

The Australian Gas Light Company and Controlled Entities

Full Financial Report for the year ended 30 June 2005

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Statement of Financial Performance For the year ended 30 June 2005

	Note	Consolidated		Parent Entity	
		2005	2004	2005	2004
		\$m	\$m	\$m	\$m
Revenues from ordinary activities	4	4,915.4	4,201.7	635.9	831.8
Expenses from ordinary activities	5	(3,747.4)	(3,355.8)	(456.7)	(691.9)
Equity accounted share of profits of associates and joint venture entities		85.3	91.8	-	-
Profit from ordinary activities before borrowing costs, depreciation and amortisation		1,253.3	937.7	179.2	139.9
Depreciation and amortisation	6(b)	(198.8)	(236.7)	(1.8)	(1.7)
Profit from ordinary activities before borrowing costs		1,054.5	701.0	177.4	138.2
Borrowing costs	6(b)	(111.5)	(134.0)	(137.6)	(117.8)
Profit from ordinary activities before income tax	6	943.0	567.0	39.8	20.4
Income tax attributable to ordinary activities	7	(74.8)	(187.5)	(30.0)	(26.8)
Profit (loss) from ordinary activities after income tax		868.2	379.5	9.8	(6.4)
Outside equity interests in operating profit after income tax		(19.9)	(30.0)	-	-
Profit (loss) after income tax attributable to Shareholders of the Parent Entity	33	848.3	349.5	9.8	(6.4)
Increase (decrease) in foreign currency translation reserve arising on translation of financial reports of foreign controlled operations	32	(4.7)	7.4	-	-
Total revenue, expense and valuation adjustments attributable to Shareholders of the Parent Entity recognised directly in equity		(4.7)	7.4	-	-
Total changes in equity other than those resulting from transactions with Shareholders as owners		843.6	356.9	9.8	(6.4)
Earnings per share					
Basic (cents)		185.8	76.8		
Diluted (cents)		185.5	76.8		
Weighted average number of ordinary shares on issue used in the calculation of basic and diluted earnings per share					
Basic (millions)		456.5	454.9		
Diluted (millions)		457.2	455.3		

The notes following the financial statements form part of the financial report.

Statement of Financial Position

As at 30 June 2005

	Note	Consolidated		Parent Entity	
		2005	2004	2005	2004
		\$m	\$m	\$m	\$m
Current assets					
Cash	47 (a)	394.2	18.0	381.9	28
Receivables	9	808.3	841.1	27.2	24.2
Inventories	10	14.0	23.7	-	-
Property, plant and equipment	11	15.2	21.8	14.2	21.8
Other assets	12	78.4	110.9	1.0	0.6
Total current assets		1,310.1	1,015.5	424.3	49.4
Non-current assets					
Receivables	13	131.6	130.3	4,068.5	3,858.5
Equity accounted investments	14	607.5	601.2	260.2	239.3
Other financial assets	15	-	2.0	1,005.6	1,085.2
Property, plant and equipment	16	2,120.1	2,916.6	8.0	18.6
Intangible assets	17	1,479.2	1,614.0	-	-
Deferred expenditure	18	138.1	147.8	11.0	9.3
Deferred tax assets	19	125.9	112.7	125.2	16.7
Other assets	20	15.7	34.0	-	-
Total non-current assets		4,618.1	5,558.6	5,478.5	5,227.6
Total assets		5,928.2	6,574.1	5,902.8	5,277.0
Current liabilities					
Payables	21	433.2	456.1	338.3	266.4
Interest bearing liabilities	22	236.4	546.1	190.3	310.0
Provisions	23	60.5	110.5	22.5	10.8
Current tax liabilities	24	85.9	76.6	67.3	17.4
Unearned revenue	25	8.9	12.3	0.2	0.4
Total current liabilities		824.9	1,201.6	618.6	605.0
Non-current liabilities					
Payables	26	-	-	983.7	101.8
Interest bearing liabilities	27	1,406.9	1,643.6	1,396.2	1,396.2
Provisions	28	46.0	48.4	9.8	7.1
Deferred tax liabilities	29	377.7	518.5	371.8	4.5
Unearned revenue	30	5.1	7.4	-	0.2
Total non-current liabilities		1,835.7	2,217.9	2,761.5	1,509.8
Total liabilities		2,660.6	3,419.5	3,380.1	2,114.8
Net assets		3,267.6	3,154.6	2,522.7	3,162.2
Equity					
Contributed equity	31	2,010.1	2,239.7	2,010.1	2,239.7
Reserves	32	(8.8)	(4.1)	1.7	1.7
Retained profits	33	1,266.3	814.2	510.9	920.8
Equity attributable to Shareholders of the Parent Entity		3,267.6	3,049.8	2,522.7	3,162.2
Outside equity interests in controlled entities	34	-	104.8	-	-
Total equity		3,267.6	3,154.6	2,522.7	3,162.2

The notes following the financial statements form part of the financial report

Statement of Cash Flows
For the year ended 30 June 2005

	Note	Consolidated		Parent Entity	
		Inflows (outflows)		Inflows (outflows)	
		2005	2004	2005	2004
		\$m	\$m	\$m	\$m
Cash flows from operating activities					
Receipts from customers		4,842.3	5,031.7	267.8	266.2
Payments to suppliers and employees		(4,139.5)	(4,227.7)	(341.4)	(289.3)
Dividends received		92.7	74.8	78.6	196.4
Interest received		25.0	8.8	230.0	185.5
Borrowing costs paid		(116.1)	(132.2)	(116.1)	(112.6)
Income taxes paid		(147.0)	(118.2)	(132.4)	(19.2)
Net cash provided by/(used in) operating activities	47(d)	557.4	637.2	(13.5)	227.0
Cash flows from investing activities					
Payments for property, plant and equipment & deferred expenditure		(197.5)	(211.8)	(9.9)	(3.5)
Payments for investments		(22.0)	(120.7)	(22.0)	(471.2)
Payments for intangibles		(0.2)	(3.0)	-	-
Payments for acquisition of controlled entities	47(e)	(19.0)	-	-	-
Loans advanced		(18.2)	(114.1)	(18.2)	(114.1)
Proceeds from sale of property, plant and equipment		47.4	5.6	43.7	0.3
Proceeds from disposal of investments		1.1	3.2	1.1	3.2
Proceeds from dingo blue settlement		-	20.9	-	-
Proceeds from share buy-back of controlled entities		-	-	-	164.5
Proceeds from sale of controlled entities	47(f)	777.8	-	-	-
Proceeds from loan repayments		20.1	7.8	15.4	3.5
Net cash provided by/(used in) investing activities		589.5	(412.1)	10.1	(417.3)
Cash flows from financing activities					
Proceeds from issue of shares		-	58.9	-	58.9
Capital Return		(228.7)	-	(228.7)	-
Share buy-back		-	(155.8)	-	-
Proceeds from borrowings and hedge receipts on foreign currency borrowings		445.4	751.8	173.5	521.0
Repayment of borrowings and hedge payments on foreign currency borrowings		(539.2)	(639.0)	(300.0)	(804.7)
Loans repaid by controlled entities		-	-	1,152.4	1,227.1
Loans advanced to controlled entities		-	-	-	(555.7)
Dividends paid		(448.6)	(289.8)	(420.0)	(262.8)
Net cash provided by/(used in) financing activities		(771.1)	(273.9)	377.2	183.8
Net (decrease) increase in cash held		375.8	(48.8)	373.8	(6.5)
Cash at the beginning of the financial year		1.4	50.4	(7.2)	(0.7)
Effect of exchange rate changes on the balance of cash held in foreign currencies		(0.2)	(0.2)	-	-
Cash at the end of the financial year	47(a)	377.0	1.4	366.6	(7.2)

The notes following the financial statements form part of the financial report

Notes to the Financial Statements

For the year ended 30 June 2005

Note 1 - Regulation

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

Note 2 – Statement of significant accounting policies

(a) Basis of preparation of financial report

The financial report is a general purpose financial report and is prepared in accordance with the Corporations Act 2001, applicable Accounting Standards, Urgent Issues Group Consensus Views and other authoritative pronouncements of the Australian Accounting Standards Board.

The financial report is prepared on the basis of historical cost and, except where otherwise stated, is not adjusted to take account of either changing money values or current valuations of non-current assets.

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

(b) Principles of consolidation

The consolidated financial report of the consolidated entity, comprises The Australian Gas Light Company (the Parent Entity) and each of its controlled entities listed in Note 40. Adjustments have been made to achieve consistency where entities adopt accounting policies which differ from the consolidated entity. All inter-entity balances and transactions are eliminated on consolidation.

(c) Change in accounting policies

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

(d) Change in accounting estimates

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

(e) Receivables

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

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

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

Provisions are raised for any doubtful debts based on a review of all outstanding amounts at balance date. Bad debts are written off in the period in which they are identified.

(f) Inventories

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

Property held for development and sale is valued at the lower of cost plus capitalised development and holding costs, and estimated net realisable value.

Notes to the Financial Statements

For the year ended 30 June 2005

Note 2 – Statement of significant accounting policies (continued)

(g) Investments

Investments in controlled entities are shown at the lower of cost or estimated recoverable amounts.

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

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

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

Investments in other entities are shown at cost, and dividend income or distributions from such entities are brought to account as profit from ordinary activities.

(h) Property, plant and equipment

Purchased assets

Items of property, plant and equipment are initially brought to account at cost. For major items, cost includes, where applicable, borrowing and other costs incurred during construction or represents, where applicable, the fair value of assets acquired on the purchase of controlled entities.

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

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

Leased assets

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

Payments made under operating leases are expensed as incurred.

(i) Intangibles

Goodwill

Goodwill represents the excess of acquisition costs over the fair values of the identifiable net assets of controlled entities acquired by the consolidated entity and is amortised on a straight line basis over the period of time during which the future benefits are expected to arise or twenty years, whichever is the shorter. The unamortised balance of goodwill is reviewed at each reporting date and, to the extent that future benefits are no longer probable, charged against profits.

Licences

The consolidated entity's electricity distribution licence is carried at cost, cost representing the fair value of the electricity licence acquired. The licence was granted in perpetuity, has an indefinite useful life and, accordingly, is not amortised.

The consolidated entity's electricity retail licences are carried at cost, cost representing the fair value of the electricity licences acquired. The licences are amortised on a straight line basis over the period of time during which the future benefits are expected to arise, being twenty to sixty years.

(j) Gas entitlements

A controlled entity entered into gas supply contracts in New Zealand. Under the terms of the contracts, the controlled entity committed to purchase a minimum quantity of gas in each contract year whether or not delivery had been made. Prepayments for undelivered gas entitled the controlled entity to take delivery of gas in subsequent years without further payment. The prepayments were capitalised as a long-term asset and were amortised as the prepaid gas is utilised. The controlled entity was sold on 13 December 2005 – refer Note 47(f).

(k) Deferred expenditure

Borrowing expenses relating to long-term financing facilities are deferred and amortised over periods not exceeding the term of each borrowing.

Other expenditures which provide benefits beyond the current accounting period are deferred and amortised on a straight line basis over the periods during which the benefits are expected to arise, ranging from two to fifty years. These expenditures principally relate to computer software and gas and electricity industry operations (the conversion of existing customers' appliances to the use of natural gas and other gas and electricity industry expenditures).

Notes to the Financial Statements

For the year ended 30 June 2005

Note 2 – Statement of significant accounting policies (continued)

(l) Recoverable amount of non-current assets

The carrying values of non-current assets are reviewed at each reporting date. Where the carrying values of any non-current assets exceed recoverable amount, the non-current assets are written down by directors to their recoverable amounts. Independent valuations, quoted market values or discounted cash flows are used to determine the recoverable amount of non-current assets. Where discounted cash flows are used, the expected net cash flows have been discounted to their present values using a market-determined, risk-adjusted discount rate. The discount rate used in determining the recoverable amount of non-current assets ranged from 6.3% - 12.7% (2004 6.8% - 14.0%) depending on the nature and assessed risk of the assets.

(m) Payables

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

(n) Interest bearing liabilities

Borrowings are recognised at amounts due on settlement. Interest on the instruments is recognised as an expense on an accruals basis.

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

(o) Goods and services tax

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

(p) Taxation

Tax-effect accounting principles are adopted whereby income tax expenses is calculated on pre-tax accounting profits after adjustment for permanent differences. The tax-effect of timing differences, which occur when items are included or allowed for income tax purposes in a period different to that for accounting, is shown at current taxation rates in the deferred tax assets and deferred tax liabilities, as applicable.

During the financial year, the directors elected that the company and all its wholly owned Australian resident entities would join a tax consolidation group. As a result, all income tax expenses, revenues, assets and liabilities of the members of the tax-consolidated group are recognised in the financial statements of the parent entity. Due to the existence of a tax sharing agreement between the entities in the tax consolidated group, the income tax expense/revenue of the parent entity includes the tax contribution amounts paid or payable between the parent entity and subsidiary entities made in accordance with the agreement. The current and deferred tax assets and liabilities of the parent entity are not reduced by any amounts owing from or to subsidiary entities in accordance with tax sharing agreement as these amounts are recognised as inter-company receivables and payables.

(q) Restoration and rehabilitation costs

Provision is made for the estimated costs of restoration and rehabilitation of sites used in gas and electricity operations.

(r) Employee benefits

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

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

Contributions to employee superannuation plans are expensed as the contributions are paid or become payable. Provision is made in relation to defined benefit funds to the extent that a present obligation exists to fund a shortfall in the net market value of plan assets compared to the estimated members' benefits.

(s) Revenue recognition

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

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

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

Notes to the Financial Statements

For the year ended 30 June 2005

Note 2 – Statement of significant accounting policies (continued)

(t) Foreign currencies

Translation of foreign currency transactions

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

Exchange differences arising from the conversion of amounts payable and receivable in foreign currencies are brought to account as gains or losses in the periods in which the differences arise.

Translation of foreign currency financial statements

Assets and liabilities of self-sustaining foreign controlled entities are translated into Australian dollars at exchange rates ruling at reporting date. Profits and losses of such controlled entities are translated at average exchange rates ruling during the year. Exchange differences arising on translation are taken directly to the foreign currency translation reserve.

Assets and liabilities of integrated foreign controlled entities are translated into Australian dollars at historical rates of exchange or, in the case of monetary items, at exchange rates ruling at reporting date. Profits and losses of such controlled entities are translated at average exchange rates ruling during the year. Exchange differences arising on translation are either brought to account as gains or losses in the periods in which the differences arise or, where such differences are attributable to qualifying assets, included in the costs of acquisition of such assets.

Hedging of foreign currency commitments

Exchange differences arising on hedges 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.

Exchange differences relating to other hedge transactions are either brought to account as gains or losses in the periods in which the differences arise or, in the case of initial gains or costs, brought to account over the periods of the hedge transactions. On consolidation, gains or losses on hedge transactions entered into in relation to net investments in self-sustaining foreign controlled entities are transferred to the foreign currency translation reserve.

The carrying amounts of forward foreign exchange contracts, which comprise net receivables and payables accrued, are included in assets or liabilities respectively.

(u) Derivative financial instruments

Derivative financial instruments are entered into in order to manage financial risks, as outlined in Note 49.

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 statement of financial performance as 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 statement of financial performance 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.

Foreign exchange contracts are accounted for as outlined in Note 2(t).

Notes to the Financial Statements

For the year ended 30 June 2005

Note 2 – Statement of significant accounting policies (continued)

(v) Cash flows

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

(w) Comparative figures

Where necessary, information for the previous period has been represented to conform to changes in presentation in the current financial year.

(x) Rounding of amounts

Unless otherwise specified, amounts in the financial report are shown to the nearest tenth of a million dollars in accordance with ASIC class order 98/100 issued 10 July 1998. The Parent Entity is an entity to which the class order applies.

Notes to the Financial Statements

For the year ended 30 June 2005

Note 3 - Segment information

Business segments

Note 3(a) Segment revenues

	External Sales Revenue		Other External Revenue		Inter-segment Revenue		Equity Accounted Share of Net Profits/(Losses)		Total	
	Jun 05	Jun 04	Jun 05	Jun 04	Jun 05	Jun 04	Jun 05	Jun 04	Jun 05	Jun 04
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Energy Networks										
<i>Gas networks</i>	59.5	45.0	1.3	1.9	278.6	290.1	-	-	339.4	337.0
<i>Electricity networks</i>	81.2	66.4	0.1	0.3	117.8	115.2	-	-	199.1	181.9
	<u>140.7</u>	<u>111.4</u>	<u>1.4</u>	<u>2.2</u>	<u>396.4</u>	<u>405.3</u>	<u>-</u>	<u>-</u>	<u>538.5</u>	<u>518.9</u>
Agility	146.4	129.6	1.8	3.2	280.5	271.3	-	0.2	428.7	404.3
Energy Sales & Marketing	3,487.3	3,436.8	2.0	3.2	33.8	34.1	0.2	(0.2)	3,523.3	3,473.9
Energy Investments	62.2	50.1	0.7	4.5	-	0.6	86.2	105.2	149.1	160.4
Power Generation	8.1	8.9	10.6	0.1	37.5	39.0	(1.1)	2.7	55.1	50.7
New Zealand business	206.7	409.7	784.1	7.9	-	-	-	(0.2)	990.8	417.4
Property	-	-	37.0	0.9	1.3	0.1	-	-	38.3	1.0
Telecommunications	-	1.0	1.9	18.4	-	-	-	(15.9)	1.9	3.5
Segment totals	<u>4,051.4</u>	<u>4,147.5</u>	<u>839.5</u>	<u>40.4</u>	<u>749.5</u>	<u>750.4</u>	<u>85.3</u>	<u>91.8</u>	<u>5,725.7</u>	<u>5,030.1</u>
Unallocated items	6.6	6.2	17.9	7.6	-	(0.6)	-	-	24.5	13.2
	<u>4,058.0</u>	<u>4,153.7</u>	<u>857.4</u>	<u>48.0</u>	<u>749.5</u>	<u>749.8</u>	<u>85.3</u>	<u>91.8</u>	<u>5,750.2</u>	<u>5,043.3</u>
Less: eliminations	-	-	-	-	(749.5)	(749.8)	-	-	(749.5)	(749.8)
	<u>4,058.0</u>	<u>4,153.7</u>	<u>857.4</u>	<u>48.0</u>	<u>-</u>	<u>-</u>	<u>85.3</u>	<u>91.8</u>	<u>5,000.7</u>	<u>4,293.5</u>

Revenue is principally derived from:

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

Notes to the Financial Statements

For the year ended 30 June 2005

Note 3 - Segment information (continued)

Note 3(b) Segment results - profits/(losses)

	Segment results - profits/(losses)		Depreciation and Amortisation		Other non-cash expenses	
	Jun 05	Jun 04	Jun 05	Jun 04	Jun 05	Jun 04
	\$m	\$m	\$m	\$m	\$m	\$m
Energy Networks						
Gas networks	163.9	164.1	40.4	40.0	1.9	2.2
Electricity networks	(155.6)	70.1	27.5	26.5	231.6	0.4
	<u>8.3</u>	<u>234.2</u>	<u>67.9</u>	<u>66.5</u>	<u>233.5</u>	<u>2.6</u>
Agility	63.4	55.5	3.8	3.2	13.0	15.0
Energy Sales & Marketing	206.2	218.8	52.5	50.8	35.1	34.5
Energy Investments	96.0	110.4	5.6	5.9	1.6	1.2
Power Generation	31.2	17.5	15.5	14.9	0.4	4.5
New Zealand business	665.2	129.4	31.2	70.5	-	15.7
Property	2.6	0.5	1.2	1.1	0.1	0.3
Telecommunications	2.2	(33.3)	-	-	0.1	32.6
Segment totals	1,075.1	733.0	177.7	212.9	283.8	106.4
Unallocated items	(20.6)	(32.0)	21.1	23.8	21.6	19.6
	<u>1,054.5</u>	<u>701.0</u>	<u>198.8</u>	<u>236.7</u>	<u>305.4</u>	<u>126.0</u>
Less: borrowing costs	(111.5)	(134.0)				
Profit from ordinary activities before income tax	943.0	567.0				
Income tax attributable to ordinary activities	(74.8)	(187.5)				
Profit from ordinary activities after income tax	868.2	379.5				

Profit from ordinary activities before borrowing costs includes the following significant items, detailed in Note 6(c), as allocated to relevant segments:

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

Note 3(c) Segment assets and liabilities

	Assets(1)		Liabilities (1)		Equity accounted investments *		Acquisition of non-current assets *	
	Jun 05	Jun 04	Jun 05	Jun 04	Jun 05	Jun 04	Jun 05	Jun 04
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Energy Networks								
Gas networks	1,248.3	1,219.0	7.3	217.5	-	-	69.2	66.4
Electricity networks	713.1	949.6	7.5	76.0	-	-	42.4	32.6
	<u>1,961.4</u>	<u>2,168.6</u>	<u>14.8</u>	<u>293.5</u>	-	-	<u>111.6</u>	<u>99.0</u>
Agility	104.6	67.7	66.5	71.2	-	0.2	18.7	6.8
Energy Sales & Marketing	2,021.8	2,102.3	388.0	553.9	0.9	1.0	5.6	10.5
Energy Investments	655.1	650.6	51.8	78.6	499.8	484.0	6.3	6.6
Power Generation	523.9	524.2	0.8	21.5	106.8	111.6	8.2	5.6
New Zealand business	-	864.0	-	594.4	-	4.4	14.5	55.1
Property	26.6	55.1	15.8	9.1	-	-	6.4	0.2
Telecommunications	-	0.2	-	2.5	-	-	-	-
Segment totals	5,293.4	6,432.7	537.7	1,624.7	607.5	601.2	171.3	183.8
Unallocated items	634.8	141.4	2,122.9	1,794.8	-	-	32.0	31.0
Consolidated total	<u>5,928.2</u>	<u>6,574.1</u>	<u>2,660.6</u>	<u>3,419.5</u>	<u>607.5</u>	<u>601.2</u>	<u>203.3</u>	<u>214.8</u>

* included in Assets total

(1) Current year figures includes the impact of entering into tax consolidation

Notes to the Financial Statements

For the year ended 30 June 2005

Note 3 - Segment information (continued)

Note 3(d) Funds employed

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

Notes to the Financial Statements

For the year ended 30 June 2005

Note 3 - Segment information (continued)

Note 3(e) Profit from ordinary activities before borrowing costs and significant items

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

Note 3(f) Profit from ordinary activities before borrowing costs and significant items/funds employed* (%)

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

* Weighted where appropriate.

Note 3(g) Profit from ordinary activities before borrowing costs and significant items/ funds employed including guarantee support * (%)

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

* Weighted where appropriate.

Note 3(h) Geographical segments

	External Revenues		Assets		Acquisition of non- current assets	
	Jun 05	Jun 04	Jun 05	Jun 04	Jun 05	Jun 04
	\$m	\$m	\$m	\$m	\$m	\$m
Australia	3,884.7	3,749.3	5,779.2	5,563.0	182.5	153.2
New Zealand	990.7	417.6	-	864.0	14.5	55.1
Other	40.0	34.8	149.0	147.1	6.3	6.5
	4,915.4	4,201.7	5,928.2	6,574.1	203.3	214.8

There was no material inter-segment revenue.

Notes to the Financial Statements

For the year ended 30 June 2005

Note 4 - Revenues from ordinary activities

	Consolidated		Parent Entity	
	2005	2004	2005	2004
	\$m	\$m	\$m	\$m
Sales of goods				
Operating activities	3,638.4	3,704.0	264.1	261.6
Other activities	-	-	-	-
Provision of services				
Construction contracts	32.5	27.3	-	-
Other operating activities	387.1	422.5	1.4	1.3
Interest				
Wholly-owned controlled entities	-	-	208.9	181.2
Associates and joint venture entities	10.6	-	10.6	2.6
Other entities	17.0	9.4	14.8	4.9
Dividends				
Wholly-owned controlled entities	-	-	59.5	192.8
Other entities	-	0.7	-	-
Associates and joint venture entities	-	-	19.1	11.1
Share of partnership profits	-	-	-	-
Disposals of assets				
Operating activities	1.8	8.8	1.3	3.5
Other activities	812.2	-	36.4	166.6
Rents				
Other activities	0.7	0.6	0.1	0.1
Write-back of provisions no longer required				
Other	9.5	2.1	-	-
Doubtful debts	1.6	1.0	-	-
Employee benefits	0.6	2.9	-	-
Net foreign currency exchange gain from non-speculative dealing	3.0	-	19.7	3.1
Other				
Operating activities	0.4	4.1	-	3.0
Other activities - proceeds on dingo blue settlement	-	18.3	-	-
	<u>4,915.4</u>	<u>4,201.7</u>	<u>635.9</u>	<u>831.8</u>

All revenue relates to operating activities unless otherwise stated.

Notes to the Financial Statements

For the year ended 30 June 2005

Note 5 - Expenses from ordinary activities

	Consolidated		Parent Entity	
	2005	2004	2005	2004
	\$m	\$m	\$m	\$m
Cost of goods sold	2,656.2	2,550.4	264.3	261.7
Administrative costs	187.5	210.0	21.8	6.5
Employee benefits	464.4	459.6	48.8	32.3
Net foreign currency exchange loss from non-speculative dealing	-	-	20.1	-
Losses and write downs relating to non current assets/investments/controlled entities	231.1	36.8	77.7	199.1
Carrying value of assets/businesses sold	205.9	10.4	21.7	192.3
Other expenses	2.3	88.6	2.3	-
	3,747.4	3,355.8	456.7	691.9

Note 6 - Profit from ordinary activities before income tax expense

Profit from ordinary activities includes:

(a) Net gain/(loss) on disposal of assets (excluding significant items - refer to Note 6(c))

Property, plant and equipment	0.9	(1.6)	0.2	(0.1)
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(b) Items of expense

Borrowing costs

Interest expense				
Wholly-owned controlled entities	-	-	40.4	4.9
Other entities	109.4	127.8	95.3	107.5
Other borrowing costs	2.3	7.0	1.9	5.4
	111.7	134.8	137.6	117.8
Less amounts capitalised as part of the carrying values of assets*	0.2	0.8	-	-
	111.5	134.0	137.6	117.8

*Capitalisation rate applicable to funds borrowed generally 7.5%.

Amounts provided for:

Directors' retiring allowances	-	0.2	-	0.2
Doubtful debts (net of bad debts recovered)	20.4	26.1	-	95.7
Employee benefits	44.0	43.3	14.6	12.1
Environmental rehabilitation	6.5	0.9	6.1	0.1
Other	16.1	12.6	6.7	-

Amounts written off in respect of:

Plant and equipment scrapped	1.6	6.3	-	0.2
Deferred expenditure	3.8	8.1	-	-

Amortisation of:

Deferred expenditure	35.3	39.3	0.1	0.1
Gas entitlements	15.1	32.5	-	-
Intangibles	40.3	40.6	-	-
Other	2.3	-	-	-

Depreciation of:

Buildings - Freehold	0.3	0.2	-	-
Buildings - Leasehold	2.8	1.1	1.2	0.8
Plant and equipment				
Purchased assets	102.7	123.0	0.5	0.8

Net decrements arising on write down of:

Inventories	0.2	0.2	-	-
Plant and Equipment	123.1	-	-	-
Deferred expenditure	3.8	-	-	-
Goodwill	20.4	-	-	-
Licences	83.8	-	-	-
Investments	-	32.6	77.7	103.5
Rental expense on operating leases	21.0	21.9	5.8	-
Research and development costs	0.2	0.2	-	-

Notes to the Financial Statements

For the year ended 30 June 2005

Note 6 - Profit from ordinary activities before income tax (continued)

	Consolidated		Parent Entity	
	2005	2004	2005	2004
	\$m	\$m	\$m	\$m
(c) Significant items				
dingo blue settlement (Income tax expense applicable \$nil million)	-	16.2	-	-
Write-off of Windimurra Power Station and APT Western Pipeline (Income tax benefit applicable \$0.5 million)	-	(8.4)	-	-
Write-off of TransACT (Income tax benefit applicable \$nil)	-	(25.0)	-	(25.0)
Equity accounted losses/writedown relating to COMindico * (Income tax benefit applicable \$nil)	-	(23.5)	-	(23.5)
Equity accounted profit relating to APT entering tax consolidations * (Income tax expense applicable \$nil million)	-	27.9	-	-
Net loss on NGC buy-back (Income tax expense applicable \$1.9 million)	-	-	-	(22.5)
Sale of NGC (Income tax expense applicable \$4.0 million)	591.5	-	-	-
Sale of Breakfast Point (Income tax expense applicable \$nil)	14.7	-	14.7	-
Tax Consolidation Benefit (Gross benefits \$65.9 million less costs \$1.6 million (tax benefit \$0.5 million))	64.8	-	-	-
Property Rehabilitation (Income tax benefit applicable \$0.3 million)	(6.1)	-	(6.1)	-
Property Rationalisation and Other Costs (Income tax benefit applicable \$2.7 million)	(9.4)	-	(9.4)	-
Write down of Electricity Networks' Assets (Income tax benefit applicable \$38.1 million)	(231.1)	-	-	-
* refer to Note 44 - Interest in associates				
Note 7 - Income tax expense				
Prima facie income tax expense on profit from ordinary activities	(282.9)	(170.1)	(11.9)	(6.1)
Tax effect of permanent differences				
Non-allowable expenditure	(47.1)	(29.1)	(33.6)	(72.8)
Non-assessable revenue	179.1	7.0	23.0	15.6
Non rebateable/assessable dividends	(10.2)	(14.6)	-	35.3
Equity accounted profits/(losses) of associates and joint venture entities	10.2	11.3	-	-
Recognition of deferred tax balances of subsidiaries	-	-	(312.1)	-
Consideration received or receivable to/from subsidiaries for transferred tax balances	-	-	312.1	-
Profits on disposals of assets	-	(0.9)	-	-
Other	4.4	1.9	(4.0)	1.5
Recognition of tax losses not previously brought to account	1.6	2.1	-	-
Tax Consolidation	65.9	-	-	-
Income tax over/(under) provided in prior years	4.2	4.9	(3.5)	(0.3)
Income tax attributable to ordinary activities	<u>(74.8)</u>	<u>(187.5)</u>	<u>(30.0)</u>	<u>(26.8)</u>

Notes to the Financial Statements

For the year ended 30 June 2005

Note 8 - Dividends

	Consolidated		Parent Entity	
	2005	2004	2005	2004
	\$m	\$m	\$m	\$m
<i>Recognised amounts</i>				
Interim dividend paid 24 March 2005 (2004 - 26 March 2004)				
Franked amount (28 cents per share (2004 - 22 cents per share))	127.8	100.4	127.8	100.4
Unfranked amount (3 cents per share (2004 - 7 cents per share))	13.7	31.9	13.7	31.9
Total amount (31 cents per share (2004 - 29 cents per share))	<u>141.5</u>	<u>132.3</u>	<u>141.5</u>	<u>132.3</u>
Special dividend paid 24 March 2005 (2004 - Nil)				
Franked amount (27 cents per share (2004 - Nil))	123.6	-	123.6	-
Unfranked amount (3 cents per share (2004 - Nil))	13.7	-	13.7	-
Total amount (30 cents per share (2004 - Nil))	<u>137.3</u>	<u>-</u>	<u>137.3</u>	<u>-</u>
Final dividend paid 24 September 2004 (2004 - 26 September 2003)				
Franked amount (23 cents per share (2004 - 18 cents per share))	104.9	81.0	104.9	81.0
Unfranked amount (8 cents per share (2004 - 11 cents per share))	36.5	49.5	36.5	49.5
Total amount (31 cents per share (2004 - 29 cents per share))	<u>141.4</u>	<u>130.5</u>	<u>141.4</u>	<u>130.5</u>
	<u>420.2</u>	<u>262.8</u>	<u>420.2</u>	<u>262.8</u>
<i>Unrecognised Amounts</i>				
Proposed final dividend to be paid 23 September 2005 #				
Franked amount (32 cents per share)	141.8	104.9		
Unfranked amount (Nil)	-	36.5		
Total amount 32 cents per share	<u>141.8</u>	<u>141.4</u>		
# The proposed final dividend in respect of ordinary shares for the year ended 30 June 2005 has not been recognised in this financial report as the final dividend was not declared on or before 30 June 2005.				
The franking rate applicable to all franked dividends paid and proposed is 30%.				
Franking credits available for franking dividends in the subsequent financial year on a tax paid basis (after allowing for tax payable and franking credits attached to dividends proposed in respect of the current financial year)				
	<u>11.5</u>	<u>-</u>	<u>11.5</u>	<u>-</u>
Foreign dividend account credits attached to dividends for the year	<u>-</u>	<u>8.0</u>	<u>-</u>	<u>8.0</u>

Notes to the Financial Statements

For the year ended 30 June 2005

Note 9 - Receivables (current)

	Consolidated		Parent Entity	
	2005 \$m	2004 \$m	2005 \$m	2004 \$m
Debtors	388.1	422.9	19.9	16.2
Less provision for doubtful debts	28.0	29.2	-	-
	360.1	393.7	19.9	16.2
Unbilled revenue	406.5	403.7	-	-
Loans receivable (secured)	0.1	2.4	-	2.2
Loans to directors engaged in full time employment within the consolidated entity (secured) (+ *)	1.5	1.5	1.5	1.5
Amounts owing by:				
Wholly-owned controlled entities	-	-	1.6	-
Associates and joint venture entities	40.1	39.8	4.2	4.3
	<u>808.3</u>	<u>841.1</u>	<u>27.2</u>	<u>24.2</u>

+ 2005: To nearest thousand dollars, \$1,481,000.

* 2004: To nearest thousand dollars, \$1,481,000.

Significant terms and conditions

Debtors are required to be settled within 30 days of the date of recognition.

Unbilled gas and electricity revenue is not collectable until such time as customers' meters are read and bills rendered.

Loans receivable (secured) comprise employee share plan loans which are secured by first mortgages over shares of the Parent Entity. The loans are non-interest bearing and the current portions of the loans are repayable no later than 30 June 2006.

Loans to directors, including directors of controlled entities, comprise employee share plan loans which are secured by first mortgages over shares of the Parent Entity. The loans are non-interest bearing and the current portions of the loans are repayable no later than 30 June 2006.

Amounts owing by associates and joint venture entities consist of non-interest bearing debts which are required to be paid within 30 days of the date of recognition.

Credit risk

The consolidated entity does not have a material exposure to any individual debtor or any group of debtors.

Note 10 - Inventories (current)

Stocks and materials

Raw materials and stores - at cost	10.4	14.8	-	-
Work in progress - at cost	1.6	2.3	-	-
Finished goods - at cost	2.5	7.1	-	-
Less provision to reduce carrying values to net realisable values	0.5	0.5	-	-
	<u>2.0</u>	<u>6.6</u>	<u>-</u>	<u>-</u>
	<u>14.0</u>	<u>23.7</u>	<u>-</u>	<u>-</u>

Notes to the Financial Statements

For the year ended 30 June 2005

Note 11 - Property, plant and equipment (current)

Surplus properties held for sale - freehold at cost

Consolidated		Parent Entity	
2005	2004	2005	2004
\$m	\$m	\$m	\$m
15.2	21.8	14.2	21.8

Valuations

The properties were valued at \$38.5 million at 30 June 2005 (Parent Entity \$37.5 million). These valuations were determined by directors after receipt of independent valuations from licensed real estate valuers and after allowing for site rehabilitation costs (\$50.0 million of rehabilitation costs in respect of a former gasworks site have been offset by the utilisation of part of the former gas customers' reserve account). The carrying values of the properties were not restated at 30 June 2005.

Capital gains tax payable if the properties had been sold at 30 June 2005 for amounts equivalent to their valuations at that date would be \$11.2 million. At 30 June 2005 no allowance has been made for this capital gains tax as the company has sufficient capital losses to absorb any such latent gains.

Note 12 - Other assets (current)

Prepayments	78.4	80.5	1.0	0.6
Gas entitlements	-	30.4	-	-
	78.4	110.9	1.0	0.6

Note 13 - Receivables (non-current)

Debtors	0.4	4.9	-	4.5
Loans receivable (unsecured)	-	1.6	-	-
Loans receivable (secured)				
At cost	2.6	6.6	2.6	6.6
	2.6	6.6	2.6	6.6
Loans to directors engaged in full time employment within the consolidated entity (secured) (+ *)	5.3	5.3	5.3	5.3
Amounts owing by:				
Wholly-owned controlled entities	-	-	4,175.8	3,970.3
Partly-owned controlled entities	-	-	-	0.3
Associates and joint venture entities	123.3	111.9	123.3	111.9
	123.3	111.9	4,299.1	4,082.5
Less provision to reduce carrying value to recoverable amount	-	-	238.5	240.4
	123.3	111.9	4,060.6	3,842.1
	131.6	130.3	4,068.5	3,858.5

+ 2005: To nearest thousand dollars, \$5,325,000.

* 2004: To nearest thousand dollars, \$5,325,000.

Significant terms and conditions

Loans receivable (secured) comprise employee share plan loans which are secured by first mortgages over shares of the Parent Entity. The share plan loans are non-interest bearing and are repayable no later than November 2012.

Loans to directors, including directors of controlled entities, comprise employee share plan loans which are secured by first mortgages over shares of the Parent Entity. The loans are non-interest bearing and are repayable no later than November 2012.

Credit risk

The consolidated entity does not have a material exposure to any individual debtor or any group of debtors.

Notes to the Financial Statements

For the year ended 30 June 2005

Note 14 - Equity accounted investments (non-current)

	Consolidated		Parent Entity	
	2005	2004	2005	2004
	\$m	\$m	\$m	\$m
Associates - quoted on stock exchange (Note 44)				
At equity accounted carrying amount (Parent Entity at cost)	86.2	64.0	154.2	132.2
Associates - not quoted on stock exchange (Note 44)				
At equity accounted carrying amounts (Parent Entity at cost)	107.8	117.1	106.0	107.1
Joint venture entities - not quoted on stock exchange (Note 43)				
At equity accounted carrying amounts	413.5	420.1	-	-
	607.5	601.2	260.2	239.3

Note 15 - Other financial assets (non-current)

Controlled entities - not quoted on stock exchange

At recoverable amount (1)	-	-	11.5	11.5
At cost (2)	-	-	1,177.2	1,177.2
Less provision to reduce carrying value to recoverable amount	-	-	183.1	103.5
	-	-	1,005.6	1,085.2
Interest in other entities				
Not quoted on stock exchange - at cost	-	2.0	-	-
	-	2.0	1,005.6	1,085.2

(1) Shares in a controlled entity not quoted on a stock exchange were written down to recoverable amount by directors on 30 June 1994.

(2) Shares in other controlled entities not quoted on a stock exchange, previously revalued to fair value (\$137.6 million) by directors in 1986, have been deemed to be carried forward at cost as from 1 July 2000 under accounting standard AASB 1041.

Note 16 - Property, plant and equipment (non-current)

(a) Land and buildings

Freehold

At cost	27.7	39.8	1.5	1.5
Less provision for depreciation	2.1	3.8	-	-
	25.6	36.0	1.5	1.5

Leasehold

At cost	10.9	9.6	6.1	4.5
Less provision for amortisation	9.8	7.3	5.7	3.4
	1.1	2.3	0.4	1.1
	26.7	38.3	1.9	2.6

Valuations

Freehold land and buildings were valued at \$47.0 million at 30 June 2005 (Parent Entity \$2.6 million). These valuations were determined by directors after receipt of independent valuations from licensed real estate valuers and after allowing for site rehabilitation costs. The carrying values of the properties were not restated at 30 June 2005.

Notes to the Financial Statements

For the year ended 30 June 2005

Note 16 - Property, plant and equipment (non-current) (continued)

	Consolidated		Parent Entity	
	2005	2004	2005	2004
	\$m	\$m	\$m	\$m
(b) Surplus properties held for sale				
Freehold				
At cost	2.9	18.2	-	14.2
Less provision for depreciation	0.4	0.4	-	-
	<u>2.5</u>	<u>17.8</u>	<u>-</u>	<u>14.2</u>

Valuations

The properties were valued at \$2.5 million at 30 June 2005 (Parent Entity \$nil million). These valuations were determined by directors after receipt of independent valuations from licensed real estate valuers and after allowing for site rehabilitation costs (\$50.0 million of rehabilitation costs in respect of a former gasworks site have been offset by the utilisation of part of the former gas customers' reserve account). The carrying values of the properties were not restated at 30 June 2005.

Capital gains tax payable if the properties had been sold at 30 June 2005 for amounts equivalent to their valuations at that date would be \$nil million. At 30 June 2005 no allowance has been made for this capital gains tax.

(c) Plant and equipment

At recoverable amount (1)	391.0	-	-	-
Less provision for depreciation	-	-	-	-
	<u>391.0</u>	<u>-</u>	<u>-</u>	<u>-</u>
At cost	2,385.5	3,840.4	10.3	6.5
Plant and equipment under finance lease	2.2	2.2	-	-
Less provision for depreciation	687.8	982.1	4.2	4.7
	<u>1,699.9</u>	<u>2,860.5</u>	<u>6.1</u>	<u>1.8</u>
	<u>2,090.9</u>	<u>2,860.5</u>	<u>6.1</u>	<u>1.8</u>

(1) In determining recoverable amount the expected future cashflows have been discounted to their net present value using a post tax discount rate of 6.33%. Included in this valuation was a terminal value calculated using a multiple of Regulated Asset Base and discounted to its net present value.

	<u>2,120.1</u>	<u>2,916.6</u>	<u>8.0</u>	<u>18.6</u>
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Depreciation methods applicable to each class of assets

Land and surplus properties held for sale are not depreciated.

Buildings and other plant and equipment are depreciated on a straight line basis.

Depreciation rates applicable to each class of assets

Buildings component of land and buildings:

Freehold: 2% pa.

Leasehold: lesser of lease period or 2% pa.

Plant and equipment:

Purchased assets: 2% - 33 1/3% pa.

Capitalised leased assets: 2% - 20% pa.

Notes to the Financial Statements

For the year ended 30 June 2005

Note 16 Property, plant and equipment (non-current) (continued)

Reconciliations

	Freehold land & buildings \$m	Leasehold land & buildings \$m	Surplus property held for sale \$m	Plant & equipment \$m	Total \$m
Reconciliations of the carrying amounts of each class of non-current property, plant and equipment at the beginning and end of the year:					
Consolidated - 2005					
Balance at beginning of year	36.0	2.3	17.8	2,860.5	2,916.6
Additions	0.3	1.2	-	154.1	155.6
Disposals	(10.4)	-	-	(706.1)	(716.5)
Depreciation	-	(2.8)	-	(103.0)	(105.8)
Impairment writedown	-	-	-	(123.1)	(123.1)
Reclassification	(0.3)	0.4	(15.3)	-	(15.2)
Foreign currency exchange differences	-	-	-	8.5	8.5
Balance at the end of year	25.6	1.1	2.5	2,090.9	2,120.1
Parent Entity - 2005					
Balance at beginning of year	1.5	1.1	14.2	1.8	18.6
Additions	-	-	-	5.4	5.4
Disposals	-	-	-	(0.1)	(0.1)
Depreciation	-	(1.2)	-	(0.5)	(1.7)
Reclassification	-	0.5	(14.2)	(0.5)	(14.2)
Balance at the end of year	1.5	0.4	-	6.1	8.0

Notes to the Financial Statements

For the year ended 30 June 2005

Note 17 - Intangible assets

	Consolidated		Parent Entity	
	2005	2004	2005	2004
	\$m	\$m	\$m	\$m
Goodwill - At cost	88.9	104.3	-	-
Less provision for amortisation	33.7	31.7	-	-
	55.2	72.6	-	-
Licences - at recoverable amount (1)	278.2	-	-	-
Less provision for depreciation	-	-	-	-
	278.2	-	-	-
Licences - at cost	1,257.2	1,617.7	-	-
Less provision for amortisation	111.4	76.3	-	-
	1,145.8	1,541.4	-	-
	1,479.2	1,614.0	-	-

(1) In determining recoverable amount the expected future cashflows have been discounted to their net present value using a post tax discount rate of 6.33%. Included in this valuation was a terminal value calculated using a multiple of Regulated Asset Base and discounted to its net present value.

Note 18 - Deferred expenditure

Gas industry expenses - at cost				
Natural gas conversion	72.1	72.1	-	-
Other	34.2	35.1	-	-
	106.3	107.2	-	-
Less provision for amortisation	94.4	90.9	-	-
	11.9	16.3	-	-
Other expenses - at cost				
Borrowings	19.0	22.0	19.0	18.9
Computer software	251.3	228.0	1.2	1.6
Other	8.1	3.2	3.2	0.1
	278.4	253.2	23.4	20.6
Less provision for amortisation	152.2	121.7	12.4	11.3
	126.2	131.5	11.0	9.3
	138.1	147.8	11.0	9.3

Note 19 - Deferred tax assets

Future income tax benefits *	125.9	112.7	125.2	16.7
* Includes future income tax benefits attributable to tax losses carried forward as an asset.	-	17.5	-	-
Future income tax benefits, attributable to tax losses not brought to account, which will only be realised if the conditions for deductibility set out in Note 2(p) apply.	-	4.7	-	-
Tax consolidation				

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

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

Notes to the Financial Statements

For the year ended 30 June 2005

Note 20 - Other assets (non-current)

	Consolidated		Parent Entity	
	2005	2004	2005	2004
	\$m	\$m	\$m	\$m
Gas entitlements - at cost	-	212.9	-	-
Less provision for amortisation	-	187.5	-	-
	-	25.4	-	-
Sundry gas and electricity assets	15.7	8.6	-	-
	15.7	34.0	-	-

Note 21 - Payables (current)

Creditors	422.5	442.3	64.7	71.4
Amounts owing to:				
Wholly-owned controlled entities	-	-	273.6	195.0
Associates and joint venture entities	10.7	13.8	-	-
	433.2	456.1	338.3	266.4

Significant terms and conditions

Creditors and amounts owing to associates and joint venture entities are generally settled within 30 days of recognition and are unsecured.

Note 22 - Interest bearing liabilities (current)

Subject to negative pledge				
Bank borrowings	-	177.6	-	-
Medium term notes	-	300.0	-	300.0
Unsecured				
Bank overdrafts	1.9	6.6	-	-
Bank borrowings	42.8	50.4	-	-
Money market borrowings	15.3	10.0	15.3	10.0
Promissory notes	175.0	-	175.0	-
Lease liabilities (Note 37)	0.3	0.3	-	-
Customer deposits and interest	1.1	1.2	-	-
	236.4	546.1	190.3	310.0

Significant terms and conditions

Bank borrowings are repayable on maturity, in July 2005 and in February 2006.

Promissory notes are repayable on maturity in July 2005.

Medium term notes were repayable on maturity in July 2004.

Bank overdrafts and money market borrowings may be utilised at any time and are repayable on demand.

Customer deposits and interest relate to security deposits lodged with certain controlled entities by gas and electricity customers. These deposits and accrued interest are normally held by the consolidated entity for periods of either one or two years. The aggregate amount expected to be paid to customers within twelve months of the reporting date is shown as a current liability, with the balance shown as a non-current liability (refer Note 27).

Notes to the Financial Statements

For the year ended 30 June 2005

Note 23 - Provisions (current)

	Consolidated		Parent Entity	
	2005	2004	2005	2004
	\$m	\$m	\$m	\$m
Dividends	0.2	-	0.2	-
Employee benefits	41.3	42.3	12.0	7.3
Contract restructuring	-	12.2	-	-
Energy settlements	-	15.8	-	-
Environmental rehabilitation	4.2	4.3	3.8	3.5
Property rationalisation	6.0	-	6.0	-
Retail contestability initiatives	1.0	1.3	-	-
Onerous contracts	1.7	25.8	-	-
Other	6.1	8.8	0.5	-
	60.5	110.5	22.5	10.8

Details of material provisions

- (a) The provision for contract restructuring represents the current portion of the provision recognised in 2000 as a consequence of the renegotiation of the Gas Transportation Deed (GTD). The provision, which was established for the purpose of off-setting the onerous contract provisions of the superseded agreement, is being utilised on a scheduled basis over the term of the GTD.
- (b) The provision for energy settlements related to the estimated costs to be incurred in relation to electricity market usage reconciliations in the New Zealand energy business. The estimates were dependant on the outcome of reconciliations undertaken by the electricity market operator and certain legal proceedings.
- (c) The provision for property rationalisation was established to recognise the costs associated with centralising geographical locations.
- (d) The provision for environmental rehabilitation was established to cover an estimate of the consolidated entity's obligations with respect to contaminated gas and electricity properties owned or formerly owned by the Group. The estimate may vary as a result of additional obligations being identified and the full extent of contamination being determined.
- (e) The provision for retail contestability initiative represents the residual of the former gas customers' reserve account made available to partially offset the costs of implementing full retail contestability in the NSW gas market.
- (f) The provision for onerous contracts represents amounts recognised on the acquisition of the Pulse Energy Retail assets and amounts in 2004 relate to NGC's Maui gas contract re-determination.

	Dividends	Employee benefits	Contract restructuring	Energy settlements	Property rationalisation	Environmental rehabilitation	Retail contestability initiatives	Onerous contracts	Other
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Consolidated - 2005									
Balance at beginning of year	-	42.3	12.2	15.8	-	4.3	1.3	25.8	8.8
Additional provisions recognised	420.2	39.4	-	-	6.0	3.8	-	-	9.4
Provisions utilised	(420.0)	(42.8)	(12.2)	(15.8)	-	(3.7)	(0.3)	(26.5)	(12.3)
Reclassification (to)/from non-current provisions / other	-	2.3	-	-	-	(0.2)	-	2.4	(0.1)
Foreign currency exchange differences	-	0.1	-	-	-	-	-	-	0.3
Balance at the end of year	0.2	41.3	-	-	6.0	4.2	1.0	1.7	6.1
Parent Entity - 2005									
Balance at beginning of year	-	7.3	-	-	-	3.5	-	-	-
Additional provisions recognised	420.2	13.0	-	-	6.0	3.4	-	-	0.5
Provisions utilised	(420.0)	(8.3)	-	-	-	(3.1)	-	-	-
Reclassification (to)/from non-current provisions / other	-	-	-	-	-	-	-	-	-
Balance at the end of year	0.2	12.0	-	-	6.0	3.8	-	-	0.5

Notes to the Financial Statements

For the year ended 30 June 2005

	Consolidated		Parent Entity	
	2005	2004	2005	2004
	\$m	\$m	\$m	\$m
Note 24 - Current tax liabilities				
Current tax payable	<u>85.9</u>	<u>76.6</u>	<u>67.3</u>	<u>17.4</u>
Note 25 - Unearned revenue (current)				
Unearned revenue	<u>8.9</u>	<u>12.3</u>	<u>0.2</u>	<u>0.4</u>
Note 26 - Payables (non-current)				
Amounts owing to wholly-owned controlled entities	<u>-</u>	<u>-</u>	<u>983.7</u>	<u>101.8</u>
Note 27 - Interest bearing liabilities (non-current)				
Subject to negative pledge				
Medium term notes	600.0	782.2	600.0	600.0
Senior notes	796.2	796.2	796.2	796.2
Other unsecured				
Bank borrowings	-	52.0	-	-
Lease liabilities (Note 37)	1.6	1.8	-	-
Customer deposits and interest	9.0	11.4	-	-
Other borrowings	<u>0.1</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>1,406.9</u>	<u>1,643.6</u>	<u>1,396.2</u>	<u>1,396.2</u>

Significant terms and conditions

Medium term notes are repayable on maturity in October 2007 and September 2009.

Senior notes are repayable on maturity, partly in April 2008, September 2015 and in April 2018. The notes are denominated in US dollars and the consolidated entity's foreign exchange exposure has been fully hedged.

Bank borrowings (unsecured) relating to a controlled entity are repayable partly in February 2006.

Customer deposits and interest relate to security deposits lodged with certain controlled entities of the consolidated entity by gas and electricity customers. These deposits and accrued interest are normally held by the consolidated entity for periods of either one or two years. Other gas deposits and accrued interest are held until such time as the customers cease to be customers of the consolidated entity and all outstanding amounts are either paid or deducted from the security deposits.

Notes to the Financial Statements

For the year ended 30 June 2005

Note 28 - Provisions (non-current)

	Consolidated		Parent Entity	
	2005	2004	2005	2004
	\$m	\$m	\$m	\$m
Directors' retiring allowances	0.2	1.5	0.2	1.5
Employee benefits	35.6	35.8	6.6	5.5
Environmental rehabilitation	3.2	0.3	2.8	0.1
Onerous contracts	5.4	9.1	-	-
Other	1.6	1.7	0.2	-
	46.0	48.4	9.8	7.1

Details of material provisions

(a) The provision for environmental rehabilitation was established to cover an estimate of obligations with respect to contaminated gas and electricity properties owned or formerly owned by the consolidated entity. The estimate may vary as a result of additional obligations being identified and the full extent of contamination being determined.

(b) The provision for onerous contracts represents the amounts recognised on the acquisition of the Pulse Energy businesses.

Reconciliations

	Directors' retiring allowances	Employee benefits	Environmental rehabilitation	Onerous contracts	Other	Total
	\$m	\$m	\$m	\$m	\$m	\$m
Consolidated - 2005						
Balance at beginning of year	1.5	35.8	0.3	9.1	1.7	48.4
Additional provisions recognised	-	4.6	2.7	-	0.7	8.0
Provisions utilised	(1.3)	(2.5)	-	(1.3)	(0.9)	(6.0)
Reclassification to current provisions	-	(2.3)	0.2	(2.4)	0.1	(4.4)
Balance at the end of year	0.2	35.6	3.2	5.4	1.6	46.0
Parent Entity - 2005						
Balance at beginning of year	1.5	5.5	0.1	-	-	7.1
Additional provisions recognised	-	1.6	2.7	-	0.2	4.5
Provisions utilised	(1.3)	(0.5)	-	-	-	(1.8)
Reclassification to current provisions	-	-	-	-	-	-
Balance at the end of year	0.2	6.6	2.8	-	0.2	9.8

Notes to the Financial Statements

For the year ended 30 June 2005

	Consolidated		Parent Entity	
	2005	2004	2005	2004
	\$m	\$m	\$m	\$m
Note 29 - Deferred tax liabilities (non-current)				
Deferred income tax	<u>377.7</u>	<u>518.5</u>	<u>371.8</u>	<u>4.5</u>
Note 30 - Unearned revenue (non-current)				
Unearned revenue	<u>5.1</u>	<u>7.4</u>	<u>-</u>	<u>0.2</u>
Note 31 - Contributed equity				
456,576,944 (2004 - 456,215,007) fully paid ordinary shares	<u>2,010.1</u>	<u>2,239.7</u>	<u>2,010.1</u>	<u>2,239.7</u>
<i>Movements in contributed equity</i>				
Balance at beginning of year	2,239.7	2,180.8	2,239.7	2,180.8
Share issues	-	58.9	-	58.9
Capital Return	(228.7)	-	(228.7)	-
Costs Associated with Capital Return/Share Buy Back	<u>(0.9)</u>		<u>(0.9)</u>	
Balance at end of year	<u>2,010.1</u>	<u>2,239.7</u>	<u>2,010.1</u>	<u>2,239.7</u>

During the year the Parent Entity issued:

(i) 188,302 shares pursuant to The Australian Gas Light Company Long Term Incentive Plan (2004: 91,827).

(ii) 173,635 shares at \$12.98 per share pursuant to the AGL Share Reward Plan (2004: 199,392 shares @ \$10.66 per share).

Ordinary shares entitle each Shareholder to the capital and profits of the Company, including dividend payments, in proportion to the number of shares and amounts paid on the shares held.

Notes to the Financial Statements

For the year ended 30 June 2005

	Consolidated		Parent Entity	
	2005 \$m	2004 \$m	2005 \$m	2004 \$m
Note 32 - Reserves				
Asset revaluation	-	-	1.7	1.7
Foreign currency translation	(8.8)	(4.1)	-	-
	<u>(8.8)</u>	<u>(4.1)</u>	<u>1.7</u>	<u>1.7</u>
<i>Movements in reserves</i>				
<i>Asset revaluation</i>				
Balance at beginning of year	-	-	1.7	1.7
Balance at end of year	<u>-</u>	<u>-</u>	<u>1.7</u>	<u>1.7</u>

The asset revaluation reserve was used to recognise increments and decrements from prior years arising on the revaluation of non-current assets.

Foreign currency translation

Balance at beginning of year	(4.1)	(11.5)	-	-
Adjustment on deconsolidation of foreign subsidiary	14.9	4.1	-	-
Transfer to retained earnings on disposal of foreign subsidiary	(24.0)	-	-	-
Net gain (loss) arising on hedging of foreign currency investments	4.4	3.3	-	-
Balance at end of year	<u>(8.8)</u>	<u>(4.1)</u>	<u>-</u>	<u>-</u>

Exchange differences arising on the translation of assets and liabilities of self-sustaining foreign controlled entities are taken to the foreign currency translation reserve as outlined in Note 2(t). The movement in the reserve during the year has arisen primarily as a result of the divestment of the New Zealand business and the translation losses on the company's investment in Chile.

Notes to the Financial Statements

For the year ended 30 June 2005

	Consolidated		Parent Entity	
	2005	2004	2005	2004
	\$m	\$m	\$m	\$m
Note 33 - Retained profits				
Balance at beginning of year	814.2	727.5	920.8	1,190.0
Profit/(loss) after income tax attributable to Shareholders of the Parent Entity	848.3	349.5	9.8	(6.4)
Dividends paid or provided for	(420.2)	(262.8)	(420.2)	(262.8)
Transfer from Reserves	24.0	-	0.5	-
Balance at the end of year	<u>1,266.3</u>	<u>814.2</u>	<u>510.9</u>	<u>920.8</u>
Note 34 - Outside equity interests in controlled entities				
Contributed equity	-	54.9	-	-
Reserves	-	28.0	-	-
Accumulated profits	-	21.9	-	-
	<u>-</u>	<u>104.8</u>	<u>-</u>	<u>-</u>
Note 35 - Construction contracts in progress				
Aggregate of contract costs incurred and recognised profits (less recognised losses) to date	38.1	27.7	-	-
Less aggregate of consideration received and receivable as progress billings (including retentions) and advances received	(38.9)	(25.8)	-	-
	<u>(0.8)</u>	<u>1.9</u>	<u>-</u>	<u>-</u>
Amounts due from customers for contract work (Note 9)	<u>11.4</u>	<u>2.6</u>	<u>-</u>	<u>-</u>
Note 36 - Capital commitments				
Expenditure contracted for at balance date not reflected in the financial statements				
Capital expenditure in respect of:				
Property, plant and equipment	15.4	12.0	-	-
Operating expenditure in respect of:				
Property, plant and equipment	-	0.8	-	-
	<u>15.4</u>	<u>12.8</u>	<u>-</u>	<u>-</u>
Payable				
Not later than one year	4.1	5.3	-	-
Later than one year but not later than five years	4.7	3.6	-	-
Later than five years	6.6	3.9	-	-
	<u>15.4</u>	<u>12.8</u>	<u>-</u>	<u>-</u>

Notes to the Financial Statements

For the year ended 30 June 2005

	Consolidated		Parent Entity	
	2005	2004	2005	2004
	\$m	\$m	\$m	\$m
Note 37 - Lease commitments				
Finance leases				
Estimated lease commitments				
Due within 1 year	0.4	0.3	-	-
Due between 1 and 5 years	1.7	1.7	-	-
Due after 5 years	-	0.3	-	-
	<u>2.1</u>	<u>2.3</u>	-	-
Less future finance charges	<u>0.2</u>	<u>0.2</u>	-	-
Present value of lease payments	1.9	2.1	-	-
Less due within 1 year (Note 22)	<u>0.3</u>	<u>0.3</u>	-	-
Non-current liability (Note 27)	<u>1.6</u>	<u>1.8</u>	-	-

Finance leases comprise leases of motor vehicles and general property, plant and equipment. There are no contingent rental payments due or payable. There are no renewal or purchase options, escalation clauses or restrictions imposed by lease arrangements concerning dividends, additional debt and further leasing.

Non-cancellable operating leases

Aggregate amounts contracted for at balance date not reflected in the financial statements

Due within 1 year	20.0	19.0	6.0	5.0
Due between 1 and 5 years	39.0	24.0	20.0	2.0
Due after 5 years	<u>50.0</u>	<u>3.0</u>	<u>43.0</u>	-
	<u>109.0</u>	<u>46.0</u>	<u>69.0</u>	<u>7.0</u>

Operating leases principally comprise leases of office space. There are no contingent rental payments due or payable. There are no purchase options and escalation clauses or restrictions imposed by lease arrangements concerning dividends, additional debt and further leasing. Various operating leases have standard lease renewal options.

Notes to the Financial Statements

For the year ended 30 June 2005

	Consolidated		Parent Entity	
	2005	2004	2005	2004
	\$m	\$m	\$m	\$m
Note 38 - Contingent liabilities and contingent assets				
<i>(a) Contingent liabilities</i>				
Bank guarantees in respect of the consolidated entity	8.5	7.5	96.5	103.5
Guarantees and warranties in respect of controlled entities	35.5	36.6	81.6	81.0
Guarantees in respect of associated companies	5.0	5.0	5.0	5.0
Guarantees in respect of other entities	21.8	15.8	21.8	15.8
	<u>70.8</u>	<u>64.9</u>	<u>204.9</u>	<u>205.3</u>

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 believe that any resultant liability will not materially affect the financial position of the consolidated entity.
- (ii) The Parent Entity 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) The Parent Entity 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

- (i) The Parent Entity is party to an agreement in relation to the disposal of various entities to an associated entity. Under the agreement the parties have agreed that to the extent to which duty payable by the purchaser is otherwise than as estimated under the Share Sale agreement, an adjustment payment would be made. The amount of the potential payment payable by the purchaser has not been recognised at 30 June 2005, as it is contingent on obtaining relevant State and Territorial duty relief and cannot be reliably measured at this stage.

	Consolidated		Parent Entity	
	2005	2004	2005	2004
	\$000	\$000	\$000	\$000

Note 39 - Remuneration of auditors

Remuneration of the auditor of the Parent Entity for:

Auditing and reviewing the financial report	920	919	139	168
Other services:				
Tax consulting and compliance reviews	-	11	-	5
Audit assurance for debt offering	-	358	-	358
Other audit assurance services	86	101	5	16
Adoption of International Financial Reporting Standards	326	364	326	364
Regulatory audits	269	201	-	-
Other	-	-	-	51
	<u>681</u>	<u>1,035</u>	<u>331</u>	<u>794</u>

Remuneration of other auditors of controlled entities for auditing and reviewing the financial report

	<u>68</u>	<u>271</u>	<u>-</u>	<u>-</u>
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Notes to the Financial Statements

For the year ended 30 June 2005

Note 40 - Controlled entities

Entity	Country of incorporation or formation	Equity interest held in shares / units of controlled entity	
		2005 %	2004 %
A.G.L. Consultancy Pty Ltd	Australia	100	100
Agility Management Pty Limited	Australia	100	100
Agility Services Pty Limited	Australia	100	100
Agility Team Build Pty Limited	Australia	100	100
AGL (Cawse) Power Pty Limited	Australia	100	100
AGL ACT Retail Investments Pty Limited	Australia	100	100
AGL Chile Operations SA	Chile	100	100
AGL COMindico Pty Limited	Australia	100	100
AGL Corporate Services Pty Limited	Australia	100	100
AGL Electricity (VIC) Pty Limited	Australia	100	100
AGL Electricity Limited	Australia	100	100
AGL Energy Sales & Marketing Limited	Australia	100	100
AGL Energy Services Pty Limited	Australia	100	100
AGL Finance Pty Limited	Australia	100	100
AGL Foundation Nominees Pty Limited	Australia	100	100
AGL Gas Companies Pty Limited (b)	Australia	-	100
AGL Gas Company (ACT) Pty Limited	Australia	100	100
AGL Gas Networks Limited	Australia	100	100
AGL Gas Trading Pty Limited	Australia	100	100
AGL International	Cayman Islands	100	100
AGL Investments Pty Limited	Australia	100	100
AGL NZ Energy Limited	New Zealand	100	100
AGL NZ Holdings Limited	New Zealand	100	100
AGL NZ Investments Pty Limited	Australia	100	100
AGL NZ Limited	New Zealand	100	100
AGL NZ Management Limited	New Zealand	100	100
AGL Pipelines Investments (QLD) Pty Limited	Australia	100	100
AGL Pipelines Investments Pty Limited	Australia	100	100
AGL Polska Sp z O O (b)	Poland	-	100
AGL Power Corporation (Victoria) Pty Limited	Australia	100	100
AGL Power Generation (Brown Hill) Pty Limited (c)	Australia	100	-
AGL Power Generation (Mid West) Pty Limited	Australia	100	100
AGL Power Generation (SA) Pty Limited	Australia	100	100
AGL Power Generation (Victoria) Pty Limited	Australia	100	100
AGL Power Generation Pty Limited	Australia	100	100
AGL Retail Energy Limited	Australia	100	100
AGL Service Businesses Pty Limited	Australia	100	100
AGL South Australia Pty Limited	Australia	100	100
AGL Technology Commerce Pty Limited	Australia	100	100
AGL TransACT Pty Limited	Australia	100	100
AGL Utility Services Pty Limited	Australia	100	100
AGL Victoria Pty Limited	Australia	100	100
AGL WA Gas Investment Pty Limited (b)	Australia	-	100
AGL Wholesale Electricity Pty Limited	Australia	100	100
AGL Wholesale Gas (SA) Limited (c)	Australia	100	-
AGL Wholesale Gas Limited	Australia	100	100
CRH Holdings (Australia) Pty Limited (c)	Australia	100	-
CRH Holdings Pty Limited (c)	Australia	100	-

Notes to the Financial Statements

For the year ended 30 June 2005

Note 40 - Controlled entities (continued)

Entity	Country of incorporation or formation	Equity interest held in shares / units of controlled entity	
		2005 %	2004 %
Crofton Investments Pty Ltd	Australia	100	100
dingo blue Pty Limited	Australia	100	100
dingo blue Services Pty Limited	Australia	100	100
Dual Fuel Systems Pty Limited	Australia	100	100
Elect Data Service (Australia) Pty Limited (d) (a)	Australia	-	100
EdgeCap Pty Limited	Australia	100	100
Empresa de Gas de la V Region SA (a)	Chile	100	100
Essential Energy Services Pty Ltd	Australia	100	100
Gaztec Sp z O O (b)	Poland	52	52
Goodacre Development Pty Limited	Australia	100	100
H C Extractions Pty Limited	Australia	100	100
International Oil Proprietary Ltd	Australia	100	100
Inversiones AGL Chile Limitada	Chile	100	100
Liquigas Limited (d)	New Zealand	-	60
Navham Pty Limited	Australia	100	100
NGC Australia Metering Data Services Limited (a) (d)	New Zealand	-	100
NGC Contracts Limited (a) (d)	New Zealand	-	100
NGC Kapuni Limited (a) (d)	New Zealand	-	100
NGC Equities Limited (a) (d)	New Zealand	-	100
NGC Energy Limited (a) (d)	New Zealand	-	100
NGC Gas Networks Limited (a) (d)	New Zealand	-	100
NGC Generation Limited (a) (d)	New Zealand	-	100
NGC Generation Operations Limited (a) (d)	New Zealand	-	100
NGC Holdings Limited (a) (d)	New Zealand	-	66
NGC Limited (a) (d)	New Zealand	-	100
NGC Loans Limited (a) (d)	New Zealand	-	100
NGC Management Limited (a) (d)	New Zealand	-	100
NGC Metering Limited (a) (d)	New Zealand	-	100
NGC Metering Data Limited (a) (d)	New Zealand	-	100
NGC Nominees Limited (a) (d)	New Zealand	-	100
NGC New Zealand Limited (a) (d)	New Zealand	-	100
NGC Trading Limited (a) (d)	New Zealand	-	100
On Gas Limited (a) (d)	New Zealand	-	100
Porta-Gas Pty Limited	Australia	100	100
Radius Operations Pty Limited	Australia	100	100
Tauranga Civic Holdings Limited	New Zealand	100	100
The North Shore Gas Company Pty Limited	Australia	100	100
Thorstone Pty Limited (b)	Australia	-	100
Victorian Energy Pty Limited	Australia	100	100

(a) Not audited by Deloitte Touche Tohmatsu Australia

(b) Deregistered/liquidated/amalgamated during the 2005 financial year.

(c) Acquired during the 2005 financial year.

(d) Disposed during the 2005 financial year.

Notes to the Financial Statements

For the year ended 30 June 2005

Note 41 - Remuneration of Directors and Specified Executives

(a) Details of Directors and Specified Executives

(i) Directors

M R G Johnson
G J W Martin - Managing Director
Sir Ronald A Brierley
G J Reaney
D C K Allen
C J Hewson
A B Daniels
M G Ould
D Craig - appointed 11 May 2005

(ii) Specified Executives

M A Fraser – Group General Manager Merchant Energy
M R Harper – Group General Manager Operations
G J Hayes – Chief Financial Officer
P M James – Group General Manager Retail Energy
J F McAloon – Group Manager Corporate & External Services & Company Secretary
L J Fisk – Group Manager Corporate Services & Company Secretary - retired 16 August 2004

(b) Remuneration of Directors and Specified Executives

(i) Remuneration Policy

The People and Performance Committee of the Board, reviews the remuneration strategy and the remuneration arrangements described below for all Specified Directors and Specified Executives on an annual basis and makes recommendations to the Board. They have access to independent external advisors as required.

Directors remuneration

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

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

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

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

Directors are strongly encouraged to have at least 20% of their base fees (after SGC contributions) allocated to the purchase of AGL shares. The purchase of AGL shares is done under the AGL Share Purchase Plan. The terms of this Plan were approved by Shareholders at the AGM in 1997. These shares are acquired by a trustee on market at market price during identified trading windows and are not vested in the Directors' ownership until ten years after purchase or until the Director retires from the Board, whichever comes earlier. All Directors are required to hold a minimum of 2,000 AGL shares.

Notes to the Financial Statements

For the year ended 30 June 2005

Note 41(b) - Remuneration of Directors and Specified Executives (continued)

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

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

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

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

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

Executive remuneration

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

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

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

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

TFR is the amount of non-variable remuneration specified in an employee's contract of employment. Superannuation contributions are deducted from the employee's TFR. The cost (including any component for FBT) for other items such as novated vehicle lease payments is also deducted. The amount of TFR is established with reference to remuneration market research, considering the scope and nature of the role and the individual senior leader's performance and experience;

Short-Term Incentive Payments (STI) are subject to the achievement of a nominal growth in Earnings Per Share (EPS) hurdle and individual performance targets which are set at the commencement of the financial year. These targets are chosen for their relevance to business targets and therefore align individual performance with business outcomes and provide transparent linkages between rewards and the individual's performance. STI can vary annually based on individual performance against the specified targets. The STI can be paid in cash, or at the individual's election, in accordance with ATO rules, salary sacrificed and taken as equity, or as a contribution to the employee's superannuation fund; and

Long-Term Incentive Payments (LTI) are delivered through the granting of share rights in accordance with the terms of the AGL Long-Term Incentive Plan (LTIP), the terms of which are provided on the AGL website. The award of the rights is linked to AGL's performance as measured by growth in Economic Profit. The LTIP awards reflect AGL's achieved business success and the progressive vesting of the share rights ensures retention of key talent and high-potential employees.

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

Notes to the Financial Statements

For the year ended 30 June 2005

Note 41(b) - Remuneration of Directors and Specified Executives (continued)

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

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

	Contract Duration	Notice Period by either Company or Employee	Termination Payment
G J W Martin	Fixed term	6 months	18 months TFR
M A Fraser	No fixed term	6 months	Up to 78 weeks TFR
G J Hayes	No fixed term	3 months	12 months TFR
P M James	No fixed term	3 months	Up to 72 weeks TFR
J F McAloon	No fixed term	3 months	12 months TFR
M R Harper	No fixed term	3 months	Up to 72 weeks TFR

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

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

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

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

Notes to the Financial Statements

For the year ended 30 June 2005

Note 41 - Remuneration of Directors and Specified Executives (continued)

(ii) Remuneration of Directors and Specified Executives

Directors

2005	Primary			Post Employment		Equity	Other	Total
	Salary & Fees	Cash Bonus	Non-monetary benefits ⁽²⁾	Super-annuation	Retirement benefits			
	\$	\$	\$	\$	\$			
<i>Directors</i>								
M R G Johnson	12,020	-	-	11,485	-	235,245 (3)	-	258,750
D C K Allen AO	126,515	-	-	11,485	-	-	-	138,000
Sir Ronald A Brierley	4,715	-	-	11,485	-	98,800 (3)	-	115,000
A B Daniels	94,767	-	-	11,485	-	31,748 (3)	-	138,000
C J Hewson	65,171	-	-	11,485	-	65,656 (3)	-	142,312
M G Ould	57,674	-	-	11,485	-	57,974 (3)	-	127,133
G J Reaney	92,515	-	-	11,485	-	57,000 (3)	-	161,000
G J W Martin	949,256	615,000	82,671	196,031	-	629,477 (4)	192,567 (5)	2,665,002
D P Craig (appointed 11 May 2005)	- (1)	-	-	-	-	-	-	-
	<u>1,402,633</u>	<u>615,000</u>	<u>82,671</u>	<u>276,426</u>	<u>-</u>	<u>1,175,900</u>	<u>192,567</u>	<u>3,745,197</u>

(1) D P Craig has accrued \$16,113 in respect of Director's fees which will be apportioned when paid in accordance with the terms of Director's remuneration.

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

2004

2004	Primary			Post Employment		Equity	Other	Total
	Salary & Fees	Cash Bonus	Non-monetary benefits	Super-annuation	Retirement benefits (1)			
	\$	\$	\$	\$	\$			
<i>Directors</i>								
M R G Johnson	9,132	-	-	10,789	2,250	173,493 (3)	-	195,664
D C K Allen	65,699	-	10,398	9,461	15,564	41,800 (3)	-	142,922
Sir Ronald A Brierley	4,599	-	-	9,101	5,000	87,400 (3)	-	106,100
A B Daniels	86,812	-	6,386	9,686	15,113	28,937 (3)	-	146,934
C J Hewson	60,562	-	-	9,911	18,428	60,562 (3)	-	149,463
M G Ould	37,407	-	-	5,501	-	18,425 (3)	-	61,333
G J Reaney	76,569	-	4,800	9,866	6,500	46,930 (3)	-	144,665
G J W Martin	920,125	627,000	170,286	181,156	-	305,557 (4)	250,976 (5)	2,455,100
M J Phillips	86,251	-	40,332	-	21,750 (2)	28,750 (3)	-	177,083
	<u>1,347,156</u>	<u>627,000</u>	<u>232,202</u>	<u>245,471</u>	<u>84,605</u>	<u>791,854</u>	<u>250,976</u>	<u>3,579,264</u>

(1) Value of benefits accrued under the Retirement Benefits arrangement until 31 December 2003.

(2) Full Retirement Benefit of \$619,750 paid out on retirement.

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

(4) The amortisation of share rights issued on 1 September 2003 and 1 September 2004.

(5) Interest not charged on loans provided to purchase shares under the AGL Share Loan Plans.

Notes to the Financial Statements

For the year ended 30 June 2005

Note 41 - Remuneration of Directors and Specified Executives (continued)

(ii) Remuneration of Directors and Specified Executives (continued)

Specified Executives

2005

	Primary			Post Employment		Equity (c)	Other (e)	Total
	Salary & Fees	Cash Bonus	Non-monetary benefits (g)	Super-annuation	Retirement benefits			
	\$	\$	\$	\$	\$			
<i>Specified Executives</i>								
M A Fraser	602,447	226,452	4,317	114,219	-	353,895	36,746	1,338,076
M R Harper	354,073	157,945	19,432	52,796	-	208,295	14,395	806,936
G J Hayes	704,770	302,417	42,547	38,539	-	452,702	-	1,540,975
P M James	305,120	159,087	23,475	125,381 (b)	-	215,675	16,704	845,442
J F McAloon	357,990	147,505	21,055	38,702	-	154,328	7,065	726,645
L J Fisk (f)	81,420	-	-	14,228	443,000	396,245 (d)	24,919	959,812
	<u>2,405,820</u>	<u>993,406</u>	<u>110,826</u>	<u>383,865</u>	<u>443,000</u>	<u>1,781,140</u>	<u>99,829</u>	<u>6,217,886</u>

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

(b) Includes salary sacrifice contributions.

(c) The amortisation of share rights issued under the LTIP recognising that they vest generally over a three year period. This value of equity as a percentage of total remuneration by specified executive is as follows: M Fraser (26.4%); M Harper (25.8%); G Hayes (29.4%); P James (25.5%); J McAloon (21.2%); L Fisk (41.3%);

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

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

(f) Ceased AGL employment in September 2004.

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

2004

	Primary			Post Employment		Equity	Other	Total
	Salary & Fees	Cash Bonus	Non-monetary benefits (4)	Super-annuation	Retirement benefits			
	\$	\$	\$	\$	\$			
L J Fisk	373,589	159,480	44,173	65,896	-	135,366 (1)	34,568 (2)	813,072
M A Fraser	587,542	257,600	7,981	111,562	-	213,894 (1)	402,219 (2),(3)	1,580,798
M R Harper	347,586	154,088	55,611	49,028	-	125,892 (1)	18,843 (2)	751,048
G J Hayes	593,597	244,480	66,673	36,754	-	151,411 (1)	- (2)	1,092,915
P M James	<u>375,835</u>	<u>166,374</u>	<u>54,957</u>	<u>50,765</u>	<u>-</u>	<u>130,355 (1)</u>	<u>22,870 (2)</u>	<u>801,156</u>
	<u>2,278,149</u>	<u>982,022</u>	<u>229,395</u>	<u>314,005</u>	<u>-</u>	<u>756,918</u>	<u>478,500</u>	<u>5,038,989</u>

(1) The amortisation of share rights issued on 1 September 2003 and 1 September 2004.

(2) Interest not charged on loans provided to purchase shares under the AGL Share Loan Plans.

(3) Includes retention payment of \$352,975

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

Notes to the Financial Statements

For the year ended 30 June 2005

Note 41 - Remuneration of Directors and Specified Executives (continued)

(c) Remuneration - rights granted during the year

During the financial year rights were granted under the terms of the LTIP (refer Note 45) as equity compensation benefits to certain Directors and Specified Executives as disclosed below. The rights were issued free of charge. Each right entitles the holder to fully paid ordinary shares in the Parent Entity. The rights vest over a three year period.

	Number Granted (b)	Grant Date	Value per right at grant date \$	Number included as remuneration
<i>Directors</i>				
G J W Martin	65,223	1/9/04	12.93	40,157
<i>Specified Executives</i>				
M A Fraser	32,483	1/9/04	12.93	23,720
M R Harper	19,119	1/9/04	12.93	13,961
G J Hayes	29,699	1/9/04	12.93	32,965
P M James	19,796	1/9/04	12.93	14,456
J F McAloon	14,502	1/9/04	12.93	10,252
L J Fisk	20,557	1/9/04	12.93	36,874 (a)

(a) Includes rights that vested on termination

(d) Shareholdings of Directors and Specified Executives

	Balance at beginning of period	Number included as remuneration	Net change other	Balance at end of period
<i>Directors</i>				
M R G Johnson	139,883	17,697	25,571 (1)	183,151
D C K Allen	54,643	-	13,918 (1)	68,561
Sir Ronald A Brierley	45,127	7,429	16,509 (1)	69,065
A B Daniels	15,166	2,442	9,441 (1)	27,049
C J Hewson	26,782	5,104	15,408 (1)	47,294
M G Ould	2,781	2,866	-	5,647
G J Reaney	46,646	4,286	19,999 (1)	70,931
D P Craig	-	-	2,000	2,000
G J W Martin	557,464	40,157	-	597,621
<i>Specified Executives</i>				
M A Fraser	145,267	23,720	(13,768)	155,219
M R Harper	50,543	13,961	(7,944)	56,560
G J Hayes	13,788	32,965	(5,065)	41,688
P M James	87,654	14,456	(7,857)	94,253
J F McAloon	15,000	10,252	(5,418)	19,834
L J Fisk	126,601	36,874	(45,033)	118,442

(1) The accrued value of retirement benefits for eligible Directors was reported in the 2004 Annual Report. It was utilised to purchase shares during the 2005 Financial Year. The value of shares purchased in this way by individual Director is shown below:

- (a) M R G Johnson: \$340,750
- (b) D C K Allen: \$185,464
- (c) Sir Ronald A Brierley: \$220,000
- (d) A B Daniels: \$125,813
- (e) C J Hewson: \$205,328
- (f) G J Reaney: \$226,500

(2) Reflects the amortisation of share rights issues on 1 September 2003 and 1 September 2004.

Notes to the Financial Statements

For the year ended 30 June 2005

Note 42 - Interests in unincorporated joint venture operations

Joint venture	Joint venture interest		Principal activity
	2005	2004	
	%	%	
Kapuni Energy*	-	50	Electricity and steam generation - New Zealand
Mid West Energy**	50	50	Power generation - Western Australia

*AGL's interest in the Kapuni Energy JV was disposed of as part of the sale of NGC.

**AGL's interest in the Mid West Energy JV was written off as at 31 December 2003.

The consolidated entity's share of the assets and liabilities of the joint venture operations is included in the statement of financial position under the following classifications:

	Consolidated	
	2005	2004
	\$m	\$m
Current assets		
Cash	-	0.3
Receivables	-	0.7
Inventories	-	0.1
Other	-	0.4
Total current assets	-	1.5
Non-current assets		
Property, plant and equipment	-	12.1
Total non-current assets	-	12.1
Total assets	-	13.6
Current liabilities		
Payables	-	0.7
Total current liabilities	-	0.7
Non-current liabilities		
Other	-	-
Total non-current liabilities	-	-
Total liabilities	-	0.7
Net investment in joint venture operations	-	12.9

The consolidated entity's share of capital expenditure commitments and contingent liabilities of joint venture operations are disclosed in Notes 36 and 38 respectively.

Notes to the Financial Statements

For the year ended 30 June 2005

Note 43 - Interests in joint venture entities

Names of joint venture entities	Principal activities of joint venture entities	Consolidated entity's ownership interests in joint venture entities		Consolidated entity's carrying amounts of investments in joint venture entities		Reporting dates of joint venture entities	
		2005	2004	2005	2004		
		%	%	\$m	\$m		
Agility Diona	Provision of water mains construction services	50.0	50.0	-	0.2	30 June	
ActewAGL	Provision of energy and water services	50.0	50.0	337.9	333.0	30 June	
Auscom Holdings Pty Limited	Distribution and sale of LPG	50.0	50.0	<u>75.6</u>	<u>86.9</u>	31 December	
				<u>413.5</u>	<u>420.1</u>		
						Consolidated	
						2005	2004
						\$m	\$m
<i>Consolidated entity's share of assets and liabilities:</i>							
Current assets						118.0	112.8
Non-current assets						552.6	544.6
Current liabilities						(94.2)	(82.2)
Non-current liabilities						(125.1)	(108.3)
Net assets						<u>451.3</u>	<u>466.9</u>
<i>Consolidated entity's share of joint venture entities':</i>							
Revenues from ordinary activities						556.3	636.4
Expenses from ordinary activities						(485.3)	(565.0)
Profits from ordinary activities before tax						71.0	71.4
Income tax expense relating to ordinary activities						(6.1)	(5.9)
Profit after tax						<u>64.9</u>	<u>65.5</u>
The consolidated entity's share of capital expenditure commitments and contingent liabilities of joint venture entities are disclosed in Notes 36 and 38 respectively.							
<i>Retained profits and reserves of the consolidated entity attributable to joint venture entities:</i>							
At beginning of financial year:		Retained profits		9.0		4.6	
		Reserves		-		-	
At end of financial year:		Retained profits		<u>2.4</u>		9.0	
		Reserves		-		-	
<i>Movements in the carrying amount of investments in joint venture entities:</i>							
At beginning of financial year						420.1	415.7
Dividends received						(73.4)	(63.0)
Share of equity accounted profits						64.9	65.5
Unrealised profits recognised						1.9	1.9
At end of financial year						<u>413.5</u>	<u>420.1</u>

The Parent Entity is not aware of any significant events or transactions which have occurred after the reporting date of a joint venture entity which could materially affect the financial position or operating performance of that joint venture entity for the next financial year.

The Parent Entity is not aware of any dissimilar accounting policies adopted by a joint venture entity that would materially affect the amounts determined as being the consolidated entity's share of the net assets, the profit or loss and the reserves of a joint venture entity.

Notes to the Financial Statements

For the year ended 30 June 2005

Note 44- Interests in associates

Names of associates	Principal activities of associates	Consolidated entity's ownership interests in associates		Consolidated entity's carrying amounts of investments in associates		Reporting dates of associates
		2005	2004	2005	2004	
		%	%	\$m	\$m	
Australian Pipeline Trust	Transmission of natural gas and management of gas pipelines	30.0	30.0	86.2	64.0	30 June
COMindico Holdings Pty Ltd	Telecommunications services	35.9	35.9	-	-	30 June
Great Energy Alliance Corporation Pty Ltd#	Electricity generation	32.5	32.5	106.9	111.6	31 December
Energy Intellect Limited	Metering	-	25.0	-	4.4	30 June
Other				0.9	1.1	
				<u>194.0</u>	<u>181.1</u>	

#In addition to the above investment, loan notes amounting to \$103.0m have been issued to Great Energy Alliance Corporation (GEAC), which are disclosed in this financial report as loans to associates (refer Note 13). The aggregate amount invested in GEAC totals \$218.0m.

Summarised assets, liabilities and profits of associates

Names of associates	Assets*		Liabilities*		Profits (losses) after tax*	
	2005	2004	2005	2004	2005	2004
	\$m	\$m	\$m	\$m	\$m	\$m
Australian Pipeline Trust	1,914.7	1,435.3	1,181.0	989.5	54.2	126.6
COMindico	-	175.1	-	143.1	-	(44.3)
Great Energy Alliance Corporation Pty Ltd	3,821.3	3,966.4	3,506.8	3,761.1	(3.3)	8.3
Other	59.1	9.4	54.8	0.6	0.5	(1.5)
	<u>5,795.1</u>	<u>5,586.2</u>	<u>4,742.6</u>	<u>4,894.3</u>	<u>51.4</u>	<u>89.1</u>

* Estimated

	Consolidated	
	2005	2004
	\$m	\$m
<i>Consolidated entity's share of associates':</i>		
Profits (losses) from ordinary activities before tax	22.3	(2.0)
Income tax expense attributable to profits from ordinary activities#	(7.0)	23.3
Outside equity interests	-	-
Profits (losses) after tax	<u>15.3</u>	<u>21.3</u>

The consolidated entity's share of capital expenditure commitments and contingent liabilities of associates are disclosed in Notes 36 and 38 respectively.

The 2004 amount includes \$27.9m tax credit arising from APT's decision to enter the Tax Consolidations regime which it announced on 29 July 2004.

Notes to the Financial Statements

For the year ended 30 June 2005

	Consolidated	
	2005	2004
	\$m	\$m
Note 44 - Interests in associates (continued)		
<i>Retained profits and reserves of the consolidated entity attributable to associates:</i>		
At beginning of financial year :		
Retained profits (losses)	31.0	17.7
Reserves	-	0.7
At end of financial year:		
Retained profits (losses)	30.1	31.0
Reserves	-	-
<i>Movements in the carrying amount of investments in associates:</i>		
At beginning of financial year	181.1	58.5
Additional investments in associates	22.0	122.4
Writedown of investments in associates	-	(7.6)
Investments no longer equity accounted	-	(2.0)
Disposal of equity accounted investments	(5.5)	(3.2)
Dividends received	(19.3)	(11.1)
Movements due to changes in foreign currency exchange rates	-	(0.3)
Amounts transferred to other assets	(2.7)	-
Share of equity accounted profits	15.3	21.3
Unrealised profits recognised	3.1	3.1
At end of financial year	194.0	181.1

The Parent Entity is not aware of any significant events or transactions which have occurred after the reporting date of an associate which could materially affect the financial position or operating performance of that associate for the next financial year.

The Parent Entity is not aware of any dissimilar accounting policies adopted by an associate that would materially affect the amounts determined as being the consolidated entity's share of the net assets, the profit or loss and the reserves of that associate.

Notes to the Financial Statements

For the year ended 30 June 2005

Note 45 - Employee benefits

Superannuation plans

Details of defined benefit plans sponsored by the Parent Entity and other entities in the consolidated entity

	Date of last actuarial assessment	Plan assets (a) \$m	Accrued benefits \$m	Net surplus / (deficit) \$m	Vested benefits \$m
SuperSolution Master Trust - AGL Employer Division (b)	30 June 2004	134.2	125.7	8.5	124.0
Equipsuper Fund (c)	30 June 2004	55.5	52.3	3.2	52.3
Electricity Industry Superannuation Scheme (d)	30 June 2002	<u>7.6</u>	<u>13.4</u>	<u>(5.8)</u>	<u>13.4</u>
		<u>197.3</u>	<u>191.4</u>	<u>5.9</u>	<u>189.7</u>

(a) At net market value

(b) At 30 June 2005 the estimated sub-plan assets were \$150.6 million and the estimated vested benefits were \$129.9 million

(c) At 30 June 2005 the estimated plan assets were \$63.0 million and the estimated vested benefits were \$56.5 million.

(d) The unfunded balance of the scheme was paid off in January 2005. On 13 January 2005, AGL acquired Terra Gas Trader Pty Limited (now known as AGL Wholesale Gas (SA) Limited). Employees in this entity are also members of the Electricity Industry Superannuation Scheme. The actuarial assessment figures at 30 June 2002 have been updated to include the valuation that related to the former Terra Gas Trader Pty Limited. The triennial actuarial review for 30 June 2005 is currently being undertaken and is expected to be completed late 2005. At 30 June 2005 the estimated plan assets were \$19.4 million and the estimated vested benefits \$18.6 million.

Contributions by employer entities in the consolidated entity to defined benefit superannuation plans during the year amounted to \$14.0 million (2004 \$27.0 million). The difference between accrued benefits and plan assets have not been recognised in the financial statements.

Share ownership plans

The Parent Entity currently operates two employee share ownership plans: the AGL Share Reward Plan and the AGL Share Purchase Plan. The Management Share Plan and the AGL Share Loan Plan are closed to new participants.

(i) **AGL Share Reward Plan**

All permanent employees of entities in the consolidated entity, subject to certain eligibility requirements, are entitled to participate in the AGL Share Reward Plan. The plan was approved by Shareholders on 21 October 1997. A total of eight issues have been made to employees. The issues of shares pursuant to the plan have been made in the form of a gift of fully-paid shares in the Parent Entity, with a market value of up to \$1,000 to each eligible employee. The decision to make further offers to eligible employees and the value of those offers depends on the performance of the consolidated entity.

A total of 1,234,392 ordinary shares of the Parent Entity have been issued to employees pursuant to the plan between the date of its inception and 30 June 2005, including 173,635 shares issued during the 2005 financial year. The total market value of these 173,635 shares at the issue date was \$2,254,000 and the total amount recoverable from employees for the shares was \$nil.

Notes to the Financial Statements

For the year ended 30 June 2005

Note 45 - Employee benefits (continued)

(ii) AGL Share Purchase Plan

All permanent employees of entities in the consolidated entity nominated from time to time by the directors of the Parent Entity are offered participation in the AGL Share Purchase Plan. Directors of the Parent Entity may also participate in the plan. The plan, which was approved by Shareholders on 21 October 1997, entitles directors and specified employees to acquire fully-paid ordinary shares in the Parent Entity out of their remuneration entitlements, subject to certain limitations as to the maximum level of remuneration entitlements that may be applied to the purchase of the shares. Other conditions relating to the acquisition of shares pursuant to the plan are -

- * shares are acquired at market value on the date of acquisition;
- * shares may only be acquired at specified times during a year; and
- * there is a restriction on dealing in the shares for a period of up to ten years from the issue date or until the shares are freed from restriction, with the holding statements being held by the trustee of the plan until the shares are free from restriction.

At 30 June 2005, there were 106 participants in the plan involving a total of 562,983 ordinary shares of the Parent Entity. There is an ongoing invitation for directors and existing participating employees to acquire additional shares. A total of 702,569 ordinary shares of the Parent Entity have been acquired by directors and employees pursuant to the plan between the date of its inception and 30 June 2005, including 162,577 shares acquired during the 2005 financial year. The total market value of these 162,577 shares at the acquisition dates was \$2,163,497 and the total amount received from directors and employees for these shares was \$2,163,497.

All remuneration entitlements applied to, or expected to be applied to, the purchase of shares pursuant to the plan are recognised as an expense in the relevant financial year.

(iii) AGL Management Share Plan

Prior to the 1997/98 financial year, the Parent Entity operated The Australian Gas Light Company Management Share Plan.

Certain senior employees of entities in the consolidated entity were offered participation in The Australian Gas Light Company Management Share Plan. Six issues of shares were made to employees, involving a total of 5,983,000 ordinary shares of the Parent Entity, the last issue being in November 1996. At 30 June 2005 there were 17 participants in the plan involving a total of 459,650 ordinary shares of the Parent Entity. Outstanding loans to participants at 30 June 2005 amounted to \$301,859 (2004 \$1,409,614).

(iv) AGL Share Loan Plan

All permanent employees of entities in the consolidated entity nominated from time to time by the directors of the Parent Entity are offered participation in the AGL Share Loan Plan. The plan was approved by Shareholders on 21 October 1997. There is no current invitation for employees to acquire additional shares. The issues of fully-paid shares pursuant to the plan have been made on the basis of -

- * an optional 5% discount on current market value;
- * the purchase price financed by way of an interestfree limited recourse loan provided by the Parent Entity, repayable out of the proceeds from dividends on the plan shares, with any outstanding balance repayable at the expiration of ten years from the issue date; and
- * a restriction on dealing in the shares for a period of three years from the issue date, with the shares being held by the trustee of the plan until the shares are free from restriction or the loan is fully repaid, whichever last occurs.

At 30 June 2005 there were 58 participants in the plan involving a total of 1,313,500 ordinary shares of the Parent Entity. A total of 4,104,275 ordinary shares of the Parent Entity have been acquired by employees pursuant to the plan between the date of its inception and 30 June 2005. Outstanding loans to participants at 30 June 2005 amounted to \$9,069,242 (2004 \$14,239,532).

Notes to the Financial Statements

For the year ended 30 June 2005

Note 45 - Employee benefits (continued)

Long Term Incentive Plan (LTIP)

The following table summarises information about rights granted under the terms of the LTIP as equity compensation to certain employees, during the year. The rights were issued free of charge. Each right entitles the holder to fully paid ordinary shares in the Parent Entity provided they remain employees of the AGL group. The rights vest over a period of time which is generally three years. The rights do not have any dividend or voting rights.

(a) Movements in rights held

Opening Balance	Grant Date	Value per right at Grant Date \$	Number Granted	Number Vested	Number Lapsed	Number Outstanding
426,968	1/09/2003	10.86	-	163,023	17,177	246,768
45,000	1/03/2004	11.23	-	-	-	45,000
12,500	16/04/2004	11.59	-	4,170	1,666	6,664
-	22/07/2004	12.93	17,000	-	-	17,000
-	1/09/2004	12.93	520,605	24,825	24,245	471,535
<u>484,468</u>			<u>537,605</u>	<u>192,018</u>	<u>43,088</u>	<u>786,967</u>

(b) Rights granted during the reporting period

Number Granted	Grant Date	Value per right at Grant Date \$ #	Number Vested *	Number Lapsed
17,000	22/07/2004	12.93	-	-
520,605	1/09/2004	12.93	24,825	24,245
<u>537,605</u>				

The weighted average of the price at which shares were traded on the ASX during the five days up to and including the consolidated entity's financial results announcement date.

* Refer (c)

(c) Rights vested during the reporting period

The following table summarises information about rights vested under the terms of the LTIP to certain employees, during the year:

Number Vested	Grant Date	Vesting Date	Value per right at Grant Date \$	Market Value at Vesting Date \$	Fair Value of Shares Issued \$
2,125	1/09/2003	1/07/2004	10.86	12.07	25,649
2,584	1/09/2003	19/07/2004	10.86	12.11	31,292
140,105	1/09/2003	1/09/2004	10.86	13.25	1,856,391
4,170	16/04/2004	1/09/2004	11.59	13.25	55,253
16,317	1/09/2003	17/09/2004	10.86	12.89	210,326
20,557	1/09/2004	17/09/2004	12.93	12.89	264,980
514	1/09/2003	19/11/2004	10.86	13.19	6,780
1,930	1/09/2004	19/11/2004	12.93	13.19	25,457
1,378	1/09/2003	24/03/2005	10.86	14.23	19,609
2,338	1/09/2004	24/03/2005	12.93	14.23	33,270
<u>192,018</u>					

The weighted average of the price at which shares were traded on the ASX during the five days up to and including the consolidated entity's financial results announcement date. Remuneration is based on the value of rights at grant date and not on the value of shares at vesting date.

	Consolidated		Parent Entity	
	2005	2004	2005	2004
	\$m	\$m	\$m	\$m
Aggregate employee benefits liability	76.9	78.1	18.6	12.8
The aggregate employee benefits liability at reporting date includes amounts for wages and salaries, annual leave, long service leave and other entitlements.				
Number of employees at year end	3,006	3,239	141	168

Notes to the Financial Statements

For the year ended 30 June 2005

Note 46 - Additional related party disclosures

Name of each person holding the position of director of the Parent Entity at any time during the financial year

D C K Allen	G J W Martin	Sir Ronald A Brierley
A B Daniels	C J Hewson	M R G Johnson
D Craig	G J Reaney	M G Ould

Transactions between the Parent Entity and controlled entities

Sale of natural gas on normal commercial terms and conditions to a wholly-owned controlled entity for eventual sale to consumers.

Provision of administrative services, at cost, to controlled entities.

Advance of funds to, and receipt of funds from, wholly-owned controlled entities as interest free and interest bearing inter-entity loans.

The Parent Entity and a controlled entity provided technical and management services totalling \$0.7 million (2004 \$1.3 million) to NGC Limited, an entity controlled by NGC Holdings Limited, on normal commercial terms and conditions.

Transactions with other related entities

		2005	2004
		\$m	\$m
Australian Pipeline Trust	A controlled entity has been contracted by the Trust to provide technical and marketing services under a Pipeline Management Agreement on normal commercial terms and conditions.	45.9	39.2
	A controlled entity provided pipeline construction and project consulting services on normal commercial terms and conditions.	-	0.6
Great Energy Alliance Corporation Pty Ltd	Controlled entities settled electricity hedges with Great Energy Alliance Corporation on normal terms and conditions.	77.8	15.6
Gascor Pty Limited	A controlled entity purchased gas management and administration services from Gascor Pty Limited on normal commercial terms and conditions.	0.2	0.5
Energy Intellect Limited	Controlled entities purchased data metering services and management services from Energy Intellect Limited on normal commercial terms and conditions.	0.2	0.7
ActewAGL Joint Venture	Controlled entities are contracted to provide management and asset services to the distribution partnership and retail services to the retail partnership on normal commercial terms and conditions.	27.1	27.1
	Controlled entities supplied electricity and gas to the retail partnership on normal commercial terms and conditions.	58.9	57.8
East Australian Pipeline Limited (a subsidiary of APT)	A controlled entity was provided with natural gas transportation services by East Australian Pipeline Limited, on normal commercial terms and conditions.	82.1	80.3
Agility Diona Joint Venture	A controlled entity provided pipeline construction and project consulting services on normal commercial terms and conditions.	0.5	2.2

Notes to the Financial Statements

For the year ended 30 June 2005

Note 47 - Cash flow information

	Consolidated		Parent Entity	
	2005	2004	2005	2004
	\$m	\$m	\$m	\$m
(a) Reconciliation of cash				
Cash	394.2	18.0	381.9	2.8
Bank overdrafts and money market borrowings	(17.2)	(16.6)	(15.3)	(10.0)
	<u>377.0</u>	<u>1.4</u>	<u>366.6</u>	<u>(7.2)</u>
(b) Financing facilities				
Credit standby arrangements				
Amounts used	238.0	426.6	238.0	249.0
Amounts unused	267.0	1,296.7	267.0	1,201.0
	<u>505.0</u>	<u>1,723.3</u>	<u>505.0</u>	<u>1,450.0</u>
Credit standby arrangements had the following maturity pattern and were able to be drawn down without restriction.				
Not later than 1 year	-	423.3	-	150.0
Later than 1 year, not later than 5 years	505.0	1,300.0	505.0	1,300.0
	<u>505.0</u>	<u>1,723.3</u>	<u>505.0</u>	<u>1,450.0</u>
Other financing arrangements - amounts used	<u>1,629.3</u>	<u>2,177.1</u>	<u>1,586.5</u>	<u>1,706.2</u>

The majority of these facilities may be extended by mutual agreement and all are committed by major banks.

Other financing arrangements include promissory notes, medium term notes, senior notes, term loans and similar facilities, which are fully drawn and for fixed periods. Three of these facilities are drawn in US dollars.

(c) Non-cash financing and investing activities

There were no material non-cash financing or investing activities during the year ended 30 June 2005. (2004 nil)

(d) Reconciliation of net cash provided by operating activities to profit (loss) from ordinary activities after income tax

Profit (loss) from ordinary activities after income tax	868.2	379.5	9.8	(6.4)
Equity share of associates' (profits) losses	(18.5)	(24.4)	-	-
Equity share of joint venture entities' profits	(66.8)	(67.4)	-	-
Dividends received from associates	19.3	11.1	-	-
Dividends received from joint venture entities	73.4	63.0	-	-
Depreciation, amortisation and diminution in value of assets	435.3	286.7	81.0	105.1
(Decrease) increase in provisions	(30.5)	(39.1)	14.4	95.8
Loss (profit) on sale of property, plant and equipment	(0.9)	1.6	(0.2)	24.7
NGC profit, Breakfast Point profit and Dingo blue settlement	(606.4)	(16.2)	(14.7)	-
Changes in assets and liabilities				
(Increase) decrease in receivables	(6.2)	(28.0)	(0.5)	(3.1)
(Increase) decrease in inventories	-	(11.4)	-	-
Decrease (increase) in other assets	(2.2)	2.9	0.2	0.6
Increase (decrease) in creditors	(23.7)	13.5	(17.5)	9.1
(Decrease) increase in other liabilities	-	(5.8)	-	-
Decrease (increase) in interest receivable accrued	(5.5)	0.4	(3.9)	(2.6)
Increase in net interest payable accrued/prepaid	(10.0)	1.7	20.2	3.6
Increase in income taxes payable	(68.1)	69.1	(6.5)	0.2
Increase in intercompany taxes payable	-	-	(95.8)	-
Net cash provided by operating activities	<u>557.4</u>	<u>637.2</u>	<u>(13.5)</u>	<u>227.0</u>

Notes to the Financial Statements

For the year ended 30 June 2005

Note 47 - Cash flow information (continued)

	Consolidated		Parent Entity	
	2005	2004	2005	2004
	\$m	\$m	\$m	\$m
(e) Businesses acquired by the consolidated entity (refer Note 40)				
Consideration				
Cash	<u>19.0</u>	-	-	-
Fair value of net assets acquired				
Receivables	14.5	-	-	-
Other financial assets	1.1	-	-	-
Inventories	-	-	-	-
Property, plant and equipment	0.1	-	-	-
Intangible assets	17.4	-	-	-
Tax assets	0.1	-	-	-
Other assets	0.3	-	-	-
Payables	14.2	-	-	-
Unearned revenue	-	-	-	-
Interest bearing liabilities	-	-	-	-
Tax liabilities	-	-	-	-
Provisions	0.3	-	-	-
Net assets acquired	<u>19.0</u>	-	-	-
Net cash outflow on acquisition				
Cash consideration	<u>19.0</u>	-	-	-
(f) Businesses disposed of by the consolidated entity (refer Note 40)				
Consideration				
Cash	<u>768.7</u>	-	-	-
Book value of net assets sold				
Receivables	59.7	-	-	-
Investments	6.6	-	-	-
Property, plant and equipment	713.4	-	-	-
Intangible assets	7.9	-	-	-
Inventories	50.2	-	-	-
Other assets	23.2	-	-	-
	<u>861.0</u>	-	-	-
Payables	20.7	-	-	-
Provisions	18.9	-	-	-
Interest bearing liabilities	463.1	-	-	-
Deferred tax liabilities	103.0	-	-	-
	<u>605.7</u>	-	-	-
Net assets disposed	255.3	-	-	-
Outside equity interest	78.1	-	-	-
Profit on disposal	<u>591.5</u>	-	-	-
	<u>768.7</u>	-	-	-
Net cash inflow on disposal				
Cash consideration	768.7	-	-	-
Plus cash overdraft disposed	9.1	-	-	-
Inflow of cash	<u>777.8</u>	-	-	-

Notes to the Financial Statements

For the year ended 30 June 2005

Note 48 - Economic dependency

(a) The consolidated entity is dependent to a significant extent upon various consortia of producers for the supply of natural gas from the Cooper Basin in South Australia, the Gippsland field in Bass Strait and the Surat/Bowen Basin in Queensland. Long term contracts protect the continuity of supply from these producers.

The consolidated entity has an obligation to pay the consortia of producers for a specified minimum quantity of gas each contract year, irrespective of the quantity actually supplied by the producers. The consolidated entity has the right to receive, without additional payment to the producers, a future delivery of gas equivalent to the quantity paid for but not taken in any contract year.

(b) The consolidated entity is dependent to a significant extent on the acquisition of electricity from generating entities and the use of transmission systems. Ongoing contracts are in place both for the purchase of electricity and the use of the transmission systems.

Note 49 - Additional financial instruments disclosures

Derivative financial instruments

Objectives and significant terms and conditions

The consolidated entity enters into a variety of derivative financial instruments to manage the risks described below. The consolidated entity does not enter into such instruments for speculative purposes.

(a) Interest rate risk management

The consolidated entity uses various types of interest rate contracts in managing its interest rate exposure.

The consolidated entity uses interest rate swaps to fix funding costs with the objective of obtaining a more stable and predictable interest expense outcome. Under interest rate swaps, the consolidated entity agrees with other parties to exchange, at specified intervals, the difference between fixed rate and floating rate interest amounts calculated by reference to agreed notional principal amounts. Swap contracts are usually between one and ten years in duration.

The consolidated entity has a policy which allows the fixed/floating rate ratio to be adjusted between certain parameters depending on

the perceived direction of interest rates. Swaps may sometimes be terminated or offset to achieve the desired fixed/floating portfolio mix. Forward rate agreements are generally used by the consolidated entity to offset changes in the rates applying to short term floating rate debt. These agreements are commitments to either purchase or sell designated derivative instruments at a future date for a specified price. There were no outstanding forward rate agreements as at 30 June 2005.

The consolidated entity purchases interest rate options to protect it from adverse changes in interest rates on its debt. The consolidated entity's policy is that options cannot be sold unless matched with offsetting purchased options. There were no outstanding interest rate option contracts as at 30 June 2005.

The remaining terms and notional principal amounts of the consolidated entity's outstanding interest rate contracts at the reporting date are detailed in the following table.

	Average interest rates		Notional principal amounts	
	2005 %	2004 %	2005 \$m	2004 \$m
Less than 1 year	5.6	6.0	250.0	892.7
1 to 5 years	6.0	6.1	2,127.3	1,768.5
Longer than 5 years	6.7	6.0	280.9	851.8
			<u>2,658.2</u>	<u>3,513.0</u>

The interest rate contracts in place at the reporting date principally relate to the consolidated entity's Australian dollar and US dollar fixed rate borrowings. These borrowings are the subject of a number of contracts hedging different risks resulting in the aggregate notional principal amount (\$2,658.2 million (2004 \$3,513.0 million)) exceeding the Australian dollar equivalent of the borrowings (\$1,631.2 million (2004 \$2,157.0 million)).

(b) Foreign exchange risk management

The consolidated entity enters into various types of foreign exchange contracts in managing its foreign exchange exposure.

Hedges of foreign currency transactions

The consolidated entity enters into forward exchange contracts to hedge certain firm transactions denominated in foreign currencies and anticipated but not yet committed payments and/or receipts expected to be denominated in those currencies, such as purchases of materials, interest payable and dividends receivable. The terms of the contracts do not exceed twelve months. The purpose of the consolidated entity's foreign currency hedging activities is to protect the consolidated entity from the risk that the eventual Australian dollar cash flows will be adversely affected by changes in exchange rates. Like interest rate risk management, the consolidated entity has a policy which allows the extent of foreign exchange hedges to be varied within parameters preset by the Board.

Notes to the Financial Statements

For the year ended 30 June 2005

Note 49 - Additional financial instruments disclosures (continued)

Hedges of foreign currency borrowings

The consolidated entity has borrowings denominated in foreign currencies. It is the consolidated entity's policy to fully hedge the currency exposure on such borrowings by entering into cross currency interest rate swaps and/or forward exchange swaps.

The settlement dates, amounts to be received and contractual exchange rates of the consolidated entity's outstanding foreign exchange contracts in respect of borrowings at the reporting date are detailed in the following table.

	<u>2005</u>	<u>2004</u>
	<u>\$m</u>	<u>\$m</u>
Buy United States dollars		
Less than 6 months	-	-
2 to 3 years, at rates averaging US\$0.6605 (2004 US\$0.6605)	575.3	575.3
Longer than 5 years, at rates averaging US\$0.6791 (2004 US\$0.6790)	<u>417.1</u>	<u>220.9</u>
	<u><u>992.4</u></u>	<u><u>796.2</u></u>

The net deferred loss on hedges of foreign currency borrowings at 30 June 2005 is \$nil million (2004 \$nil million).

(1) Net is gross mark-to-market less accruals and less margins. For consistency with reporting of net fair values under AASB139.

Hedges of foreign currency investments

The consolidated entity has foreign currency investments of both an equity and debt nature. It is the consolidated entity's policy to fully hedge the currency exposure on all material foreign investments, unless the investments are of an equity nature and are to be held indefinitely or hedging is impossible or impracticable due to regulatory controls or an inadequate or immature market in the relevant currencies. However, in certain circumstances the Board may vary this policy.

The settlement dates, amounts to be received and contractual exchange rates of the consolidated entity's outstanding foreign exchange contracts in respect of investments at the reporting date are detailed in the following table.

	<u>2005</u>	<u>2004</u>
	<u>\$m</u>	<u>\$m</u>
Sell United States dollars		
Less than 6 months, at rates averaging (2004 US\$0.7052)	<u>-</u>	<u>17.5</u>

There are no net deferred gains or losses on hedges of foreign currency investments at 30 June 2005 (2004 gain of \$0.1 million) to be recognised in the statement of financial performance.

There are no unsecured bank borrowings at 30 June 2005 (2004 \$nil) payable in foreign currencies (NZ dollars and US dollars) which have not been hedged.

(c) Electricity purchase risk management

Exposure to fluctuations in wholesale market electricity prices is minimised through the use of various types of hedging contracts.

It is the policy of the consolidated entity to actively manage the exposure arising from its forecast mass-market and contestable load. In doing so, the consolidated entity has entered into various hedging contracts with individual market participants. Any unhedged position exposes the consolidated entity to price variation. The consolidated entity's policy is that the exposure and the consequent price risk be managed within prescribed limits. The hedge portfolio consists predominantly of swaps, caps and option contract types.

Notes to the Financial Statements

For the year ended 30 June 2005

Note 49 - Additional financial instruments disclosures (continued)

The remaining terms and face values of the consolidated entity's outstanding electricity hedging contracts at the reporting date are detailed in the following table:

	Face values	
	2005	2004
	\$m	\$m
Electricity hedging contracts		
Less than 1 year	1,116.6	1,095.3
1 to 5 years	1,670.7	1,620.9
Longer than 5 years	92.2	114.5
	2,879.5	2,830.7

The net unrecognised loss in respect of electricity hedging contracts at 30 June 2005 was \$269.0 million (2004 \$333.2 million loss). All contracts are due for settlement within 11 years of the reporting date. These transactions are for the purposes of hedging current contracted commercial and industrial customer load and forecast mass-market customer sales and as such no ultimate net loss is anticipated.

The net unrecognised loss, calculated in accordance with the relevant accounting standard, has been based on readily available market price estimates, which are usually quoted for small volume contracts. These market price estimates are not necessarily representative of independent market price valuations for the exotic and/or larger volume contracts in AGL's electricity hedge portfolio, for which relevant market price valuations are not readily available.

(d) Liquid Petroleum Gas purchase risk management

Exposure to fluctuations in wholesale market Liquid Petroleum Gas (LPG) prices is minimised through the use of hedging contracts. The consolidated entity manages the exposures from its base load of LPG sales. In doing so the consolidated entity has entered into forward contracts at which the sale price of LPG is fixed. The terms and face values of the consolidated entity's outstanding LPG hedging contracts at the reporting date are detailed in the following table:

	Face values	
	2005	2004
	\$m	\$m
LPG hedging contracts		
Less than 1 year	-	4.4

(e) Credit risk

The consolidated entity is exposed to credit related losses in the event of non-performance by counterparties to derivative instruments. At 30 June 2005, the consolidated entity had no significant concentration of credit risk with any single counterparty or group of counterparties in respect of derivative instruments. The existence of Master Netting Agreements with a number of counter parties provides additional collateral in respect of credit risk. Amounts receivable by the consolidated entity at the reporting date are detailed in the following table.

	2005	2004
	\$m	\$m
Amounts receivable in respect of:		
Interest rate contracts	64.1	22.4
Foreign exchange contracts	-	0.1
Electricity hedging contracts	54.3	64.2
	118.4	86.7

(f) Liquidity risk

Liquidity risk relating to the use of derivative instruments arises from possible future adverse changes in market conditions. In such circumstances, the consolidated entity either may be forced to sell derivative positions at values which are below their underlying worth or may be unable to exit the positions at all. Accordingly, the consolidated entity only utilises highly liquid derivative markets, although illiquidity in certain market conditions cannot be entirely avoided.

The consolidated entity has adequate standby facilities and other funding arrangements to enable it to settle all outstanding derivative transactions on the due dates.

Notes to the Financial Statements

For the year ended 30 June 2005

Note 49- Additional financial instruments disclosures (continued)

Net fair values

The carrying amounts and net fair values, at the reporting date, of the consolidated entity's financial assets and liabilities are detailed in the following table.

	Note	Carrying amounts		Net fair values	
		2005 \$m	2004 \$m	2005 \$m	2004 \$m
<i>Financial assets</i>					
Not readily traded on organised markets					
Cash (including deposits at call)	-	394.2	18.0	394.2	18.0
Debtors	9 and 13	360.5	398.6	360.5	403.2
Unbilled revenue	9	406.5	403.7	406.5	403.7
Loans receivable	9 and 13	9.5	17.4	9.5	17.4
Other receivables	9 and 13	163.4	151.7	163.4	147.4
Other financial assets	15	-	2.0	-	2.0
Favourable foreign exchange contracts	-	-	-	-	0.1
Favourable cross currency interest rate swaps	-	-	-	-	-
Favourable interest rate contracts	-	-	-	56.1	22.5
Favourable electricity hedging contracts	-	54.3	64.2	54.3	64.2
		1,388.4	1,055.6	1,444.5	1,078.5
<i>Financial liabilities</i>					
Not readily traded on organised markets					
Creditors	21	422.5	442.3	422.5	442.3
Other payables	21	10.7	13.8	10.7	13.8
Bank borrowings	22 and 27	58.1	290.0	58.1	290.0
Bank overdrafts	22	1.9	6.6	1.9	6.6
Promissory notes	22	175.0	-	175.0	-
Medium term notes	22 and 27	600.0	1,082.2	632.7	1,119.3
US Senior notes	27	796.2	796.2	735.6	885.1
Other interest bearing liabilities	22 and 27	12.0	14.7	12.0	14.7
Unfavourable cross currency interest rate swaps	-	-	-	95.1	-
Unfavourable interest rate contracts	-	-	-	1.7	7.6
Unfavourable electricity hedging contracts	-	-	-	282.1	355.8
Unfavourable commodity hedging contracts	-	-	-	-	0.1
		2,076.4	2,645.8	2,427.4	3,135.3

Bases for determining net fair values

Cash, debtors, unbilled revenue, creditors, other payables and non-interest bearing loans and other receivables - carrying amounts (cost basis, recoverable amounts or net realisable values) of the assets and liabilities which approximate net market values.

Interest bearing loans and other receivables and interest bearing borrowings - expected future cash flows discounted by the current interest rates for assets and liabilities with similar risk profiles.

Other financial assets - expected future cash flows discounted by a risk reflective rate.

Interest rate contracts, foreign exchange contracts, electricity hedging contracts and equity performance agreements - amounts receivable or payable in order to realise favourable contracts and settle unfavourable contracts at the reporting date, based on appropriate interest rates or spot rates at that date.

Notes to the Financial Statements

For the year ended 30 June 2005

Note 49 - Additional financial instruments disclosures (continued)

Interest rate risk

The consolidated entity's exposure to interest rate risk and the effective interest rates on financial instruments at the reporting date are detailed in the following table:

	Weighted average effective interest rate	Floating interest rate	Fixed interest rate maturities			Non- interest bearing	Total
			1 year or less	1 to 5 years	More than 5 years		
2005	%	\$m	\$m	\$m	\$m	\$m	\$m
<i>Financial assets</i>							
Cash (including deposits at call)	5.4	394.2	-	-	-	-	394.2
Debtors	-	-	-	-	-	360.5	360.5
Unbilled revenue	-	-	-	-	-	406.5	406.5
Loans receivable	-	-	-	-	-	9.5	9.5
Other receivables	10.0	-	-	-	112.1	51.3	163.4
Other financial assets	-	-	-	-	-	-	-
Interest rate contracts (a) (b) (d)	6.3	(557.4)	(175.0)	672.3	170.2	-	110.1
		<u>(163.2)</u>	<u>(175.0)</u>	<u>672.3</u>	<u>282.3</u>	<u>827.8</u>	<u>1,444.2</u>
<i>Financial liabilities</i>							
Creditors	-	-	-	-	-	422.5	422.5
Other payables	-	-	-	-	-	10.7	10.7
Bank borrowings	5.3	-	217.8	-	-	-	217.8
Bank overdrafts	9.1	1.9	-	-	-	-	1.9
Money market borrowings	5.6	15.3	-	-	-	-	15.3
Medium term notes	6.7	-	-	600.0	-	-	600.0
Senior notes	6.3	-	-	575.3	220.9	-	796.2
Other interest bearing liabilities	0.4	-	0.3	11.7	-	-	12.0
Interest rate contracts (a) (c) (d)	5.8	909.9	(75.0)	(945.0)	-	-	(110.1)
		<u>927.1</u>	<u>143.1</u>	<u>242.0</u>	<u>220.9</u>	<u>433.2</u>	<u>1,966.3</u>

(a) Notional principal amounts.

(b) Comprises \$1,097 million of receive fixed to pay floating swaps offset by \$430 million of pay fixed and receive floating swaps.

(c) Comprises \$1,020 million of pay fixed and receive floating swaps

(d) There is an A\$ Basis Swap for \$110.1m. This is an exchange floating semi for floating quarterly swap.

Notes to the Financial Statements

For the year ended 30 June 2005

Note 49 - Additional financial instruments disclosures (continued)

Interest rate risk (continued)

	Weighted average effective interest rate	Floating interest rate	Fixed interest rate maturities			Non- interest bearing	Total
			1 year or less	1 to 5 years	More than 5 years		
2004	%	\$m	\$m	\$m	\$m	\$m	\$m
<i>Financial assets</i>							
Cash (including deposits at call)	3.4	18.0	-	-	-	-	18.0
Debtors	-	-	-	-	-	398.6	398.6
Unbilled revenue	-	-	-	-	-	403.7	403.7
Loans receivable	8.5	-	0.1	0.4	1.2	15.7	17.4
Other receivables	10.0	-	-	-	103.0	48.7	151.7
Other financial assets	-	-	-	-	-	2.0	2.0
Interest rate contracts (a) (b)	5.9	<u>864.0</u>	<u>(68.2)</u>	<u>(545.8)</u>	<u>(250.0)</u>	-	-
		<u>882.0</u>	<u>(68.1)</u>	<u>(545.4)</u>	<u>(145.8)</u>	<u>868.7</u>	<u>991.4</u>
<i>Financial liabilities</i>							
Creditors	-	-	-	-	-	442.3	442.3
Other payables	-	-	-	-	-	13.8	13.8
Bank borrowings	6.0	-	228.0	52.0	-	-	280.0
Bank overdrafts	6.0	6.6	-	-	-	-	6.6
Money market borrowings	5.4	10.0	-	-	-	-	10.0
Medium term notes	6.8	-	300.0	507.2	275.0	-	1,082.2
Senior notes	6.2	-	-	378.5	417.7	-	796.2
Other interest bearing liabilities	5.9	-	1.5	12.9	0.3	-	14.7
Interest rate contracts (a) (c)	6.4	<u>(363.2)</u>	<u>324.4</u>	<u>208.4</u>	<u>(169.6)</u>	-	-
		<u>(346.6)</u>	<u>853.9</u>	<u>1,159.0</u>	<u>523.4</u>	<u>456.1</u>	<u>2,645.8</u>

(a) Notional principal amounts.

(b) Comprises \$1,539.0 million of fixed to pay floating swaps offset by \$675.0 million of floating to fixed swaps.

(c) Comprises \$831.1 million of fixed to floating swaps offset by \$467.9 million of floating to fixed swaps.

Maximum credit risk exposure

The carrying amounts of financial assets, net of any provisions, generally represent the consolidated entity's maximum exposure to credit risk in relation to those assets.

Notes to the Financial Statements

For the year ended 30 June 2005

Note 50 - Impact of adopting Australian equivalents to International Financial Reporting Standards

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

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

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

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

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

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

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

Note 50 - Impact of adopting Australian equivalents to International Financial Reporting Standards (continued)

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

	Note (refer paragraph d)	Consolidated		Parent Entity	
		2005 \$M **	1 July 2004* \$M	2005 \$M **	1 July 2004* \$M
Total equity under AGAAP		3,267.6	3,154.6	2,522.7	3,162.2
Total equity adjustments at date of transition		(97.8)	N/a	(8.8)	N/a
Adjustments to retained earnings (pre tax):					
Recognition of defined benefit pension asset	(i)	4.8	5.7	4.8	5.7
Clearance of foreign currency translation reserve	(ii)		(4.1)		
Write-back of goodwill amortisation	(iii)	39.9			
Recognition of share-based payment expense	(iv)	(4.1)	(0.8)	(3.1)	(0.6)
Adjustments relating to NGC (which was disposed of in December 2004)	(v)	36.7	(5.4)		
Write back of asset revaluation reserve					1.7
Tax effect of A-IFRS adjustments	(vi)	1.7		(1.7)	
Tax effect on transition***	(vi)		(83.9)		(0.5)
Total adjustments to retained earnings		79.0	(88.5)	0	6.3
Adjustments to other reserves (pre tax):					
Recognition of share-based payment expense	(iv)	4.1	(13.4)	4.1	(13.4)
Clearance of foreign currency translation reserve	(ii)		4.1		
Write back of asset revaluation reserve					(1.7)
Total adjustments to other reserves		4.1	(9.3)	4.1	(15.1)
Total equity adjustments		(14.7)	(97.8)	(4.7)	(8.8)
Total equity under A-IFRS		3,252.9	3,056.8	2,518.0	3,153.4

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

*

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

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

Note 50 - Impact of adopting Australian equivalents to International Financial Reporting Standards (continued)

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

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

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

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

(d) Notes

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

(i) *AASB 119 Employee Benefits*

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

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

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

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

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

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

Note 50 - Impact of adopting Australian equivalents to International Financial Reporting Standards (continued)

(ii) Foreign Currency Translation Reserve

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

(iii) AASB 3 *Business Combinations*

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

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

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

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

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

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

(iv) AASB 2 *Share Based Payments*

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

- Management Share Plan
- Share Loan Plan
- Share Purchase Plan
- Share Reward Plan
- Long Term Incentive Plan

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

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

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

Note 50 - Impact of adopting Australian equivalents to International Financial Reporting Standards (continued)

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

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

(v) Adjustments relating to NGC

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

(vi) AASB 112 *Income Taxes*

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

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

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

(vii) AASB 138 *Intangible Assets*

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

(viii) Property, Plant and Equipment

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

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

These options are also available for intangible assets.

Note 50 - Impact of adopting Australian equivalents to International Financial Reporting Standards (continued)

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

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

(ix) Impairment of Assets

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

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

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

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

(xi) AASB 139 *Financial Instruments*

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

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

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

Energy derivatives

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

Treasury derivatives

AGL uses treasury derivatives to help manage exposures to interest rate and foreign exchange movements. These derivatives will mainly be fair value hedges. AGL has restructured its portfolio to minimise the impact on fair value fluctuations

Note 50 - Impact of adopting Australian equivalents to International Financial Reporting Standards (continued)

through profit. At 30 June 2005, the fair value of treasury derivatives was a negative \$40.7 million. Adjustments arising from the transition to A-IFRS will include the recognition of this fair value as well as the fair value of the risks being hedged by these derivatives and foreign exchange differences.

Note 51 – Events occurring after reporting date and not recognised in the financial report

PNG

On 5 July 2005 The Australian Gas Light Company (AGL) announced its conditional commitment to an investment in the upstream PNG Gas Project.

This investment comprises:

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

Capital Management

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

Directors' Declaration

For the year ended 30 June 2005

The directors of The Australian Gas Light Company Limited declare that, in their opinion 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 Parent Entity and the consolidated Entity.

The directors also declare that:

- (a) in their opinion, 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;
- (b) in their opinion, the accompanying financial statements and the notes thereto are in accordance with the Corporations Act 2001; and
- (c) the directors have been given the declarations required by s.295A of the Corporations Act 2001.

This declaration is made in accordance with a resolution of the directors pursuant to s.295(5) of the Corporations Act 2001.



M R G Johnson
Chairman



G J W Martin
Director

Sydney, 25 August 2005



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

Scope

The financial report and directors' responsibility

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for both The Australian Gas Light Company (the company) and the consolidated entity, for the financial year ended 30 June 2005 as set out on pages 3 to 66. The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

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

Audit approach

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

We performed procedures to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with the Corporations Act 2001 and Accounting Standards and other mandatory professional reporting requirements in Australia so as to present a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and performance as represented by the results of their operations and their cash flows.

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

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

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

Member of
Deloitte Touche Tohmatsu

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


Deloitte.

Audit Opinion

In our opinion, the financial report of The Australian Gas Light Company is in accordance with:

- (a) the Corporations Act 2001, including:
 - (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2005 and of their performance for the year ended on that date; and
 - (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- (b) other mandatory professional reporting requirements in Australia.


DELOITTE TOUCHE TOHMATSU


G Couttas
Partner
Chartered Accountants
Sydney, 25 August 2005