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9275 7100  
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Ms Barbara Ward  
Chairman  
Country Energy Gas Pty Ltd  
PO Box 718  
QUEANBEYAN NSW 2620

24 September 2010

Dear Ms Ward

**STATUTORY AUDIT REPORT**  
**for the Year Ended 30 June 2010**  
**Country Energy Gas Pty Limited**

I have audited the financial statements of Country Energy Gas Pty Limited (the Company) as required by the *Public Finance and Audit Act 1983* (the Act). This Statutory Audit Report outlines the results of my audit for the year ended 30 June 2010. The Act requires that I send this report to the Company, the Shareholder Ministers of Country Energy and the Treasurer.

This report is not the Independent Auditor's Report, which expresses my opinion on the Company's financial statements. I have enclosed the Independent Auditor's Report, together with the Company's financial statements.

My audit is designed to obtain reasonable assurance the financial statements are free from material misstatement. My audit is not designed to identify all matters that may be relevant to those charged with governance. Accordingly, there may be other matters of governance interest that did not come to my attention during my audit.

My audit is continuous and I may therefore identify new significant matters. If this occurs, I will write to you immediately.

**Audit Result**

I expressed an unmodified opinion on the Company's financial statements and I have not identified any significant matters since my previous Statutory Audit Report.

**Misstatements in Financial Statements**

The financial statements did not contain any misstatements.

**Compliance with Legislative Requirements**

My audit procedures are targeted specifically towards forming an opinion on the Company's financial statements. This includes testing whether the Company has complied with legislative requirements that may materially impact on the financial statements. My testing did not identify any material instances of non-compliance.

## **Auditor-General's Report to Parliament**

Comment on the Company's activities will appear in the Auditor-General's Report to Parliament. I will send a draft of this comment to Country Energy (Mr Justin De Lorenzo) for review before the Report is tabled during October.

## **Acknowledgment**

I thank the staff of Country Energy for their courtesy and assistance.

Yours sincerely

A handwritten signature in black ink, appearing to read "Peter Achterstraat". The signature is fluid and cursive, with a prominent initial "P" and a long horizontal stroke extending to the right.

Peter Achterstraat  
Auditor-General



GPO BOX 12  
Sydney NSW 2001

## INDEPENDENT AUDITOR'S REPORT

### Country Energy Gas Pty Limited

To Members of the New South Wales Parliament

I have audited the accompanying financial statements of Country Energy Gas Pty Limited (the Company), which comprises the balance sheet as at 30 June 2010, the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, a summary of significant accounting policies and other explanatory notes.

#### Auditor's Opinion

In my opinion, the financial statements:

- present fairly, in all material respects, the financial position of the Company as at 30 June 2010, and its financial performance for the year then ended in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations)
- are in accordance with section 41B of the *Public Finance and Audit Act 1983* (the PF&A Act) and the Public Finance and Audit Regulation 2010
- complies with International Financial Reporting Standards as disclosed in Note 1.2.

My opinion should be read in conjunction with the rest of this report.

#### The Directors' Responsibility for the Financial Statements

The directors of the Company are responsible for the preparation and fair presentation of the financial statements in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the PF&A Act. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1.2, the directors also state, in accordance with Accounting Standard AASB 101 'Presentation of Financial Statements', that the financial statements comply with International Financial Reporting Standards.

#### Auditor's Responsibility

My responsibility is to express an opinion on the financial statements based on my audit. I conducted my audit in accordance with Australian Auditing Standards. These Auditing Standards require that I comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

My opinion does *not* provide assurance:

- about the future viability of the Company
- that it has carried out its activities effectively, efficiently and economically
- about the effectiveness of its internal controls.

### Independence

In conducting this audit, the Audit Office of New South Wales has complied with the independence requirements of the Australian Auditing Standards and other relevant ethical requirements. The PF&A Act further promotes independence by:

- providing that only Parliament, and not the executive government, can remove an Auditor-General
- mandating the Auditor-General as auditor of public sector agencies, but precluding the provision of non-audit services, thus ensuring the Auditor-General and the Audit Office of New South Wales are not compromised in their role by the possibility of losing clients or income.



Peter Achterstraat  
Auditor-General

24 September 2010  
SYDNEY

## STATEMENT BY MEMBERS OF THE BOARD

Pursuant to Section 41 of the Public Finance and Audit Act 1983 we state that:

1. The accompanying financial statements are a general purpose financial report that have been prepared in accordance with the Public Finance and Audit Act 1983, the Public Finance and Audit Regulation 2010, the State Owned Corporations Act 1989, applicable Accounting Standards and other mandatory professional reporting requirements.
2. The accompanying financial statements exhibit a true and fair view of the financial position of Country Energy Gas Pty Limited as at 30 June 2010 and of the profit and cash flows of the corporation for the year ended 30 June 2010.
3. At the date of this statement, there are reasonable grounds to believe that Country Energy Gas Pty Limited will be able to pay its debts as and when they become due and payable.
4. We are not aware of any circumstances which would render any particulars included in these statements to be misleading or inaccurate.


Signed in accordance with a resolution of Directors.



.....  
Barbara Ward  
**Chairman**

..... 23 September 2010 .....

Dated



.....  
Terri Benson  
**Acting Managing Director**

..... 23 September 2010 .....

Dated

**COUNTRY ENERGY GAS PTY LIMITED A.C.N. 083 199 839**

**STATEMENT OF COMPREHENSIVE INCOME**

**For the year ended 30 June 2010**

		<b>2010</b>	<b>2009</b>
<b>Continuing Operations</b>	<b>Note</b>	<b>\$'000</b>	<b>\$'000</b>
Revenue		10,468	11,934
Developer and Customer Contributions		1	3
<b>Total revenue and other income</b>		<u><u>10,469</u></u>	<u><u>11,937</u></u>
Cost of delivery of gas		(3,627)	(2,628)
Depreciation and amortisation expenses	2	(4,827)	(4,510)
<b>Total expenses</b>		<u><u>(8,454)</u></u>	<u><u>(7,138)</u></u>
<b>Profit from Continuing Operations before Income Tax</b>		<b>2,015</b>	<b>4,799</b>
Income Tax Expense	3	(1,030)	(1,865)
<b>Profit from Continuing Operations after Income Tax</b>		<u><u>985</u></u>	<u><u>2,934</u></u>
Total comprehensive gain attributable to members of the parent entity		985	2,934
<b>Total changes in equity other than those resulting from transactions with owners as owners</b>		<u><u>985</u></u>	<u><u>2,934</u></u>

The Statement of Comprehensive Income is to be read in conjunction with the notes to and forming part of the financial report.

**COUNTRY ENERGY GAS PTY LIMITED A.C.N. 083 199 839**

**BALANCE SHEET**

**As at 30 June 2010**

		2010	2009
	Note	\$'000	\$'000
<b>Current Assets</b>			
Trade and Other Receivables	4	3,891	3,208
<b>Total Current Assets</b>		<u>3,891</u>	<u>3,208</u>
<b>Non-Current Assets</b>			
Property, Plant and Equipment	5	90,630	90,316
Intangible Assets	6	7,899	9,318
Deferred Tax Assets	7	68	171
<b>Total Non-Current Assets</b>		<u>98,597</u>	<u>99,805</u>
<b>TOTAL ASSETS</b>		<u>102,488</u>	<u>103,013</u>
<b>Current Liabilities</b>			
Trade and Other Payables	8	211	1,332
Other Financial Liabilities	9	56,635	56,813
<b>Total Current Liabilities</b>		<u>56,846</u>	<u>58,145</u>
<b>Non-Current Liabilities</b>			
Other Financial Liabilities	9	-	178
Deferred Tax Liability	7	2,658	2,691
<b>Total Non-Current Liabilities</b>		<u>2,658</u>	<u>2,869</u>
<b>TOTAL LIABILITIES</b>		<u>59,504</u>	<u>61,014</u>
<b>NET ASSETS</b>		<u>42,984</u>	<u>41,999</u>
<b>Equity</b>			
Contributed equity		26,871	26,871
Retained profits		16,113	15,128
<b>Total Parent Entity Interest</b>		<u>42,984</u>	<u>41,999</u>
<b>TOTAL EQUITY</b>		<u>42,984</u>	<u>41,999</u>

The accompanying notes form part of this Balance Sheet.

**COUNTRY ENERGY GAS PTY LIMITED A.C.N. 083 199 839**

**STATEMENT OF CHANGES IN EQUITY**

**For the year ended 30 June 2010**

	<b>2010</b>	<b>2009</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Contributed Equity</b>		
Closing balance	<u>26,871</u>	<u>26,871</u>
<b>Retained Profits</b>		
Opening balance	15,128	12,194
<b>Movement:</b>		
Net Profit From Continuing Operations Attributable to Members of the Parent Entity	985	2,934
Closing balance	<u>16,113</u>	<u>15,128</u>

The Statement of Changes in Equity is to be read in conjunction with the notes to and forming part of the financial report.



**COUNTRY ENERGY GAS PTY LIMITED A.C.N. 083 199 839**

**CASH FLOW STATEMENT**

**For the year ended 30 June 2010**

		<b>2010</b>	<b>2009</b>
	<b>Note</b>	<b>\$'000</b>	<b>\$'000</b>
<b>Cash Flows from Operating Activities</b>			
Receipts from customers		10,089	11,590
Payment to suppliers		(6,365)	(6,218)
<b>Net cash flows from operating activities</b>	10	<u>3,724</u>	<u>5,372</u>
<b>Cash Flows from Investing Activities</b>			
Payments for system assets		(3,724)	(5,372)
<b>Net cash outflows from investing activities</b>		<u>(3,724)</u>	<u>(5,372)</u>
<b>Net cash flows from financing activities</b>		<u>-</u>	<u>-</u>
<b>Net increase/(Decrease) in Cash Held</b>		-	-
Cash at the beginning of the financial year		<u>-</u>	<u>-</u>
<b>Cash at the end of the financial year</b>		<u><u>-</u></u>	<u><u>-</u></u>

The Cash Flow Statement is to be read in conjunction with the notes to and forming part of the financial report.

**Country Energy Gas Pty Limited**  
**A.C.N. 083 199 839**

**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended 30 June 2010**

**Note 1 Statement of Significant Accounting Policies**

**1.1 Reporting Entity**

Country Energy Gas Pty Limited (the Company) is a registered Company incorporated in NSW. The Company has a share capital of twenty six million eight hundred and seventy thousand five hundred and ninety three (26,870,593) ordinary shares of \$1.00 each. These shares are issued to Country Energy (the parent), a NSW State Owned Corporation incorporated under the *State Owned Corporations Act 1989*.

The Company was formerly named Great Southern Energy Gas Networks Pty Ltd and became a member of the Country Energy Group when its parent, Great Southern Energy, was merged with Advance Energy and NorthPower on 1 July 2001.

**1.2 Financial Reporting Framework and Statement of Compliance**

The accompanying statements are a general purpose financial report which has been prepared in accordance with the requirements of the *Public Finance and Audit Act 1983*, the *Public Finance and Audit Regulation 2010* and the *State Owned Corporations Act 1989*. The financial statements have been prepared on an accrual accounting basis in accordance with these Acts and Regulation. The statements are in conformity with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards (AIFRS), other authoritative pronouncements of the Australian Accounting Standards Board (AASB) and Interpretations. The Financial Report complies with International Financial Reporting Standards (IFRS). The statements are also prepared consistent with NSW Treasury's mandates and indicative mandates.

The financial statements have been prepared in accordance with the historical cost convention, except where otherwise indicated, and do not take account of changes in the general purchasing power of the dollar except where stated. The going concern basis has been applied in the preparation of the financial statements. The ability of the Company to operate as a going concern is dependent upon continued economic support from the parent entity and its continuing guarantee of repayment of the loan described at note 1.12.3.

**1.3 Accounting Policies**

The preparation of the financial report requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. These accounting policies have been consistently applied in the Country Energy Group and are consistent with those applied in the previous year.

**NOTES TO THE FINANCIAL STATEMENTS**

**For the year ended 30 June 2010**

**1.4 Financial Instruments**

Financial instruments give rise to positions that are a financial asset of either the Company or its counterparty and a financial liability (or equity instrument) of the other party. The Company does not undertake any derivative transactions.

**1.5 Cost Measurement**

The financial report is prepared on the historical cost basis, modified to be compliant with AIFRS in the cases of:

- property, plant and equipment whose cost was deemed to be fair value at the date of transition to AIFRS.
- loans and receivables classified as financial instruments are measured at amortised cost. Generally these are recorded as non-current assets and liabilities in the Balance Sheet and amortisation is applied if material.

**1.6 Impairment**

In accordance with AASB 136: *Impairment of Assets* and AASB 139: *Financial Instruments: Recognition and Measurement*, impairment testing is carried out to ensure that assets are carried at no more than their recoverable amount. Impairment is applied in the following circumstances:

**1.6.1 Impairment – Financial Assets**

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

Financial assets are assessed for impairment collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in the profit and loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost the reversal is recognised in the profit and loss.

**NOTES TO THE FINANCIAL STATEMENTS**

**For the year ended 30 June 2010**

**1.6.2 Impairment – Non-financial Assets**

- **Assessment for Impairment**

Assets are assessed for any indicators that impairment may exist. If there is no indication of impairment, impairment testing is not carried out. If there is indication of impairment the recoverable amount is estimated for the asset or the cash generating unit group of assets (CGU). If the carrying values exceed the estimated recoverable amount the assets or CGUs are written down to their recoverable amount. The recoverable amount of property, plant and equipment is the greater of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre tax weighted average cost of capital. For an asset that does not generate largely independent cash inflows the recoverable amount is determined for the cash generating unit to which the asset belongs. Impairment losses are recognised in the Statement of Comprehensive Income.

- **Impairment without Assessment**

Goodwill acquired in a business combination and intangible assets with indefinite useful lives are tested for impairment irrespective of any indication of impairment.

**1.6.3 Assets that form a CGU**

The combined assets of the Company represent a CGU. This CGU is the smallest identifiable group of assets that generate identifiable cash flows.

The CGU was tested for impairment using market based valuation methodologies. The valuations support the aggregated asset values of the CGU.

**1.7 Industry and Segment Reporting**

The Company operates in a single business segment being the distribution and retail of energy, and within one geographical sector, Australia.

**1.8 Revenue recognition**

All revenue is recognised as revenue from continuing operations for the purposes of the Statement of Comprehensive Income.

Sales revenue comprises revenue earned from the provision of products or services and is recognised when the goods are provided.

**NOTES TO THE FINANCIAL STATEMENTS**

**For the year ended 30 June 2010**

**1.9 Valuation of Current Assets - Receivables**

Trade and other receivables are measured at cost being the amounts due. The collectability of debts is assessed at balance date in accordance with AASB 139. The amounts owed by the parent comprise transactions arising from a contracted provision of resources by the parent to assist the Company in operating its assets and carrying out its functions (refer note 4).

**1.10 Valuation of Property, Plant and Equipment**

All property, plant and equipment assets were of the one class being a natural gas system network asset. AASB 116: *Property, Plant and equipment* requires independent valuations to be undertaken whenever it is perceived that the carrying value would be materially different to the fair value. The NSW Treasurer has provided Country Energy with an exemption from Treasury Policy Paper TPP 07-1 (*Valuation of Physical Non-Current Assets at Fair Value*), which requires Country Energy to conduct an independent external valuation of its natural gas system network assets on an Optimised Depreciation Replacement Cost (ODRC) methodology. The exemption applies only for the reporting year ended 30 June 2010. These assets are carried at fair value and form part of the CGU (refer note 1.6.3). The natural gas system assets are not impaired.

**1.10.1 Asset acquisition**

The value of assets acquired during the year includes the cost of acquisition, the cost of materials, labour and an appropriate proportion of overheads.

**1.10.2 Depreciation**

The components of the asset excluding land are depreciated at rates based on their estimated remaining lives of 9 to 44 years. Depreciation expense was applied using the straight line method.

**1.11 Valuation of Intangible Assets**

Intangible assets, other than goodwill are identifiable non physical assets that have been acquired by the Company. These are recorded at amortised cost. The intangible assets including goodwill form part of a CGU (refer note 1.6.3). The intangible assets are not impaired.

**1.11.1 Natural Gas Distribution Licence**

The licence was initially acquired when Great Southern Energy (former parent) purchased the natural gas distribution business from the Council of the City of Wagga Wagga. The Company subsequently purchased the business from the parent. The acquisition involved the paying of a premium over the value of the assets. The premium is in recognition of the future benefits that will accrue in addition to the value of the identifiable assets. The difference between the cost of the natural gas distribution business and the value of the natural gas distribution assets is the value of the intangible asset being the distribution licence (refer note 6). The licence has a remaining life of three years.

**Country Energy Gas Pty Limited**  
**A.C.N. 083 199 839**

**NOTES TO THE FINANCIAL STATEMENTS**

**For the year ended 30 June 2010**

**1.11.2 Goodwill**

Goodwill was acquired when the former Great Southern Energy Group (refer note 1.1) purchased natural gas assets from the Australian Gas Light Company.

The goodwill represents the excess of the cost of acquisition of the gas network purchased over the fair value of the identifiable net assets acquired. The assets were newly constructed at the time of acquisition. Goodwill is recorded at cost and is tested for impairment annually (refer notes 1.6.2 and 6).

**1.12 Liabilities**

**1.12.1 Payables**

Trade and other payables are recognised when there is an obligation to make future payments for the purchase of goods and services supplied as at balance date. These obligations are due within the next twelve months. Payables are recorded at fair value. Payables include accrued expenses (refer note 8).

**1.12.2 Unearned Revenue**

In 2001 a development grant was received from the Australian Government for the installation of gas networks on behalf of a customer. The obligation to repay the grant is satisfied by applying agreed amounts to the customer's energy bill.

The liability is classified as a financial instrument and has a remaining life of 0.5 years. It is measured at amortised cost, however amortisation has not been recorded because it is not material (refer note 9).

**1.12.3 Loan from Parent Company**

Country Energy has lent the Company \$56.5 million interest free. Due to resolutions taken by the Board of Country Energy the loan is payable on demand and a demand for payment will not be made if it would place in jeopardy the solvency of the Company (refer notes 9 and 11).

**1.13 Income Tax**

The Company is a member of a tax consolidated group and operates within the National Tax Equivalent Regime (NTER) administered by the Australian Taxation Office on behalf of the NSW Government.

Income tax on the profit or loss for the year comprises current and deferred tax. Current tax is the expected tax payable on the taxable income for the year using tax rates that are applicable at balance date and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for:

**Country Energy Gas Pty Limited**  
**A.C.N. 083 199 839**

**NOTES TO THE FINANCIAL STATEMENTS**

**For the year ended 30 June 2010**

- Goodwill.
- The initial recognition of assets or liabilities that affect neither accounting nor taxable profit.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates applicable at balance date.

A deferred tax asset is recognised to the extent that it is probable that the future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

**1.13.1 Tax Consolidation**

The Company is a wholly owned subsidiary within a tax consolidated group with Country Energy as the head entity.

Current income tax expense/benefit, deferred tax liabilities and deferred tax assets arising from temporary differences are recognised in the entity's financial statements using the 'separate taxpayer within group' approach. Deferred tax assets and deferred tax liabilities are measured by reference to the carrying amounts of assets and liabilities in the entity's balance sheet and their tax values applying under tax consolidation.

Any current tax liabilities/assets and deferred tax assets arising from unused tax losses of the Company are assumed by the head entity of the tax consolidated group. These are recognised as amounts payable/receivable to other members of the group in conjunction with any tax funding arrangement amounts.

The Company recognises deferred tax assets arising from unused tax losses to the extent that it is probable that the future taxable profits of the tax consolidated group will be available against which the asset can be utilised. The Company assesses the recovery of its unused tax losses and tax credits only in the period in which they arise and before assumption by the head entity in accordance with AASB 112: *Income Taxes*.

Any subsequent period adjustments to deferred tax assets arising from unused tax losses as a result of revised assessments of the probability of recoverability are recognised by the head entity only (refer note 14).

**Country Energy Gas Pty Limited**  
**A.C.N. 083 199 839**

**NOTES TO THE FINANCIAL STATEMENTS**

**For the year ended 30 June 2010**

**1.13.2 Tax Funding Arrangements**

The Company in conjunction with other members of the tax consolidated group has entered into a tax funding arrangement which sets out the funding obligation of members of the group in respect of tax amounts. The tax funding arrangements require payments to/from the head entity equal to the current tax liability/assets assumed by the head entity and any tax loss deferred tax asset assumed by the head entity resulting in the Company recognising an inter entity payable/receivable equal in amount to the tax liability/asset assumed. The inter entity payable/receivable balances are at call.

Contributions to fund the current tax liabilities are payables as per the tax funding arrangement and reflect the timing of the head entity's obligation to make payments for tax liabilities to the relevant tax authorities.

**1.13.3 Tax Sharing Agreement**

The Company in conjunction with other members of the tax consolidated group has entered into a tax sharing agreement. The tax sharing agreement provides for the determination of the allocation of income tax liabilities between the members of the group should the head entity default on its tax payment obligations. No amounts have been recognised in the financial statements in respect of this agreement as payment of any amounts under this agreement is remote.

**1.14 Goods and Services Tax**

Revenue, expenses and assets (other than receivables) are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of expense.

Receivables and payables are stated with the amount of GST included.

**1.15 Comparative data**

Comparatives have been reclassified where necessary to enhance comparability in respect of changes in the current year. Where prior year information was not disclosed or where it is not practical to calculate the information comparatives have been omitted. Where this has occurred references have been made accordingly throughout the financial statements.

**1.16 Rounding of Amounts**

Amounts in the financial statements have been rounded to the nearest thousand dollars unless specifically stated to be otherwise.



**Country Energy Gas Pty Limited**  
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**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended 30 June 2010**

**1.17 Early Adoption of Standards**

At reporting date a number of Australian Accounting Standards have been issued by the AASB but are not yet operative. These have not been adopted early by the Company. These Standards have been assessed for their possible impact on the financial report, if any, in the period of their initial application. The assessment concluded that there will be no material impact.

**COUNTRY ENERGY GAS PTY LIMITED A.C.N. 083 199 839**

**NOTES TO THE FINANCIAL STATEMENTS**

**For the year ended 30 June 2010**

**Note 2 Components of Expenses**

	<b>2010</b>	<b>2009</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Expense items included in total expenses relating to continuing operations</b>		
Depreciation of property, plant and equipment	3,408	3,092
Amortisation of intangible assets	<u>1,419</u>	<u>1,418</u>
Total depreciation and amortisation	<u><b>4,827</b></u>	<u><b>4,510</b></u>
<b>Maintenance expenses:</b>		
Employee related maintenance expenses included in employee benefits expense	325	270
Contracted labour and other (non-employee related) expenses	<u>2,085</u>	<u>1,627</u>
Total maintenance expenses	<u><b>2,410</b></u>	<u><b>1,897</b></u>

**COUNTRY ENERGY GAS PTY LIMITED A.C.N. 083 199 839**

**NOTES TO THE FINANCIAL STATEMENTS**

**For the year ended 30 June 2010**

**Note 3 Income Tax Expense**

	2010	2009
Note	\$'000	\$'000
The major components of income tax expense are:		
<b>Statement of Comprehensive Income</b>		
<u>Current income tax</u>		
Current income tax charge	960	1,877
Adjustments in respect of current income tax of previous years	-	(233)
<u>Deferred income tax</u>		
Relating to origination and reversal of temporary differences	7	221
<b>Income tax expense reported in the Statement of Comprehensive Income</b>	<u><b>1,030</b></u>	<u><b>1,865</b></u>
<b>Reconciliation of tax expense to pre-tax profit</b>		
Profit from Continuing Operations before Income Tax	<u>2,015</u>	<u>4,799</u>
Income tax at rate of 30%	604	1,440
Adjustment in respect of current income tax of previous years	1	(233)
Expenditure not allowable for income tax purposes	426	425
Recognition / derecognition of temporary differences	(1)	233
	<u><b>1,030</b></u>	<u><b>1,865</b></u>
<b>Income tax expense reported in the Statement of Comprehensive Income</b>	<u><b>1,030</b></u>	<u><b>1,865</b></u>

**COUNTRY ENERGY GAS PTY LIMITED A.C.N. 083 199 839**

**NOTES TO THE FINANCIAL STATEMENTS**

**For the year ended 30 June 2010**

**Note 4 Trade and Other Receivables**

		<b>2010</b>	<b>2009</b>
	<b>Note</b>	<b>\$'000</b>	<b>\$'000</b>
<b>Current</b>			
Other debtors		151	127
Parent entity debtor - unsecured	14	3,740	3,081
<b>Total Current Trade and Other Receivables</b>	11	<u><u>3,891</u></u>	<u><u>3,208</u></u>

COUNTRY ENERGY GAS PTY LIMITED A.C.N. 083 199 839

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2010

Note 5 Property, Plant & Equipment

	2010	2009
Note	\$'000	\$'000
<b>System Assets</b>		
<b>Opening carrying value</b>		
At fair value	112,892	107,520
Accumulated depreciation	<u>(22,576)</u>	<u>(19,484)</u>
<b>Net opening carrying value</b>	<u><b>90,316</b></u>	<u><b>88,036</b></u>
<b>Movements</b>		
Additions	3,722	5,372
Depreciation expense	<u>(3,408)</u>	<u>(3,092)</u>
<b>Net movements</b>	<u>314</u>	<u>2,280</u>
<b>Closing carrying value</b>		
At fair value	116,614	112,892
Accumulated depreciation	<u>(25,984)</u>	<u>(22,576)</u>
<b>Net closing carrying value</b>	<u><b>90,630</b></u>	<u><b>90,316</b></u>
1.10		

**COUNTRY ENERGY GAS PTY LIMITED A.C.N. 083 199 839**

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 30 June 2010

**Note 6 Intangible Assets**

		2010	2009
	Note	\$'000	\$'000
<b>Natural Gas Distribution Licence</b>			
<b>Opening carrying value</b>			
At cost		14,188	14,188
Accumulated amortisation		<u>(8,513)</u>	<u>(7,095)</u>
		<u><b>5,675</b></u>	<u><b>7,093</b></u>
<b>Movements</b>			
Amortisation expense		(1,419)	(1,418)
<b>Closing carrying value</b>			
At cost		14,188	14,188
Accumulated amortisation		<u>(9,932)</u>	<u>(8,513)</u>
<b>Net closing carrying value</b>	1.11.1	<u><u><b>4,256</b></u></u>	<u><u><b>5,675</b></u></u>
<b>Goodwill at closing carrying amount</b>	1.11.2	<u><u><b>3,643</b></u></u>	<u><u><b>3,643</b></u></u>
<b>Total Intangibles</b>		<u><u><b>7,899</b></u></u>	<u><u><b>9,318</b></u></u>

COUNTRY ENERGY GAS PTY LIMITED A.C.N. 083 199 839

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2010

Note 7 Deferred Taxes

	Note	Balance Sheet		Statement of Comprehensive Income	
		2010	2009	2010	2009
		\$'000	\$'000	\$'000	\$'000
<b>Deferred Tax Assets</b>					
Expense accruals		-	171	171	212
Tax Only Asset		68	-	(68)	-
<b>Total deferred income tax asset</b>		<b>68</b>	<b>171</b>		
<b>Deferred Tax Liabilities</b>					
Depreciation		2,658	2,691	(33)	9
<b>Total deferred income tax liability</b>		<b>2,658</b>	<b>2,691</b>		
<b>Deferred tax income/(expense)</b>	3			<b>70</b>	<b>221</b>

**COUNTRY ENERGY GAS PTY LIMITED A.C.N. 083 199 839**

**NOTES TO THE FINANCIAL STATEMENTS**

**For the year ended 30 June 2010**

**Note 8 Trade and Other Payables**

		<b>2010</b>	<b>2009</b>
	<b>Note</b>	<b>\$'000</b>	<b>\$'000</b>
<b>Current</b>			
Accrued expenses		211	1,332
<b>Total Current trade and Other Payables</b>	<b>1.12.1 &amp; 11</b>	<b><u>211</u></b>	<b><u>1,332</u></b>



**COUNTRY ENERGY GAS PTY LIMITED A.C.N. 083 199 839**

**NOTES TO THE FINANCIAL STATEMENTS**

**For the year ended 30 June 2010**

**Note 9 Other Financial Liabilities**

		<b>2010</b>	<b>2009</b>
	<b>Note</b>	<b>\$'000</b>	<b>\$'000</b>
<b>Current</b>			
Unearned revenue	1.12.2	178	356
Loan from parent entity	1.12.3 & 14	56,457	56,457
<b>Total Current Other Financial Liabilities</b>		<u><u><b>56,635</b></u></u>	<u><u><b>56,813</b></u></u>
<b>Non-Current</b>			
Unearned revenue	1.12.2	-	178
<b>Total Non-Current Other Financial Liabilities</b>		<u><u><b>-</b></u></u>	<u><u><b>178</b></u></u>

The entity's exposure to liquidity risk related to other liabilities is disclosed in note 11.

**COUNTRY ENERGY GAS PTY LIMITED A.C.N. 083 199 839**

**NOTES TO THE FINANCIAL STATEMENTS**

**For the year ended 30 June 2010**

**Note 10 Cash Flow Disclosures**

**(a) Cash**

The economic entity's cash receipts and cash payments were deposited and withdrawn respectively from the loan account with the parent entity.

**(b) Financing facilities**

There were no financing facilities available as at 30 June 2010 (Nil in 2009).

**(c) Reconciliation of operating profit after income tax expense to cash provided by operating activities**

	<b>2010</b>	<b>2009</b>
	<b>\$'000</b>	<b>\$'000</b>
	<b>Inflows/ (Outflows)</b>	<b>Inflows/ (Outflows)</b>
<b>Profit from ordinary activities after income tax expense</b>	985	2,934
Add/(less) non-cash items recognised in expenses/revenue		
Depreciation	3,408	3,092
Amortisation	1,419	1,418
Changes in assets and liabilities		
Increase/(Decrease) in current liabilities	(1,297)	(2)
(Increase)/Decrease in current assets	(683)	(1,935)
Increase/(Decrease) in non-current liabilities	(178)	(356)
(Increase)/Decrease in tax assets and (tax liabilities)	70	221
<b>Net cash provided by operating activities</b>	<b><u>3,724</u></b>	<b><u>5,372</u></b>

**COUNTRY ENERGY GAS PTY LIMITED A.C.N. 083 199 839**

**NOTES TO THE FINANCIAL STATEMENTS**

**For the year ended 30 June 2010**

**Note 11 Financial Instruments**

The entity's principal financial instrument is a loan from its parent entity. It has other immaterial financial instruments including receivables, payables and other financial liabilities.

The data disclosed is based on AIFRS accounting policies.

Accounting policies in relation to financial instruments including the basis of recognition and measurement have not materially changed from last year.

The entity's financial instrument categories at the reporting date were:

Financial Assets	Category	Note	Carrying Amount	
			2010 \$'000	2009 \$'000
Receivables	Loans and receivables (at amortised cost)	4	3,891	3,208
<b>Total Financial Assets</b>			<u>3,891</u>	<u>3,208</u>
Financial Liabilities	Category	Note	Carrying Amount	
			2010 \$'000	2009 \$'000
Payables	Financial liabilities measured at amortised cost	8	211	1,332
Related entity	Financial liabilities measured at amortised cost	9	56,457	56,457
Other Financial Liabilities	Financial liabilities measured at amortised cost	9	178	534
<b>Total Financial Liabilities</b>			<u>56,846</u>	<u>58,323</u>

Financial assets and financial liabilities are disclosed at cost or amortised cost. These values approximate the fair value of those assets and liabilities.

**(a) Credit Risk**

Credit risk represents the loss that would be recognised if counterparties failed to meet their financial obligations.

The carrying amount of the entity's financial assets represent the maximum credit exposure.

There are no material past due financial assets. The company believes there is no material impairment allowance necessary in respect of its financial assets.

**(b) Liquidity Risk**

Liquidity risk is the risk that the company will be unable to meet its payment obligations when they fall due.

The entity is not subject to any material liquidity risk as the only material lender will not demand payment if it would place in jeopardy the solvency of the entity (refer note 1.12.3).

All material financial liabilities are either due within twelve months or are on demand.

**(c) Market Risk**

Market risk relates to the effect that changes in market prices, such as interest rates and commodity prices would have on the entity's income and the value of its portfolio.

**- Interest Rate Risk**

The entity is not subject to interest rate risk because its financial instruments are primarily financial liabilities relating to non-interest bearing transactions with the parent entity.

**- Price Risk**

The entity operates a gas networks business of which its pricing risk relates to the network transport charge.

For the regulated network base, the price path is set by an independent regulator every five years under an Access Arrangement.

For the unregulated network base the price is approved by the parent entity Board. Prices are set consistent with the processes used for the regulated network. The unregulated network price setting can be returned to a regulated environment in the event of a successful application by a stakeholder to the National Competition Council if they consider terms and conditions of the Transportation Agreement are unreasonable.

**(d) Capital Management**

The entity is wholly owned by Country Energy and is consolidated within the Country Energy Group. Capital is managed at a Country Energy consolidated group level.

**COUNTRY ENERGY GAS PTY LIMITED A.C.N. 083 199 839**

**NOTES TO THE FINANCIAL STATEMENTS**

**For the year ended 30 June 2010**

**Note 12 Commitments**

	<b>2010</b>	<b>2009</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Capital expenditure commitments</b>		
Estimated capital expenditure contracted for at balance date but not provided for:		
- not later than one year	-	-
	<u>-</u>	<u>-</u>
	<u>-</u>	<u>-</u>
Capital expenditure commitments include input tax credits	<u>-</u>	<u>-</u>
<b>Operating expenditure commitments excluding leases</b>		
Estimated operating expenditure contracted for at balance date but not provided for:		
- payable not later than one year	275	298
- later than one year and not later than five years	1,375	1,375
- later than five years	825	1,100
	<u>2,475</u>	<u>2,773</u>
	<u>2,475</u>	<u>2,773</u>
Operating expenditure commitments include input tax credits	<u>225</u>	<u>252</u>

**COUNTRY ENERGY GAS PTY LIMITED A.C.N. 083 199 839**

**NOTES TO THE FINANCIAL STATEMENTS**

**For the year ended 30 June 2010**

**Note 13 Auditor's Remuneration**

	<b>2010</b>	<b>2009</b>
	<b>\$'000</b>	<b>\$'000</b>
Remuneration received, or due and receivable, by the auditor of the economic entity for an audit or review of the financial statements.	20	19
	<u>20</u>	<u>19</u>

**COUNTRY ENERGY GAS PTY LIMITED A.C.N. 083 199 839**

**NOTES TO THE FINANCIAL STATEMENTS**

**For the year ended 30 June 2010**

**Note 14 Related Parties**

**Directors**

The names of persons holding the position of Director of Country Energy Gas Pty Ltd during the financial year are:  
Barbara Ward, Chairman  
Craig Murray, Managing Director  
Ken Stonestreet  
Terri Benson, Acting Managing Director (appointed 7 June 2010)

**Key Management Personnel**

The Directors carry out their responsibilities on behalf of the parent. Compensation is remunerated by the parent. The Company does not employ staff.

**Transactions and outstanding balances between Country Energy Gas Pty Limited and Country Energy**

The parent administers the Company's business operations. This includes recording and receiving sales revenue. The parent also operates, maintains and constructs the gas assets and pays the Company's expenses.

**Country Energy Gas Pty Limited Sales**

Sales for the year that were passed through the intercompany account were \$10.089 million (\$11.590 million in 2009) and \$8.940 million (\$10.349 million in 2009) of these were to the parent.

**Country Energy Gas Pty Limited administrative, operating and asset maintenance costs**

Transactions recorded for administration, operating and maintenance costs were \$6.365 million (\$6.218 million in 2009).

**Country Energy Gas Pty Limited asset construction.**

Transactions recorded for asset construction were \$3.724 million (\$5.372 million in 2009).

**Country Energy Gas Pty Limited income tax**

The Company is a member of a tax consolidated group (refer note 1.13). The Company's tax balances were recorded in the intercompany account. These were \$0.960 million during the period (\$1.644 million in 2009).

**Balances outstanding with the parent**

The outstanding balance between the Company and the parent is \$3.740 million (\$3.081 million in 2009). This is disclosed in note 4 with the parent being a debtor to the Company. The major components of the balance are tax balances (\$3.684 million) ((\$2.724 million) in 2009), sales, administration, operating, maintenance and construction costs \$7.424 million (\$5.805 million in 2009). This Company's receivable is unsecured.

There is a further balance of \$56.457 million (\$56.457 million in 2009) between the Company and the parent being the loan disclosed in note 9.

**COUNTRY ENERGY GAS PTY LIMITED A.C.N. 083 199 839**

**NOTES TO THE FINANCIAL STATEMENTS**

**For the year ended 30 June 2010**

**Note 15 Contingent Liabilities**

There are no known contingent liabilities that would impact on the state of affairs of the economic entity or have a material effect on these financial statements.



**COUNTRY ENERGY GAS PTY LIMITED A.C.N. 083 199 839**

**NOTES TO THE FINANCIAL STATEMENTS**

**For the year ended 30 June 2010**

**Note 16 Events Subsequent to Balance Date**

The financial report of Country Energy Gas Pty Limited for the year ended 30 June 2010 was authorised for issue in accordance with a resolution of the Directors on 23 September 2010.

On 26 February 2010, the Parent Entity announced its intention to sell its gas network operations in southern NSW to the private sector. The sale has not concluded at 30 June 2010.

There are no other known events that would impact on the state of affairs of the economic entity or have a material effect on these financial statements.

**END OF AUDITED FINANCIAL STATEMENTS**