



**THE AUSTRALIAN GAS LIGHT COMPANY AND SUBSIDIARIES**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2006**

**Note 53 - Financial instruments (continued)**

**(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 swap contracts to fix funding costs with the objective of obtaining a more stable and predictable interest expense outcome. Under interest rate swap contracts, the consolidated entity agrees to exchange with other parties, at various 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 be terminated or offset to achieve the desired fixed/floating portfolio mix.

The interest rate swap contracts in place at the reporting date principally relate to the consolidated entity's Australian dollar and US dollar fixed rate borrowings. The notional amount of the interest rate contracts at 30 June 2006 was \$5,940.1 million (2005: \$2,658.2 million).

These interest rate swap contracts have been stated at fair value at the reporting date.

The fair value of interest rate swap contracts at 30 June 2006 was a net asset of \$36.7 million (2005: \$54.4 million), comprising assets of \$59.9 million and liabilities of \$23.2 million. At the reporting date, unrealised gains/(losses) after tax of \$22.4 million for both interest rate and cross currency swaps has been deferred in the hedging reserve and will be released when the anticipated transaction occurs.

Forward rate agreements are used by the consolidated entity to minimise the impact of fluctuations in interest rates on 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 at 30 June 2006 (2005: nil).

The consolidated entity purchases interest rate options to protect itself from fluctuations in interest rates on its floating rate debt. It is the consolidated entity's policy that options cannot be sold unless matched with offsetting purchased options. There were no outstanding interest rate option contracts at 30 June 2006.

The following table summarises the fair value of hedging instruments used to manage interest rate risk:

	Derivatives			Total
	Cash	Fair	not in a	
	flow	value	hedge	
	hedges	hedges	relationship	
	\$m	\$m	\$m	\$m
2006				
Interest rate swaps	24.8	(9.4)	21.3	36.7

The remaining terms and notional principal amounts of outstanding interest rate contracts at the reporting date are included in the following table which summarises the consolidated entity's exposure to interest rate risk. The weighted average effective interest rate is determined based on a weighting using the contract notional value and the contract interest rate.

	Weighted average effective interest rate	Floating interest rate	Fixed interest rate maturities					Non- interest bearing	Total
			6 months or less	6 - 12 months	1 - 2 years	2 - 5 years	More than 5 years		
2006	%	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
<i>Financial assets</i>									
Cash and cash equivalents	5.7	109.0	-	-	-	-	-	-	109.0
Trade and other receivables	19.9	-	0.2	0.3	0.1	1.8	20.3	940.4	963.1
Loans to associates	10.0	-	-	-	-	-	115.0	-	115.0
		109.0	0.2	0.3	0.1	1.8	135.3	940.4	1,187.1
<i>Financial liabilities</i>									
Trade and other payables	-	-	-	-	-	-	-	511.7	511.7
Bank overdrafts	9.0	6.9	-	-	-	-	-	-	6.9
Bank loans	6.5	2,101.3	-	-	-	-	-	-	2,101.3
Medium term notes	6.9	-	-	-	324.7	274.4	-	-	599.1
Senior notes	6.2	-	-	-	337.3	-	366.7	-	704.0
Other interest bearing liabilities	8.6	-	0.5	0.6	0.4	1.0	7.3	9.0	18.8
Outstanding floating for fixed swap contracts (a)(b)	5.7	(2,625.0)	-	-	-	2,625.0	-	-	-
Outstanding fixed for floating swap contracts (a)	6.3	763.7	-	-	(267.8)	(275.0)	(220.9)	-	-
		246.9	0.5	0.6	394.6	2,625.4	153.1	520.7	3,941.8

(a) Notional principal amounts.

(b) The outstanding floating for fixed swap contracts do not include those that are forward starting (effective date being after 30 June 2006) of \$1,145.0 million. At 30 June 2006, the change in the fair value of these swaps has been recognised in the income statement.



**THE AUSTRALIAN GAS LIGHT COMPANY AND SUBSIDIARIES**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2006**

**Note 53 - Financial instruments (continued)**  
**(a) Interest rate risk management (continued)**

	Weighted average effective interest rate %	Floating interest rate \$m	Fixed interest rate maturities					Non- interest bearing \$m	Total \$m
			6 months or less \$m	6 - 12 months \$m	1 - 2 years \$m	2 - 5 years \$m	More than 5 years \$m		
<b>2005</b>									
<i>Financial assets</i>									
Cash and cash equivalents	5.4	394.2	-	-	-	-	-	-	394.2
Trade and other receivables	-	-	-	-	-	-	-	807.4	807.4
Loans to associates	10.0	-	-	-	-	-	112.1	11.3	123.4
		<u>394.2</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>112.1</u>	<u>818.7</u>	<u>1,325.0</u>
<i>Financial liabilities</i>									
Trade and other payables	-	-	-	-	-	-	-	433.4	433.4
Bank overdrafts	9.1	1.9	-	-	-	-	-	-	1.9
Short-term money market borrowings	5.6	15.3	-	-	-	-	-	-	15.3
Promissory notes	5.6	-	175.0	-	-	-	-	-	175.0
Bank loans	3.8	-	-	42.8	-	-	-	-	42.8
Medium term notes	6.7	-	-	-	-	600.0	-	-	600.0
Senior notes	6.3	-	-	-	-	378.5	417.7	-	796.2
Other interest bearing liabilities	0.4	-	-	0.3	-	11.7	-	-	12.0
Outstanding floating for fixed swap contracts (a)(b)	5.6	(875.0)	250.0	-	-	625.0	-	-	-
Outstanding fixed for floating swap contracts (a)	6.5	1,080.9	-	-	-	(860.0)	(220.9)	-	-
		<u>223.1</u>	<u>425.0</u>	<u>43.1</u>	<u>-</u>	<u>755.2</u>	<u>196.8</u>	<u>433.4</u>	<u>2,076.6</u>

(a) Notional principal amounts.

(b) The outstanding floating for fixed swap contracts do not include those that are forward starting (effective date being after 30 June 2005) of \$325.0 million.

**(b) Foreign currency risk management**

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

The settlement dates, amounts to be received and contractual exchange rates of the consolidated entity's outstanding hedging contracts are detailed in the following table.

	Weighted average exchange rate \$	Contract value \$m	Fair value \$m	Less than 1 year \$m	1 - 5 years \$m	More than 5 years \$m
<b>2006</b>						
<b>Outstanding contracts</b>						
<i>Forward foreign currency contracts</i>						
USD	0.7284	USD 325.5	6.3	6.3	-	-
<i>Currency swaps</i>						
USD	0.6647	USD 660.0	(78.3)	-	(62.3)	(16.0)
<b>2005</b>						
<i>Forward foreign currency contracts</i>						
USD	-	-	-	-	-	-
<i>Currency swaps</i>						
USD	0.6647	USD 660.0	(99.6)	-	(77.8)	(21.8)

**(b) Foreign currency risk management (continued)**

*Hedges of foreign currency transactions*

The consolidated entity enters into forward exchange contracts to hedge certain firm commitments and highly probable forecast transactions denominated in foreign currencies. These hedged transactions include the purchases of materials, interest payments and dividends receivable. The maturity of the contracts do not exceed twelve months. The purpose of the consolidated entity's foreign currency hedging activities is to protect itself from adverse fluctuations in exchange rates. The consolidated entity has a policy which allows the extent of foreign exchange hedging to be varied within parameters approved by the Board.

Forward exchange contracts which hedge highly probable forecasted transactions are accounted for as cash flow hedges and measured at fair value.

The fair value of forward exchange contracts designated as hedges of highly probable forecast transactions at 30 June 2006 was \$nil.



**THE AUSTRALIAN GAS LIGHT COMPANY AND SUBSIDIARIES**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2006**

**Note 53 - Financial instruments (continued)**

**(b) Foreign currency risk management (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 swaps.

The fair value of cross currency swaps at 30 June 2006 was a liability of \$78.3 million (2005: \$95.1 million), of which \$29.9 million is in a cash flow hedge relationship and \$48.4 million is in a fair value hedge relationship.

The following table summarises the fair value of hedging instruments used to manage foreign currency borrowing risk:

	Cash flow hedges	Fair value hedges	Total
	\$m	\$m	\$m
2006			
Currency swaps	(29.9)	(48.4)	(78.3)

*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 where hedging is impracticable due to regulatory controls or an inadequate or immature market in the relevant currencies.

The fair value of derivatives used as hedges of net investments at 30 June 2006 was an asset of \$6.3 million (2005: \$nil). At the reporting date, unrealised gains/(losses) of \$4.4 million after tax (2005: \$nil) has been deferred in the foreign currency translation reserve and will not be released until the consolidated entity disposes of the foreign currency investment that is being hedged.

The following table summarises the fair value of hedging instruments used to manage foreign currency risk:

	Hedges of net investments	Total
	\$m	\$m
2006		
Forward foreign currency contracts	6.3	6.3

**(c) Electricity purchase price 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 pool 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.

The consolidated entity classifies derivatives that meet the criteria for effective hedges as cash flow hedges.

The fair value of electricity derivatives at 30 June 2006 was a net liability of \$53.4 million (2005: \$227.8 million), comprising assets of \$264.7 million and liabilities of \$318.1 million. At the reporting date, unrealised gains/(losses) of (\$38.8) million after tax (2005: \$nil) has been deferred in the hedging reserve and will be released when the underlying anticipated transaction occurs. All contracts are due for settlement within 11 years of the reporting date.

The following table summarises the fair value of hedging instruments used to manage electricity purchase risk:

	Cash flow hedges	Derivatives not in a hedge relationship	Total
	\$m	\$m	\$m
2006			
Swaps	(55.5)	(3.1)	(58.6)
Caps	-	2.9	2.9
Options	-	2.3	2.3
	(55.5)	2.1	(53.4)

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

	2006 \$m	2005 * \$m
<i>Electricity hedging contracts</i>		
Less than 1 year	(4.8)	(134.3)
1 to 5 years	(48.6)	(93.5)
More than 5 years	-	-
	(53.4)	(227.8)

\* Electricity hedging contracts were not recognised on the balance sheet for the year ended 30 June 2005.



**THE AUSTRALIAN GAS LIGHT COMPANY AND SUBSIDIARIES**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2006**

**Note 53 - Financial instruments (continued)**

**(d) Commodity price risk management**

Exposure to fluctuations in the sales price of oil is minimised through the use of hedging contracts. It is the consolidated entity's policy to hedge these exposures within prescribed limits through the use of forward contracts and option contracts. These forward exchange contracts are accounted for as cash flow hedges and recognised at fair value.

The fair value of oil derivatives at 30 June 2006 was a net liability of \$56.2 million (2005: \$nil), comprising assets of \$8.9 million and liabilities of \$65.1 million. At the reporting date, unrealised gains/(losses) after tax of (\$29.7) million after tax (2005: \$nil) has been deferred in the hedging reserve and will be released when the anticipated transaction occurs.

The following table summarises the fair value of hedging instruments used to manage oil price risk:

	Cash flow hedges \$m	Total \$m
<b>2006</b>		
Forward contracts	(65.1)	(65.1)
Option contracts	8.9	8.9
	<u>(56.2)</u>	<u>(56.2)</u>

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

	2006 \$m	2005 \$m
<i>Oil price hedging contracts</i>		
Less than 1 year	(27.0)	-
1 to 5 years	(29.2)	-
Longer than 5 years	-	-
	<u>(56.2)</u>	<u>-</u>

**(e) Credit risk**

The consolidated entity is exposed to credit related losses in the event of non-performance by counterparties. At 30 June 2006, the consolidated entity had no significant concentration of credit risk with any single counterparty or group of counterparties in respect of derivative instruments. A credit policy is in place and is monitored on an ongoing basis. The existence of Master Netting Agreements with a number of counterparties provides additional collateral in respect of credit risk. Except as detailed in the following table and as disclosed in Note 40 on contingent liabilities, the maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the balance sheet was:

	2006 \$m	2005 \$m
<i>Maximum credit exposure in respect of:</i>		
Interest rate contracts	63.3	64.1
Electricity derivative contracts (a)	161.2	54.3
	<u>224.5</u>	<u>118.4</u>

(a) The calculation of credit risk for electricity hedging contracts is based on the calculation of the favourable amount for the total instrument which may comprise both an asset and a liability component. The fair value of electricity derivative contracts recognised as an asset at 30 June 2006 is \$264.7 million.

**(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.

**(g) Estimation of 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 are discounted by the current interest rates for assets and liabilities with similar risk profiles in accordance with generally accepted models based on discounted cash flow analysis.

Other financial assets - expected future cash flows are discounted by a risk reflective rate in accordance with generally accepted models based on discounted cash flow analysis.

Interest rate contracts and foreign exchange contracts - assets or liabilities are based on a mark to market value using published price quotations and forward curves.

Electricity derivative contracts - assets or liabilities are based on a mark to market value which uses, where available, published market price quotations for the derivative instrument. For instruments where published price quotations are not available, or where the market is illiquid, valuation prices are derived from market price quotes using historical relationships. All fair valuations are based on industry standard methodologies.



**THE AUSTRALIAN GAS LIGHT COMPANY AND SUBSIDIARIES**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2006**

	Consolidated		Parent Entity	
	30 June 2005 \$m	1 July 2004 \$m	30 June 2005 \$m	1 July 2004 \$m
<b>Note 54 - Impact of adoption of A-IFRS</b>				
The impacts of adopting A-IFRS on total equity, profit after tax and on the cash flow statements as reported under Australian Accounting Standards applicable before 1 July 2005 (AGAAP) are illustrated below.				
<b>Reconciliation of total equity as presented under AGAAP to that under A-IFRS</b>				
<b>Total equity under AGAAP</b>	<b>3,267.6</b>	<b>3,154.6</b>	<b>2,522.7</b>	<b>3,162.2</b>
Total A-IFRS equity adjustments at date of transition	1,308.4		(8.9)	
<i>Adjustments to equity:</i>				
Recognition of net assets of defined benefit superannuation plans (a)	5.9	5.7	(8.5)	5.7
Write back of goodwill amortisation (b)	39.5	-	-	-
Adjustments relating to NGC (c)	54.5	(5.4)	-	-
Changes in equity accounted investments (d)	(1.2)	(0.5)	-	-
Election made to measure property, plant and equipment of certain equity accounted investments at fair value and use that fair value as the deemed cost of this property, plant and equipment at the date of transition (e)	(4.6)	370.7	-	-
Election made to measure certain property plant and equipment at fair value and use that fair value as deemed cost at the date of transition (f)	(31.6)	1,578.0	-	-
Recognition of share-based payments (g)	5.2	(14.2)	6.1	(14.2)
Tax effect of A-IFRS adjustments (h)	8.3	(625.9)	(1.4)	(0.4)
Total A-IFRS equity adjustments at date of transition		1,308.4		(8.9)
<b>Total equity under A-IFRS</b>	<b>4,652.0</b>	<b>4,463.0</b>	<b>2,510.0</b>	<b>3,153.3</b>

- (a) AASB 119 *Employee Benefits* (AASB 119) requires the net surplus or deficit in defined benefit superannuation plans to be recognised as an asset or liability. Under AGAAP, contributions to these plans were expensed and no assets or liabilities were recognised. The consolidated entity has elected to early adopt the revised AASB 119 and has decided to recognise actuarial gains and losses directly in retained earnings. Other superannuation costs are recognised in the income statement. The Parent Entity is the sponsoring employer for the consolidated entity and recognises the defined benefit obligations and expenses for all plans. Under AGAAP, the Parent Entity only recognised an expense for contributions made to defined benefit plans for its own employees.
- (b) Goodwill is not amortised under AASB 3 *Business Combinations* but was amortised under AGAAP. An adjustment has been made to reverse the goodwill amortisation expense since the date of transition. In accordance with AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* (AASB 1), the consolidated entity has elected not to restate past business combinations, accordingly no adjustment in respect of accumulated goodwill amortisation is required at the date of transition of 1 July 2004. In addition, under A-IFRS the consolidated entity concluded that the gas and electricity retail licences do not meet the criteria for recognition as separately identifiable intangible assets and in accordance with AASB 1 these licences were reclassified to goodwill at the date of transition at their net book value of \$1,170.0 million. There were no licences held by the Parent Entity.
- (c) The consolidated entity disposed of its interests in NGC Holdings Limited (NGC) in December 2004. Additional deferred tax liabilities and other transitional adjustments were recognised on transition to A-IFRS, which resulted in an increase of \$54.5 million in equity in respect of the sale of NGC in the consolidated entity only as the Parent Entity did not hold these investment interests.
- (d) The consolidated entity's share of A-IFRS transitional adjustments made by entities which are accounted for using the equity method of accounting have resulted in adjustments to the carrying value of those investments under A-IFRS. The Parent Entity continues to hold its investments at cost.
- (e) On transition to A-IFRS an election has been made in accordance with AASB 1 to measure certain property, plant and equipment at fair value and use that fair value as the deemed cost of this property, plant and equipment. The adjustment to retained earnings at 1 July 2004 of \$370.7 million is a result of the equity accounted investments in Australian Pipeline Trust and ActewAGL Distribution Partnership increasing by \$140.7 million (after income tax) and \$230.0 million respectively to reflect the consolidated entity's share of the increase in equity accounted reserves arising from the increase in the carrying value of property, plant and equipment held by these entities. There is no impact on the Parent Entity as it continues to hold its investments at cost. For the year ended 30 June 2005, the consolidated entity recognised a reduction in its share of equity accounted profits of \$4.6 million reflecting the additional depreciation expense arising from the increase in the carrying value of property, plant and equipment. This was a change from the A-IFRS elections proposed in the financial statements for the year ended 30 June 2005.
- (f) On transition to A-IFRS an election has been made in accordance with AASB 1 to measure the New South Wales gas distribution network property, plant and equipment at fair value and use that fair value as the deemed cost of this property, plant and equipment. This has resulted in an increase of \$1,578.0 million in the carrying value of this property, plant and equipment. As a result of the increased carrying value of the property, plant and equipment, the consolidated entity recognised an additional depreciation expense of \$31.6 million for the year ended 30 June 2005. This was a change from the A-IFRS elections proposed in the financial statements for the year ended 30 June 2005. There is no impact on the Parent Entity.



**THE AUSTRALIAN GAS LIGHT COMPANY AND SUBSIDIARIES**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2006**

**Note 54 - Impact of adoption of A-IFRS (continued)**

- (g) Under AASB 2 *Share-based Payments* (AASB 2), the AGL Share Loan Plan is accounted for as an insubstance call option. On transition to A-IFRS, the outstanding loan balance of \$14.2 million was debited to equity. For the year ended 30 June 2005, \$5.2 million in proceeds from dividends and other repayments of the loans have been credited to equity. AASB 2 requires equity-settled share-based payment transactions to be fair valued at grant date and recognised as an expense over the vesting period, with a corresponding increase in equity.
- (h) The tax effect of A-IFRS on transition, and ongoing, arises from the recognition of deferred taxes associated with fair value adjustments in relation to business combinations, investments, the adoption of fair value as deemed cost in respect of certain property plant and equipment and from previously categorised permanent differences between the book and tax carrying amounts of property, plant and equipment.

	Consolidated 30 June 2005 \$m	Parent Entity 30 June 2005 \$m
<b>Reconciliation of profit after tax under AGAAP to that under A-IFRS</b>		
<b>Profit under AGAAP</b>	<b>848.3</b>	<b>9.8</b>
Defined benefit superannuation plan expense (a)	8.5	(4.9)
Recognition of share-based payments expense (b)	(4.1)	(3.2)
Write back of goodwill amortisation (c)	39.5	-
Adjustments relating to NGC (d)	37.3	-
Changes in equity accounted investments (e)	2.8	-
Reduction in equity accounted profits in respect of the election to adopt the fair value of property plant and equipment as deemed cost at the date of transition in respect of certain equity accounted investments (f)	(4.6)	-
Additional depreciation in respect of the election to adopt the fair value of certain property plant and equipment as deemed cost (g)	(31.6)	-
Tax effect of A-IFRS adjustments (h)	8.3	(2.4)
<b>Profit under A-IFRS</b>	<b>904.4</b>	<b>(0.7)</b>

- (a) AASB 119 *Employee Benefits* (AASB 119) requires defined benefit superannuation current service costs to be recognised in the income statement during the period. The consolidated entity has elected to recognise actuarial gains and losses directly in retained earnings in accordance with AASB 119. Under AGAAP, superannuation contributions were recognised as an expense as they were paid or became payable. The Parent Entity is the sponsoring employer for the Group and recognises the defined benefit obligations and expenses for all plans. Under AGAAP, the Parent Entity only recognised an expense for contributions made to defined benefit plans for its own employees.
- (b) Share-based payments are required to be recognised in the income statement under AASB 2 *Share-based Payments* but were not required to be expensed under AGAAP, hence an adjustment has been made to expense the fair value of share-based payments over the vesting period.
- (c) Goodwill is not amortised under AASB 3 *Business Combinations* but was amortised under AGAAP. An adjustment has been made to reverse the goodwill amortisation expense since the date of transition.
- (d) The consolidated entity disposed of its interests in NGC in December 2004. Additional deferred tax liabilities and other transitional adjustments were recognised on transition to A-IFRS, which resulted in an increase of \$37.3 million in the reported profit on sale of NGC under A-IFRS in the consolidated entity only as the Parent Entity did not hold these investment interests.
- (e) The consolidated entity's share of A-IFRS transitional adjustments made by entities which are accounted for using the equity method of accounting have resulted in adjustments to the consolidated entity's share of profits recognised under A-IFRS. The Parent Entity continues to hold its investments at cost.
- (f) On transition to A-IFRS an election has been made in accordance with AASB 1 to measure certain property, plant and equipment held by certain equity accounted entities at fair value and use that fair value as the deemed cost of this property, plant and equipment. For the year ended 30 June 2005, the consolidated entity recognised a reduction in its share of equity accounted profits of \$4.6 million reflecting the additional depreciation expense arising from the increase in the carrying value of property, plant and equipment. There is no impact on the Parent Entity as it continues to hold its investments at cost.
- (g) On transition to A-IFRS an election has been made in accordance with AASB 1 to measure the New South Wales gas distribution network property, plant and equipment at fair value and use that fair value as the deemed cost of this property, plant and equipment. As a result of the increased carrying value of the property, plant and equipment, the consolidated entity recognised an additional depreciation expense of \$31.6 million for the year ended 30 June 2005. There is no impact on the Parent Entity.
- (h) This adjustment represents the impact on current tax expense in respect of the A-IFRS adjustments, in accordance with AASB 112 *Income Taxes*.

**Explanation of material adjustments to the cash flow statements**

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



**THE AUSTRALIAN GAS LIGHT COMPANY AND SUBSIDIARIES**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2006**

**Note 55 - Changes in accounting policy**

In the current financial year the consolidated entity adopted AASB 132 *Financial Instruments: Disclosure and Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement*. This change in accounting policy has been adopted in accordance with the transition rules in AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*, which does not require the restatement of comparative information for financial instruments within the scope of AASB 132 and AASB 139.

The effect of changes in the accounting policies for financial instruments on the balance sheet as at 1 July 2005 is shown below:

	Note	Consolidated			Parent Entity		
		A-IFRS 30 June 2005 \$m	Effect of adoption \$m	Restated 1 July 2005 \$m	A-IFRS 30 June 2005 \$m	Effect of adoption \$m	Restated 1 July 2005 \$m
Fair value derivatives - assets	(a)	-	128.3	128.3	-	60.9	60.9
Prepayments	(b)	56.3	(41.1)	15.2	-	-	-
Investments accounted for using the equity method	(c)	971.9	18.5	990.4	-	-	-
Deferred tax assets	(d)	127.0	78.1	205.1	-	-	-
Borrowings	(a)	(1,643.2)	59.4	(1,583.8)	(1,586.5)	59.4	(1,527.1)
Fair value derivatives - liabilities	(a)	-	(401.1)	(401.1)	-	(105.9)	(105.9)
Provision for onerous contracts	(b)	(7.1)	2.8	(4.3)	-	-	-
Deferred tax liabilities	(d)	(945.8)	(4.3)	(950.1)	(376.0)	(4.3)	(380.3)
Unearned revenue	(b)	(14.0)	5.7	(8.3)	-	-	-
Hedging reserve	(a)	-	123.3	123.3	-	(10.3)	(10.3)
Retained earnings	(a)(b)(c)	(2,650.5)	30.4	(2,620.1)	(504.0)	0.2	(503.8)

(a) Under previous AGAAP, the consolidated entity did not recognise derivatives at fair value on the balance sheet. The adoption of AASB 139 has resulted in the consolidated entity recognising all derivative financial instruments as assets or liabilities at fair value. This change has been accounted for by adjusting the opening balance of equity through retained earnings and hedging reserve at 1 July 2005 by the after tax amount of the fair value of the derivatives. The transitional provisions will not have any effect in future reporting periods. For fair value hedges, the underlying risks being hedged have also been recognised on the balance sheet at fair value and adjusted against borrowings.

(b) Prepaid option premiums, provision for onerous contracts and unearned revenue that were previously recognised under AGAAP have been replaced under A-IFRS by the recognition at fair value of options as either derivative assets or derivative liabilities.

(c) The consolidated entity has recognised its equity accounted share of adjustments made by investments arising from the recognition of derivatives at fair value.

(d) Recognition of deferred tax assets and deferred tax liabilities arising from the changes to accounting policies outlined in (a) and (b) above.



**The Australian Gas Light Company and Subsidiaries**

**Directors' declaration  
for the year ended 30 June 2006**

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

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

The directors also declare that:

- (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) they 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.

A handwritten signature in black ink, appearing to read 'Mark Johnson', written in a cursive style.

**Mark Johnson  
Chairman**

Sydney, 23 August 2006

A handwritten signature in black ink, appearing to read 'Paul Anthony', written in a cursive style.

**Paul Anthony  
Managing Director**

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

### Scope

#### *The financial report, compensation disclosures and directors' responsibility*

The financial report comprises the balance sheet, income statement, cash flow statement, statement of recognised income and expense, a summary of significant accounting policies and other explanatory notes and the directors' declaration for both The Australian Gas Light Company (the company) and the consolidated entity, for the financial year ended 30 June 2006 as set out on pages 3 to 64. 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 company has disclosed information about the compensation of key management personnel ("compensation disclosures") as required by paragraphs Aus 25.4 to Aus 25.7.2 of Accounting Standard AASB 124 *Related Party Disclosures* ("AASB 124") under the heading "remuneration report" on pages 42 to 51 of the directors' report (contained in the Concise Annual Report 2006), and not in the financial report, as permitted by the *Corporations Regulations 2001*.

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

#### *Audit approach*

We have conducted an independent audit of the financial report and compensation disclosures in order to express an opinion on them 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 and the compensation disclosures comply with AASB 124. 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 Accounting Standards in Australia and the Corporations Act 2001 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, their changes in equity and their cash flows and whether the compensation disclosures comply with AASB 124.

# Deloitte

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.

## *Auditor's Independence Declaration*

The independence declaration provided to the directors of The Australian Gas Light Company on 23 August 2006 would be in the same terms if it was given to the directors on the date this audit report is made out.

## **Audit Opinion**

In our opinion:

- (1) the financial report of The Australian Gas Light Company is in accordance with 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 2006 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
- (2) the compensation disclosures that are contained under the heading "remuneration report" on pages 42 to 51 of the directors' report (contained in the Concise Annual Report 2006) comply with paragraphs Aus 25.4 to Aus 25.7.2 of Accounting Standard AASB 124 *Related Party Disclosures*.



DELOITTE TOUCHE TOHMATSU



G Couttas  
Partner  
Chartered Accountants  
Sydney, 29 August 2006



