.4	1,556.1
Deferred tax assets	303.6	127.0
Other financial assets	256.3	123.4
Other assets	47.0	33.0
Total non-current assets	9,193.4	6,594.2
Total assets	10,487.8	7,880.9
Current liabilities		
Trade and other payables	511.7	433.4
Borrowings	2,009.0	236.4
Provisions	59.5	60.3
Current tax liabilities	28.8	86.0
Other financial liabilities	224.0	-
Other liabilities	3.6	8.9
Total current liabilities	2,836.6	825.0
Non-current liabilities		
Borrowings	1,421.1	1,406.8
Provisions	52.5	46.0
Other financial liabilities	260.7	-
Deferred tax liabilities	1,127.0	945.8
Other liabilities	25.6	5.3
Total non-current liabilities	2,886.9	2,403.9
Total liabilities	5,723.5	3,228.9
Net assets	4,764.3	4,652.0
Equity		
Issued capital	1,997.3	2,010.1
Reserves	(36.1)	(8.6)
Retained earnings	2,803.1	2,650.5
Total equity	4,764.3	4,652.0



The Australian Gas Light Company and Subsidiaries
Consolidated Cash Flow Statement
For the year ended 30 June 2006

	2006 \$m	2005 \$m
Cash flows from operating activities		
Receipts from customers	5,012.0	4,842.3
Payments to suppliers and employees	(4,345.4)	(4,139.6)
Dividends received	83.6	92.8
Finance income received	19.9	25.0
Finance costs paid	(164.6)	(116.1)
Income tax paid	(169.5)	(147.0)
Net cash provided by operating activities	436.0	557.4
Cash flows from investing activities		
Payments for property, plant and equipment	(270.0)	(197.5)
Payments for exploration and evaluation assets	(49.4)	-
Payments for oil and gas assets	(557.1)	-
Payments for investments	(1.6)	(22.0)
Payments for intangibles	(0.7)	(0.2)
Payments for acquisition of businesses/subsidiaries	(1,455.2)	(19.0)
Loans advanced	(12.3)	(18.2)
Proceeds from sale of property, plant and equipment	46.7	47.4
Proceeds from disposal of investments	-	1.1
Proceeds from sale of subsidiaries	-	777.8
Proceeds from loan repayments	11.0	20.1
Net cash (used in)/provided by investing activities	(2,288.6)	589.5
Cash flows from financing activities		
Capital return	-	(228.7)
On market share purchases	(20.7)	-
Proceeds from borrowings and hedge receipts on borrowings	2,496.8	445.4
Repayment of borrowings and hedge payments on borrowings	(610.9)	(539.2)
Dividends paid	(287.6)	(448.6)
Net cash (used in)/provided by financing activities	1,577.6	(771.1)
Net increase/(decrease) in cash held	(275.0)	375.8
Cash at the beginning of the financial year	377.0	1.4
Effects of exchange rate changes on the balance of cash held in foreign currencies	0.1	(0.2)
Cash at the end of the financial year	102.1	377.0



**The Australian Gas Light Company and Subsidiaries
Consolidated Statement of Recognised Income and Expense
For the year ended 30 June 2006**

	2006 \$m	2005 \$m
Cash flow hedges:		
Gain/(loss) taken to equity	(16.5)	-
Transferred to profit or loss for the period	112.5	-
Net gain/(loss) on hedge of net investments in foreign operations	1.6	-
Foreign exchange translation differences	17.3	19.5
Actuarial gain/(loss) on defined benefit superannuation plans	15.2	(3.7)
Share of decrements in reserves and retained earnings attributable to associates and joint venture entities	(0.9)	(5.4)
Income tax on items taken directly to or transferred from equity	(23.4)	1.1
Net income/(expenses) recognised directly in equity	105.8	11.5
Profit for the period	457.0	924.5
Total recognised income and expense for the period	562.8	936.0
Attributable to:		
Shareholders of the Parent Entity	562.8	915.9
Minority interest	-	20.1
	562.8	936.0

Reconciliation of Consolidated Statement of Recognised Income and Expense to equity movements

	Reserves \$m	Retained earnings \$m
Opening balance at 30 June 2005	(8.6)	2,650.5
Current period adjustments	92.4	13.4
A-IFRS transitional adjustments current period *	(123.3)	(30.4)
Movement in reserves and retained earnings not reflected in Statement of Recognised Income and Expense above:		
Share-based payment transactions	3.4	-
Profit for the period	-	457.0
Dividend paid	-	(287.4)
Closing balance at 30 June 2006	(36.1)	2,803.1
* 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 Subsidiaries Notes to the Financial Statements For the year ended 30 June 2006

Note 1(a) – Basis of preparation

The preliminary final report relates to the consolidated entity consisting of The Australian Gas Light Company (the Parent Entity) and each of its subsidiaries. The report has been prepared in accordance with ASX Listing Rule 4.3A and the disclosure requirements of the ASX Appendix 4E. This is the first preliminary final report prepared based on Australian Equivalents to International Financial Reporting Standards (A-IFRS) and comparatives for the year ended 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 transition to A-IFRS 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 A-IFRS has affected the consolidated entity's financial position, financial performance and cash flows is discussed in Note 2.

The Directors have elected under s.334(5) of the Corporations Act 2001 to early adopt the following revised accounting standards and amendments:

AASB 119 *Employee Benefits* (December 2004);
AASB 2005-1 (amendments to AASB 139 *Financial Instruments Measurement and Recognition*); and
AASB 2005-6 (amendments to AASB 3 *Business Combinations*).

No other Australian Accounting Standards issued but not yet effective have been early adopted for the year ended 30 June 2006, and they are not expected to result in significant accounting policy or disclosure changes.

The accounting policies applied in the preparation and presentation of the financial report are consistent with those applied at 31 December 2005 except as disclosed below.

Note 1(b) – Change in accounting estimates

There were no material changes in accounting estimates during the year ended 30 June 2006.

Note 1(c) – Derivative financial instruments and hedging

The consolidated entity uses derivative financial instruments to manage its exposure to interest rate, foreign exchange rate, electricity purchase price and certain commodity oil price risks arising in the normal course of business. The use of derivatives is subject to policies, procedures and limits approved by the Board of Directors. Derivative transactions are not entered into for speculative purposes.

For the year ended 30 June 2006

As permitted under the A-IFRS first time adoption transitional provisions, comparative financial information for financial instruments, including derivatives, has not been restated. The accounting policies detailed below apply for the period from 1 July 2005.

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. Derivatives are recognised in the balance sheet as assets when their fair value is positive and as liabilities when their fair value is negative.

Any gains or losses arising from changes in the fair value of derivatives 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 when they hedge exposure to variability in cash flows of recognised assets or liabilities, or 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.



The Australian Gas Light Company and Subsidiaries
Notes to the Financial Statements
For the year ended 30 June 2006

Note 1(c) – Derivative financial instruments and hedging (cont'd)

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 is 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. 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 and 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.

For the year ended 30 June 2005

The accounting policies for financial instruments detailed below are applicable to the comparative period and are consistent with those adopted and disclosed in the financial report for the year ended 30 June 2005.

Gains or losses on derivative financial instruments relating to hedge transactions are either brought to account as gains or losses in the periods in which the differences arise or brought to account over the periods of the hedge transactions.

Gains or losses on derivative financial instruments which meet the definition of a hedge of specific purchase and sale commitments are deferred until the date of the relevant transaction and included in the measurement of the purchase or sale.

Where a derivative financial instrument which meets the definition of a hedge for hedge accounting purposes is terminated early and the underlying hedged transactions are no longer expected to occur, the gains or losses arising on the early termination of the instrument are recognised in the income statement at the date of termination.

Where a derivative financial instrument which meets the definition of a hedge for hedge accounting purposes is terminated early and the underlying transactions are still expected to occur as designated, the gains and losses arising on the early termination of the instrument continue to be deferred and are progressively brought to account over the period during which the hedged transaction is recognised.

Amounts payable and receivable under interest rate swaps, forward rate agreements and interest rate options are recognised in the income statement on a basis consistent with corresponding fluctuations in interest expense on floating rate debt. The carrying amounts of these financial instruments, which comprise net interest receivables and payables accrued, are included in assets or liabilities respectively.

Option fees and amounts receivable and payable in respect of electricity hedging contracts are brought to account on an accruals basis.

The Australian Gas Light Company and Subsidiaries
Notes to the Financial Statements
For the year ended 30 June 2006

Note 1(d) – Oil and gas assets

The costs of oil and gas assets in the development phase are separately accounted for as tangible assets. When commercial operation commences, the accumulated costs are transferred to oil and gas assets in production. The costs of oil and gas assets in production are separately accounted for as tangible assets and include past exploration and evaluation costs, past development costs and the ongoing costs of continuing to develop reserves for production and to expand or replace plant and equipment and any associated land and buildings. These costs are subject to depletion using a unit of production method over the life of the estimated Proven plus Probable (2P) reserves. Depletion is not charged on costs carried forward in respect of assets in the development stage until production commences. Estimated reserves are determined on an annual basis.

Note 1(e) – Exploration and evaluation assets

Exploration and evaluation expenditure for each area of interest is accounted for using the successful efforts method. This method requires all expenditure associated with exploration to be expensed when incurred except for the costs of successful wells and acquisition of interests in new exploration assets including licences. The costs directly associated with drilling new wells are capitalised pending evaluation of the results of the well. When the oil or gas field reaches the stage of development, the accumulated exploration and evaluation assets are transferred to development assets.

Note 2 – First-time Adoption of Australian Equivalents to International Financial Reporting Standards

The impacts of adopting A-IFRS on the total equity, profit after tax and on the cash flow statement 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	1 July 2004 \$m
Total equity under AGAAP	3,267.6	3,154.6
Total A-IFRS equity adjustments at date of transition	1,308.4	n/a
<i>Adjustments to equity:</i>		
Recognition of net assets of defined benefit superannuation plans (a)	5.9	5.7
Write back of goodwill amortisation (b)	39.5	-
Adjustments relating to NGC (c)	54.5	(5.4)
Changes in equity accounted investments (d)	(1.2)	(0.5)
Election made to measure property, plant and equipment of certain equity accounted investments at fair value and use that fair value as the deemed cost of this property, plant and equipment at the date of transition (e)	(4.6)	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)	1,578.0
Recognition of share-based payments (g)	5.2	(14.2)
Tax effect of A-IFRS adjustments (h)	8.3	(625.9)
Total AIFRS equity adjustments at date of transition	n/a	1,308.4
Total equity under A-IFRS	4,652.0	4,463.0

(a) AASB 119 *Employee Benefits* (AASB 119) requires the net surplus or deficit in defined benefit superannuation plans to be recognised as an asset or liability. Under AGAAP, contributions to these plans were expensed and no assets or liabilities were recognised. The consolidated entity has elected to early adopt the revised AASB 119 and has decided to recognise actuarial gains and losses directly in retained earnings. Other superannuation costs are recognised in the income statement.

The Australian Gas Light Company and Subsidiaries
Notes to the Financial Statements
For the year ended 30 June 2006

Note 2 – First-time Adoption of Australian Equivalents to International Financial Reporting Standards (cont'd)

- (b) Goodwill is not amortised under AASB 3 *Business Combinations* but was amortised under AGAAP. An adjustment of \$39.5 million 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) the consolidated entity 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 the consolidated entity concluded that the gas and electricity retail licences do not meet the criteria for recognition as separately identifiable intangible assets and in accordance with AASB 1 these licences were reclassified to goodwill at the date of transition at their net book value of \$1,170.0 million.
- (c) The consolidated entity disposed of its interests in NGC Holdings Limited (NGC) in December 2004. Additional deferred tax liabilities and other transitional adjustments were recognised on transition to A-IFRS. This resulted in an increase of \$54.5 million in equity in respect of the sale of NGC.
- (d) The consolidated entity's share of A-IFRS transitional adjustments made by entities which are accounted for using the equity method of accounting have resulted in adjustments to the carrying value of those investments under A-IFRS.
- (e) On transition to A-IFRS 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 the consolidated entity'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 entities. For the year ended 30 June 2005, the consolidated entity recognised a reduction in its share of equity accounted profits of \$4.6 million reflecting the additional depreciation expense arising from the increase in the carrying value of property, plant and equipment. 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, the consolidated entity recognised an additional depreciation expense of \$31.6 million for the year ended 30 June 2005. This was a change from the A-IFRS elections proposed in the financial statements for the year ended 30 June 2005.
- (g) Under AASB 2 *Share-based Payments* (AASB 2), the AGL Share Loan Plan is accounted for as an insubstance call option. On transition to A-IFRS, the outstanding loan balance of \$14.2 million was debited to equity. For the year ended 30 June 2005, \$5.2 million in proceeds from dividends and other repayments of the loans have been credited to equity. AASB 2 requires equity-settled share-based payment transactions to be fair valued at grant date and recognised as an expense over the vesting period, with a corresponding increase in equity.
- (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 cost in respect of certain property plant and equipment and from previously categorised permanent differences between the book and tax carrying amounts of property, plant and equipment.



The Australian Gas Light Company and Subsidiaries
Notes to the Financial Statements
For the year ended 30 June 2006

Note 2 – First-time Adoption of Australian Equivalents to International Financial Reporting Standards (cont'd)

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

	Consolidated
	Year ended
	30 June 2005
	\$m
Profit after tax under AGAAP	848.3
Defined benefit superannuation plan expense (a)	8.5
Recognition of share-based payments expense (b)	(4.1)
Write back of goodwill amortisation (c)	39.5
Adjustments relating to NGC (d)	37.3
Changes in equity accounted investments (e)	2.8
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)
Additional depreciation in respect of the election to adopt the fair value of certain property, plant and Equipment as deemed cost (g)	(31.6)
Tax effect of A-IFRS adjustments (h)	8.3
Profit after tax under A-IFRS	904.4

- (a) AASB 119 *Employee Benefits* (AASB 119) requires defined benefit superannuation current service costs to be recognised in the Income Statement during the period. The consolidated entity has 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 share-based payments over the 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) The consolidated entity 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 \$37.3 million in the reported profit on sale of NGC under A-IFRS.
- (e) The consolidated entity's share of A-IFRS transitional adjustments made by entities which are accounted for using the equity method of accounting have resulted in adjustments to the consolidated entity's share of profits recognised under A-IFRS.
- (f) On transition to A-IFRS an election has been made in accordance with AASB 1 to measure certain property, plant and equipment held by certain equity accounted entities at fair value and use that fair value as the deemed cost of this property, plant and equipment. For the year ended 30 June 2005, the consolidated entity recognised a reduction in its share of equity accounted profits of \$4.6 million reflecting the additional depreciation expense arising from the increase in the carrying value of property, plant and equipment.
- (g) 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. As a result of the increased carrying value of the property, plant and equipment, the consolidated entity recognised an additional depreciation expense of \$31.6 million for the year ended 30 June 2005.
- (h) This adjustment represents the impact on current tax expense in respect of the A-IFRS adjustments, in accordance with AASB 112 *Income Taxes*.



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

There are no material differences between the cash flow statement presented under A-IFRS and to that presented under AGAAP.

	2006	2005
	\$m	\$m
Note 3 – Revenue		
Revenue from continuing and discontinued operations consisted of the following items:		
Revenue from sales of goods	3,765.1	3,638.4
Revenue from rendering of services	408.3	386.9
Revenue from construction contracts	46.5	32.5
Finance income		
Interest income		
Associates	11.4	10.6
Other entities	7.7	9.4
	4,239.0	4,077.8
Attributable to		
Continuing operations	4,239.0	3,871.1
Discontinued operations	-	206.7
	4,239.0	4,077.8
Note 4 – Other income		
Other income from continuing and discontinued operations consisted of the following items:		
Net gain/(loss) on disposal of property, plant and equipment	24.9	14.6
Gain on disposal of business	-	628.2
Net foreign exchange gains	0.6	3.1
Rental income	0.6	0.7
Other	3.0	1.3
	29.1	647.9
Attributable to		
Continuing operations	29.1	19.7
Discontinued operations	-	628.2
	29.1	647.9
Note 5 – Expenses		
Cost of sales	2,743.4	2,721.2
Administration expenses	123.5	114.2
Employee benefits expense	490.2	460.1
Asset impairment	25.1	231.1
Other expenses	45.8	1.9
	3,428.0	3,528.5
Attributable to		
Continuing operations	3,428.0	3,426.7
Discontinued operations	-	101.8
	3,428.0	3,528.5



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	2006 \$m	2005 \$m
Note 6 – Significant items		
Profit before income tax includes the following significant items.		
Equity accounted profit relating to APA entering tax consolidation	5.5	-
(Income tax expense applicable \$nil)		
Demerger / Merger costs	(45.6)	-
(Income tax benefit applicable \$13.7 million)		
Tax consolidation benefit	46.3	64.8
(2005 gross benefit \$65.9 million less costs \$1.6 million (tax benefit \$0.5 million))		
Gain on disposal of business NGC Holdings Limited	-	628.2
(Income tax expense applicable \$4.0 million)		
Sale of Breakfast Point property	23.3	14.7
(Income tax expense applicable \$nil)		
Write down of PNG Pipeline FEED costs	(25.1)	-
(Income tax benefit applicable \$6.8 million)		
Property rehabilitation	-	(6.1)
(Income tax benefit applicable \$0.3 million)		
Property rationalisation	-	(9.4)
(Income tax benefit applicable \$2.7 million)		
Write down of Electricity Networks assets	-	(231.1)
(Income tax benefit applicable \$38.1 million)		
Represented by:		
Significant items before income tax	(41.9)	394.7
Income tax (expense)/benefit applicable	66.8	107.5
Significant items after income tax	24.9	502.2



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	2006	2005
	\$m	\$m
Note 7 – Dividends		
<i>Recognised amounts</i>		
Interim dividend paid 23 March 2006 (2005 - 24 March 2005)		
Franked amount (31 cents per share)(2005 - 28 cents per share))	141.3	127.8
Unfranked amount (Nil cents per share) (2005 - 3 cents per share))	-	13.7
Total amount (31 cents per share)(2005 – 31 cents per share))	141.3	141.5
Special dividend paid (Nil cents per share) 2006 (2005 - 24 March 2005)		
Franked amount (Nil cents per share)(2005 -27 cents per share))	-	123.6
Unfranked amount (Nil cents per share) (2005 - 3 cents per share))	-	13.7
Total amount (Nil cents per share (2005 – 30 cents per share))	-	137.3
Final dividend paid 23 September 2005 (2004 – 24 September 2004)		
Franked amount (32 cents per share (2004 – 23 cents per share))	146.1	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))	146.1	141.4
	287.4	420.2
Note 8 – Net tangible asset backing		
Net tangible asset backing per ordinary share	\$5.18	\$6.78



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Note 9 – Interests in associates, jointly controlled entities and jointly controlled operations and assets

	Ownership interest		Contribution to net profit	
	2006 %	2005 %	2006 \$m	2005 \$m
Associates				
Australian Pipeline Trust *	30.0	30.0	27.3	19.2
Greater Energy Alliance Corporation Pty Limited	32.5	32.5	11.4	0.2
Gascor	33.3	33.3	-	0.2
COMindico Holdings Pty Limited (in liquidation)	35.9	35.9	-	-
Centre for Energy and Greenhouse Technology	40.0	40.0	-	-
Jointly controlled entities				
ActewAGL	50.0	50.0	49.3	49.5
Auscom Holdings Pty Limited	50.0	50.0	12.8	14.4
Agility Diona	50.0	50.0	-	-
Agility Clough Lucas	50.0	50.0	-	-
Agility Kembla	50.0	50.0	-	-
The AGL-Petronas Consortium (APC)	50.0	50.0	-	-
Jointly controlled operations and assets				
Mid West Energy	50.0	50.0	-	-
Sydney Exploration	50.0	-	-	-
Hunter Exploration	50.0	-	-	-
Camden Gas Project	50.0	-	-	-
PNG – PDL 2 Kutubu Oil Field	11.9	-	-	-
PNG – PDL 4 Gobe Main Oil Field	66.7	-	-	-
PNG – PDL 2 Moran Oil Field	11.9	-	-	-
PNG – Central Moran Capital Projects	5.4	-	-	-
PNG – PDL 4 SE Gobe Main Oil Field	27.3	-	-	-
PNG – PDL 2 SE Mananda	11.9	-	-	-
PNG – PL 3 Gobe Oil Pipeline	47.0	-	-	-
PNG Gas Project	10.0	-	-	-
Total			100.8	83.5

* Estimated



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Note 10 – Segment information

(a) Segment revenues

	External Revenues		Other Income		Inter-Segment Revenues		Equity Accounted Share of Net Profits/(Losses)		Total	
	2006 \$m	2005 \$m	2006 \$m	2005 \$m	2006 \$m	2005 \$m	2006 \$m	2005 \$m	2006 \$m	2005 \$m
Energy Networks										
Gas networks	66.1	59.5	0.8	1.3	261.0	278.6	-	-	327.9	339.4
Electricity networks	93.0	81.2	(0.1)	0.1	116.1	117.8	-	-	209.0	199.1
	159.1	140.7	0.7	1.4	377.1	396.4	-	-	536.9	538.5
Agility	207.8	146.3	0.1	1.8	309.0	280.5	-	-	516.9	428.6
Retail Energy	3,393.8	3,322.7	0.8	2.0	18.9	33.8	-	0.2	3,413.5	3,358.7
Merchant Energy	357.1	172.6	3.3	(2.2)	1,543.5	359.9	11.4	0.2	1,915.3	530.5
Intra Segment sales	-	-	-	-	(1,529.1)	(359.6)	-	-	(1,529.1)	(359.6)
	3,750.9	3,495.3	4.1	(0.2)	33.3	34.1	11.4	0.4	3,799.7	3,529.6
Energy Investments	94.9	62.2	-	0.7	-	-	89.4	83.1	184.3	146.0
New Zealand Business	-	206.7	-	628.2	-	-	-	-	-	834.9
Property	-	-	23.3	14.7	3.6	1.3	-	-	26.9	16.0
Telecommunications	-	-	-	1.9	-	-	-	-	-	1.9
Segment totals	4,212.7	4,051.2	28.2	648.5	723.0	712.3	100.8	83.5	5,064.7	5,495.5
Unallocated items	26.3	26.6	0.9	(0.6)	-	-	-	-	27.2	26.0
	4,239.0	4,077.8	29.1	647.9	723.0	712.3	100.8	83.5	5,091.9	5,521.5
Less: eliminations	-	-	-	-	(723.0)	(712.3)	-	-	(723.0)	(712.3)
	4,239.0	4,077.8	29.1	647.9	-	-	100.8	83.5	4,368.9	4,809.2

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 and upstream oil and gas investments.
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 2005 comparatives have been restated to reflect this change.



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Note 10 – Segment information (continued)

(b) Segment results – profits/(losses)

	Segment Results		Depreciation and		Other Non-cash	
	Profits/(Losses)		Amortisation		Expenses	
	2006	2005	2006	2005	2006	2005
	\$m	\$m	\$m	\$m	\$m	\$m
Continuing Operations						
Energy Networks						
Gas networks	119.2	132.4	73.4	72.0	1.4	1.9
Electricity networks	89.0	(152.3)	17.7	24.2	0.1	231.6
	<u>208.2</u>	<u>(19.9)</u>	<u>91.1</u>	<u>96.2</u>	<u>1.5</u>	<u>233.5</u>
Agility	70.3	63.0	5.9	3.8	16.1	13.5
Retail Energy	262.8	221.2	10.5	13.9	33.1	35.3
Merchant Energy	147.2	52.6	65.8	18.8	3.1	0.5
	<u>410.0</u>	<u>273.8</u>	<u>76.3</u>	<u>32.7</u>	<u>36.2</u>	<u>35.8</u>
Energy Investments	89.9	94.0	6.0	4.7	25.8	1.6
Property	22.0	2.6	1.9	1.2	0.2	0.1
Telecommunications	0.1	2.2	-	-	-	0.1
Segment totals	800.5	415.7	181.2	138.6	79.8	284.6
Unallocated items	(65.2)	(27.8)	24.4	21.1	21.0	30.5
	<u>735.3</u>	<u>387.9</u>	<u>205.6</u>	<u>159.7</u>	<u>100.8</u>	<u>315.1</u>
Less: finance costs	(143.8)	(89.2)				
Profit from continuing operations before income tax	591.5	298.7				
Income tax expense	(134.5)	(54.4)				
Profit from continuing operations after income tax	<u>457.0</u>	<u>244.3</u>				
Discontinued Operations						
New Zealand Business						
	-	702.6	-	30.5	-	-
Segment totals	-	702.6	-	30.5	-	-
Less: finance costs	-	(10.3)				
Profit from discontinued operations	-	692.3				
Income tax expense	-	(12.1)				
Profit from discontinued operations after income tax	-	<u>680.2</u>				
Profit for the period	<u>457.0</u>	<u>924.5</u>				

Profit for the period includes the following significant items, detailed in Note 6, as allocated to relevant segments:

(i) Electricity Networks	\$nil million (2005 \$(231.1) million)
(ii) Energy Investments	\$(19.6) million (2005 \$Nil million)
(iii) New Zealand Business	\$nil million (2005 \$628.2 million)
(iv) Property	\$23.3 million (2005 \$2.6 million)
(v) Unallocated items	\$(45.6) million (2005 \$(5.0) million)
(vi) Income tax benefit	\$66.8 million (2005 \$107.5 million)

Energy Investments non-cash expenses include a \$25.1 million write down of PNG Pipeline FEED costs. Electricity Networks non-cash expenses include a \$231.1 million impairment loss on write down of assets in the prior year.



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Note 10 – Segment information (continued)

(c) Segment assets and liabilities

	Assets		Liabilities		Equity Accounted Investments *		Acquisition of Non-Current Assets *	
	2006	2005	2006	2005	2006	2005	2006	2005
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Energy Networks								
Gas networks	2,816.6	2,795.4	638.0	695.6	-	-	86.4	69.2
Electricity networks	787.5	755.0	13.3	12.4	-	-	50.0	42.4
	3,604.1	3,550.4	651.3	708.0	-	-	136.4	111.6
Agility	156.4	120.6	73.3	73.2	-	-	30.9	18.7
Retail Energy	2,084.8	2,057.3	514.2	553.8	9.8	0.9	0.2	1.8
Merchant Energy	3,257.9	555.3	644.3	3.2	131.3	106.5	2,215.2	12.0
	5,342.7	2,612.6	1,158.5	557.0	141.1	107.4	2,215.4	13.8
Energy Investments	1,062.4	1,029.2	161.3	164.0	868.3	864.5	26.4	4.4
New Zealand Business	-	-	-	-	-	-	-	14.5
Property	32.0	30.2	26.3	17.2	-	-	35.1	7.0
Telecommunications	-	0.1	-	0.1	-	-	-	-
Segment totals	10,197.6	7,343.1	2,070.7	1,519.5	1,009.4	971.9	2,444.2	170.0
Unallocated items	290.2	537.8	3,652.8	1,709.4	-	-	40.7	32.0
Consolidated totals	10,487.8	7,880.9	5,723.5	3,228.9	1,009.4	971.9	2,484.9	202.0

* included in Assets total



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Note 10 – Segment information (continued)

(d) Funds employed

	Energy Networks		Agility	Retail Energy	Merchant Energy	Energy Investments
	Gas Networks	Electricity Networks				
	2006	2006	2006	2006	2006	2006
	\$m	\$m	\$m	\$m	\$m	\$m
Current assets						
Cash and cash equivalents	-	-	0.6	6.2	58.5	11.6
Trade and other receivables	23.5	17.0	47.3	740.4	92.4	12.6
Inventories	-	-	3.2	1.5	25.3	1.4
Other financial assets	-	-	-	-	198.5	-
Other assets	-	0.6	0.6	3.7	4.8	0.2
Non-current assets						
Trade and other receivables	-	-	-	-	22.3	-
Investments accounted for using the equity method	-	-	-	9.8	131.3	868.3
Exploration and evaluation assets	-	-	-	-	51.5	-
Oil and gas assets	-	-	-	-	498.5	-
Property, plant and equipment	2,784.6	453.7	38.4	50.6	998.5	133.6
Intangibles assets	6.9	278.2	45.9	1,180.5	869.3	18.7
Deferred tax assets	0.2	38.0	12.6	88.7	107.6	16.0
Other financial assets	-	-	-	-	196.4	-
Other assets	1.4	-	7.8	3.4	3.0	-
Total assets	2,816.6	787.5	156.4	2,084.8	3,257.9	1,062.4
Current liabilities						
Trade and other payables	5.6	9.1	36.5	340.4	61.7	7.0
Provisions	0.8	0.4	16.5	10.5	6.1	0.6
Current tax payable	-	-	-	-	-	0.5
Other financial liabilities	-	-	-	-	224.1	-
Other liabilities	-	1.6	0.3	0.9	0.3	0.6
Non-current liabilities						
Provisions	0.2	-	19.8	10.8	10.6	0.4
Deferred tax liabilities	631.4	2.2	-	136.9	172.5	108.7
Other financial liabilities	-	-	-	-	159.2	-
Other liabilities	-	-	-	3.8	1.3	-
Total liabilities	638.0	13.3	73.1	503.3	635.8	117.8
Funds employed	2,178.6	774.2	83.3	1,581.5	2,622.1	944.6
Guarantee support			3.3	1.2	233.8	21.7



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Note 10 – Segment information (continued)

	Energy Networks		Agility	Retail Energy	Merchant Energy	Energy Investments
	Gas Networks	Electricity Networks				
	\$m	\$m	\$m	\$m	\$m	\$m

(e) Profit from continuing operations before finance costs (\$m)

Before income tax	119.2	89.0	70.3	262.8	147.2	89.9
After income tax	80.5	62.2	49.8	150.2	121.8	67.9

(f) Profit from continuing operations before finance costs / funds employed* (%)

Before income tax	5.6	11.7	107.5	16.7	9.4	9.7
After income tax	3.8	8.2	76.1	9.6	7.8	7.3

*Weighted where appropriate

(g) Profit from continuing operation before finance costs / funds employed including guarantee support* (%)

Before income tax	5.6	11.7	102.7	16.7	8.1	9.6
After income tax	3.8	8.2	72.7	9.5	6.7	7.2

*Weighted where appropriate

(h) Geographical segments

	External Revenues & Other Income		Assets		Acquisition of Non-Current Assets	
	2006	2005	2006	2005	2006	2005
	\$m	\$m	\$m	\$m	\$m	\$m
Australia	4,200.9	3,852.0	10,324.5	7,740.0	2,481.9	183.1
New Zealand	-	834.9	-	-	-	14.5
Other	67.2	38.8	163.3	140.9	3.0	4.4
	4,268.1	4,725.7	10,487.8	7,880.9	2,484.9	202.0



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	2006 \$m	2005 \$m
Note 11 – Contingent liabilities and contingent assets		
(a) Contingent liabilities		
Bank guarantees in respect of the consolidated entity	13.0	8.5
Guarantees and warranties in respect of controlled entities	16.4	35.5
Guarantees in respect of associates	5.0	5.0
Guarantees in respect of other entities*	23.8	21.8
Contingent consideration under contract**	92.2	-
	150.4	70.8

* AGL has provided a guarantee over a \$25.0 million bank facility utilised by TransACT. As at 30 June 2006, the facility had been drawn down to the amount of \$23.8 million (June 2005 \$20.8 million) and is included in guarantees in respect of other entities.

** Contingent consideration under contract consists of two amounts of \$41.2 million and \$51.0 million respectively. The first relates to the final payment on the PNG Upstream Gas project which is contingent upon project sanction and financial close. The second amount relates to the contingent payment of up to \$51.0 million which will be made if additional reserves are proven at Camden by December 2008, based upon an agreed reserve formula with reserves verified by an independent external expert.

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 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. The amount of the potential payment payable by the purchaser has not been recognised at 30 June 2006, as it is contingent on obtaining relevant State and Territory duty relief and cannot be reliably measured at this stage.

Note 12 – 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:

	2006 \$m	2005 \$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



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Note 12 – Discontinued operations (continued)

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

	2006 \$m	2005 \$m
Operating cash flows	-	54.9
Investing cash flows	-	(9.6)
Financing cash flows	-	(41.7)
Net cash (outflow)/inflow	-	3.6

Note 13 – Tax consolidation

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

Note 14 – Issued capital

	Number '000	\$m
Issued and fully paid ordinary shares	455,910	
<i>Movements in ordinary shares on issue:</i>		
At 1 July 2005	456,577	2,010.1
Issue of shares under AGL Long Term Incentive Plan	15	-
Share buy back	(682)	(10.0)
Share buy back transaction costs	-	(0.9)
Purchase shares on market under AGL Long Term Incentive Plan	-	(7.5)
Purchase shares on market under AGL Share Reward Plan	-	(2.3)
Transfer from employee equity benefits reserve	-	7.9
At 30 June 2006	455,910	1,997.3

Note 15 – 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 is one of the largest renewable hydro and electricity generation portfolios in Australia.

The fair value of the acquisition was \$1,451.4 million including costs directly attributable to the acquisition totalling \$12.1 million.

From the date of acquisition, the Southern Hydro Group has contributed \$21.7 million to operating profit before finance costs and income 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.



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Note 15 – 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	Carrying value at acquisition
	2006	2006
	\$m	\$m
Assets		
Cash and cash equivalents	11.0	11.0
Trade and other receivables	52.4	43.7
Inventories	0.2	0.2
Other assets	1.4	1.4
Other financial assets	41.7	41.7
Property, plant and equipment	701.2	716.2
Intangible assets	301.2	120.2
Deferred tax assets	28.1	32.2
	1,137.2	966.6
Liabilities		
Trade and other payables	41.0	41.0
Borrowings	6.9	6.9
Other financial liabilities	80.6	80.6
Provisions	11.9	7.6
Deferred tax liabilities	68.6	89.6
	209.0	225.7
Fair value of identifiable net assets	928.2	740.9
Goodwill on acquisition	523.2	
	1,451.4	
Consideration:		
Cash paid including directly associated costs	1,451.4	
Less net cash acquired	11.0	
Net cash outflow	1,440.4	

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 positions 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.

At 30 June 2006 there is a deficiency in current assets to current liabilities in the consolidated balance sheet which is primarily due to the acquisition of Southern Hydro which was funded from debt facilities classified as a current liability. AGL refinanced these facilities in February 2006 with maturity dates extended for an average of 3.25 years subject to AGL's demerger proposal proceeding. Because AGL's demerger proposal did not proceed, the debt facilities will fall due for repayment on 28 November 2006. It is expected that the facilities will be refinanced before the maturity date, although the manner in which the refinancing will occur will depend on whether the transaction with Alinta will proceed.

Other businesses acquired during the year included Cable Layers and Yambah Civil with total consideration paid being \$14.8 million. This represented net assets of \$5.6 million and goodwill of \$9.2 million.



The Australian Gas Light Company and Subsidiaries
Notes to the Financial Statements
For the year ended 30 June 2006

Note 16 – Subsequent events

On 26 April 2006 AGL and Alinta agreed to merge their respective infrastructure businesses in a Heads of Agreement. AGL and Alinta subsequently signed a relationship deed dealing with transitional and commercial issues arising from the proposed implementation of an AGL Scheme of arrangement and an Alinta Scheme of arrangement. These Schemes involve the merger of AGL and Alinta's infrastructure and asset management businesses and the establishment of AGL Energy as a separate listed entity. These two new listed entities will be AGL Energy and New Alinta.

Preparation for the necessary shareholders meetings is well underway including the preparation of Scheme Booklets together with directors' recommendations on each proposal. It is expected that these meetings will take place in October 2006. The implementation of the schemes is dependent upon obtaining necessary shareholders approval at these meetings. The effect of obtaining the AGL shareholder approval has not been included in these financial statements.

On 21 June 2006 AGL announced the intended acquisition of BHP Billiton's 50% interest in the Queensland coal seam gas project at Moranbah. Financial close is expected in August 2006 with effect from 1 January 2006. AGL's share of revenue and expenses from the effective date to financial close will be adjusted against the acquisition price. A deposit of \$9.3 million has been paid and is included in Oil and Gas assets at 30 June 2006, with a further payment of \$83.7 million on completion excluding transaction costs.

Note 17 – Information on audits or review

1. This report has been prepared in accordance with AASB Standards, other AASB authoritative pronouncements and Urgent Issues Group Consensus Views or other standards acceptable to ASX.
2. This report, and the accounts upon which the report is based (if separate), use the same accounting policies.
3. This report does give a true and fair view of the matters disclosed.
4. 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.

5. The entity has a formally constituted Audit and Risk Management committee.

Mark Johnson
Chairman

16 August 2006



The Australian Gas Light Company and Subsidiaries

Directors' Declaration for the Year Ended 30 June 2006

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.

A handwritten signature in black ink, reading 'Mark Johnson'.

Mark Johnson
Chairman

A handwritten signature in black ink, reading 'Paul Anthony'.

Paul Anthony
Managing Director

Sydney, 16 August 2006