GDI (EII) Pty Limited

ABN 96 154 766 524

Annual Financial Report

For the period ending

30 June 2012

GDI (EII) Pty Limited and its controlled entities
Annual financial report
For the period ending 30 June 2012

GDI (EII) Pty Limited and its controlled entities

Directors' report

For the period ending 30 June 2012

The directors of GDI (EII) Pty Limited ("Company") present their report and the financial statements as at and for the period ended 30 June 2012 ("current period"). The financial report comprises the Company and its controlled entities (together "Group").

The Company was incorporated on 13 December 2011.

DIRECTORS

The directors of the Company at any time during or since the end of the current period are:

Mr P J Fredricson
Chairman (Appointed director 13 December 2011)
Mr R M Gersbach
Director (Appointed director 13 December 2011. Resigned as director 25 May 2012)
Alternate Director (Appointed 25 May 2012)
Mr R W Hedley
Director (Appointed 13 December 2011)
Mr M Kawata
Director (Appointed 13 December 2011. Resigned 23 February 2012)
Mr Y Noborisaka
Director (Appointed 13 December 2011)
Mr Y Onishi
Director (Appointed 23 February 2012)
Mr R S Pearce
Director (Appointed 25 May 2012)
Mr M C Robinson
Director (Appointed 13 December 2011)

COMPANY SECRETARY

Mr M T Knapman
Secretary (Appointed 13 December 2011)

PRINCIPAL ACTIVITIES

The principal activity of the Group during the current period was the ownership of gas distribution assets in South East Queensland. The company was incorporated on 13 December 2011 and acquired the gas distribution assets on 16 December 2011, consequently the report and financial statements cover the period from 13 December 2011 to 30 June 2012.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

The Company was established on 13 December 2011 and purchased the gas distribution assets on 16 December 2011. The gas distribution assets have been utilised in a consistent manner throughout the period.

DIVIDENDS

A dividend for the quarter ended 30 June 2012 of $1.4 million on Redeemable Preference Shares was declared on 31 August 2012.

A final dividend on ordinary shares has not yet been declared at the time of signing this financial report.

FINANCIAL AND OPERATIONAL REVIEW

The Group's consolidated net loss after tax for the current period was $0.3 million. The loss is due to the transaction costs incurred ($3.2 million after tax) to establish the Group.

- Revenue for the period of $35.3 million incorporates the outcome of the successful appeal to the Australian Competition Tribunal (ACT) of the adjustment of the Debt Risk Premium (DRP).

REGULATORY MATTERS

The terms and conditions of access for users and prospective users of the gas distribution network for the period 1 July 2011 to 30 June 2016 is set out in the access arrangement which is regulated by the Australian Energy Regulatory (AER) and outlines the forecast operating and capital expenditure for the period. The AER's initial approach in respect of some key elements of the weighted average cost of capital was not agreeable and a merits review was sought to the ACT in respect of the DRP. The appeal was successful and an adjustment was made to the DRP which has resulted in an increase in tariffs.

ENVIRONMENTAL REGULATIONS

The Allgas Energy Pty Limited distribution network assets, operated and maintained by the APA Group are designed, constructed, tested, operated and maintained in accordance with the requirements of Australian Standards AS2885 and AS4645 as an integral part of the networks. As such they are operated in compliance with relevant federal, state and territory environmental legislation and Australian standards.

The Queensland Petroleum and Gas (Production and Safety) Act and Regulations 2004 also require compliance with the Australian Standards AS2885 "Pipelines - Gas and Liquid Petroleum", which have specific requirements for the management of environmental matters associated with all aspects of high pressure pipelines, and AS4645 "Gas Distribution Networks" which include issues associated with environmental management for the entire Allgas Energy Pty Limited distribution networks.

A networks environmental management plan which satisfies Part A of the Australian Pipeline Industry Association Code of Environmental Practice is in place for all the gas assets operated and maintained by APA Group Queensland Networks.

The Safety and Operating Plans for the Allgas Energy Pty Limited distribution networks in Queensland are subject to auditing by the Queensland technical regulator to ensure they meet the requirements of the Queensland Petroleum and Gas (Production and Safety) Act and Regulations 2004. The Northern New South Wales Allgas Energy network Safety and Operating Plan is however subject to an annual audit by an external contractor on behalf of the New South Wales technical regulator.

The board reviews external audit reports and, on a monthly basis, the internal reports prepared relating to environmental issues. No breaches have been reported during the period and APA has managed the assets in accordance with the environmental management plans in place.

Impact of carbon policy

The Australian Energy Regulator (AER) has approved Allgas Energy's application to commence recovering carbon costs effective from 1 July 2012 through to the end of the current regulatory period. Its decision allows an increase in the reference tariffs to recover the estimated carbon cost in each year.

GDI (EII) Pty Limited and its controlled entities
Directors' report (continued)

For the period ending 30 June 2012

SUBSEQUENT EVENTS

On 4 July 2012 Allgas Pipelines Operations 1 Pty Limited exercised its option to acquire the shares of APT Allgas Pipeline Operations Pty Limited. Following satisfaction of the conditions precedent (primarily Ministerial approval under the Pipeline Licence), the transfer of the shares will take effect.

On 31 August 2012 the board declared a dividend of $1.4 million for the Redeemable Preference Shares dividend for the quarter ending 30 June 2012. The proposed dividend wholly relates to dividends on the Redeemable Preference Shares.

A final dividend on Ordinary Shares has not been declared at the time of signing this finacial report.

Except as disclosed above and elsewhere in this report, the directors are unaware of any matter or circumstance occuring since the end of the current period that has significantly affected or may significantly affect the operations of the Group, the results of those operations or the state of affairs of the Group in future reporting periods.

FUTURE DEVELOPMENTS

Disclosure of information regarding likely developments in the operations of the Group in future periods and the expected results of those operations, other than information disclosed elsewhere in this report, is likely to result in unreasonable prejudice to the Group. Accordingly, this information has not been disclosed in this report.

OPTIONS GRANTED

No options over unissued shares or interests were granted during or since the end of the current period.

There were no options outstanding as at the date of this report.

No shares were issued during or since the end of the current period as a result of the exercise of an option over unissued shares.

INDEMNIFICATION OF OFFICERS AND EXTERNAL AUDITOR

During the current period, the Company paid a premium in respect of a contract insuring the directors of the Company, the company secretary and all executive officers of the Company and any related body corporate of the Company against any liability incurred in performing those roles to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

The Company indemnifies each person who is or has been a director or company secretary of the Company, or of any subsidiary of the Company, pursuant to a deed of indemnity entered into during the current period. The indemnity operates to the full extent allowed by law, but only to the extent not covered by insurance, and is on terms the board considers usual for arrangements of this type.

Under its constitution, the Company indemnifies each person who is or has been a director, company secretary or executive officer of that company. The indemnity operates to the full extent allowed by law, but only to the extent not covered by insurance.

The Company has not otherwise, during or since the end of the current period, indemnified or agreed to indemnify an officer or auditor of the Company or of any related body corporate of the Company against a liability incurred as such an officer or auditor.

AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 23.

ROUNDING OFF OF AMOUNTS

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, amounts in the directors' report and financial statements are rounded off to the nearest thousand dollars, unless otherwise stated.

The directors' report is signed in accordance with a resolution of the directors made pursuant to section 298(2) of the Corporations Act 2001.

On behalf of the Directors

PJ Fredricson
Chairman

Sydney, 31 August 2012

GDI (EII) Pty Limited and its controlled entities

Statement of comprehensive income

For the period ending 30 June 2012

	Note	Consolidated 13 December 2011 to 30 June 2012	Parent 13 December 2011 to 30 June 2012
		$000	$000
Revenue	5	35,376	14,876
		35,376	14,876
Asset operation and management expenses		(15,387)	(138)
Depreciation and amortisation expense	6	(5,191)	-
Finance costs	6	(14,526)	(14,526)
Other expenses	6	(738)	(139)
Profit/(loss) before tax		(466)	73
Income tax benefit/(expense)		140	(22)
Profit/(loss) for the period		(326)	51
Other comprehensive income			
Loss on cash flow hedges taken to equity		(11,552)	(11,552)
Income tax relating to components of other comprehensive income		3,465	3,465
Total other comprehensive loss		(8,087)	(8,087)
Total comprehensive loss for the period		(8,413)	(8,036)

The above statements of comprehensive income should be read in conjunction with the accompanying notes

GDI (EII) Pty Limited and its controlled entities
Statement of financial position
As at 30 June 2012

	Note	Consolidated 2012 $000	Parent 2012 $000
Current assets			
Cash and bank balances	7	7,567	7,567
Trade and other receivables		19,932	-
Total current assets		27,499	7,567
Non-current assets			
Other financial assets	8	-	544,916
Property, plant and equipment		455,887	-
Deferred tax assets		3,369	7,152
Goodwill		79,692	-
Total non-current assets		538,948	552,068
Total assets		566,447	559,635
Current liabilities			
Trade and other payables		5,143	807
Other financial liabilities	9	4,729	4,729
Deferred revenue		2,853	-
Total current liabilities		12,725	5,536
Non-current liabilities			
Borrowings		314,167	314,167
Other financial liabilities	9	60,335	60,335
Total non-current liabilities		374,502	374,502
Total liabilities		387,227	380,038
Net assets		179,220	179,597
Equity			
Issued capital	10	195,100	195,100
Reserves	11	(8,087)	(8,087)
Retained earnings		(7,793)	(7,416)
Total equity attributable to shareholders		179,220	179,597

The above statements of financial position should be read in conjunction with the accompanying notes

GDI (EII) Pty Limited and its controlled entities
Statement of changes in equity
For the period ending 30 June 2012

Consolidated	Attributable to shareholders				
	Share capital $000	Hedging reserves $000	General reserves $000	Retained earnings $000	Total $000
Balance at 13 December 2011	-	-	-	-	-
Profit/(loss) for the year	-	-	-	(326)	(326)
Other comprehensive loss	-	(8,087)	-	-	(8,087)
Total comprehensive loss	-	(8,087)	-	(326)	(8,413)
Issue of Ordinary Share Capital	195,100	-	-	-	195,100
Dividends paid or provided for	-	-	-	(7,467)	(7,467)
Balance at 30 June 2012	195,100	(8,087)	-	(7,793)	179,220

Parent	Attributable to shareholders				
	Share capital $000	Hedging reserves $000	General reserves $000	Retained earnings $000	Total $000
Balance at 13 December 2011	-	-	-	-	-
Profit/(loss) for the year	-	-	-	51	51
Other comprehensive (loss)/income	-	(8,087)	-	-	(8,087)
Total comprehensive (loss)/income for the period	-	(8,087)	-	51	(8,036)
Issue of Ordinary Share Capital	195,100	-	-	-	195,100
Dividends paid or provided for	-	-	-	(7,467)	(7,467)
Balance at 30 June 2012	195,100	(8,087)	-	(7,416)	179,597

The above statements of changes in equity should be read in conjunction with the accompanying notes

GDI (EII) Pty Limited and its controlled entities
Statement of cash flows
For the period ending 30 June 2012

	Note	Consolidated 2012 $000	Parent 2012 $000
Cash flows from operating activities			
Receipts from customers		41,780	-
Payments to suppliers		(12,765)	(62)
Interest received		358	358
Interest and other costs of finance paid		(11,705)	(11,705)
Net cash (used in)/provided by operating activities	7	17,668	(11,409)
Cash flows from investing activities			
Payments for controlled entities		(552,457)	(195,100)
Payments for property, plant and equipment		(10,739)	-
Proceeds from disposal of property, plant and equipment		13	-
Net cash (used in)/provided by investing activities		(563,183)	(195,100)
Cash flows from financing activities			
Proceeds from issue of ordinary shares		195,100	195,100
Loans from controlled entities		-	14,518
Loans to controlled entities		-	(353,524)
Payment for debt issue costs		(4,643)	(4,643)
Proceeds from borrowings		370,592	370,592
Repayment of borrowings		(500)	(500)
Dividends paid		(7,467)	(7,467)
Net cash (used in)/provided by financing activities		553,082	214,076
Net increase/(decrease) in cash and cash equivalents		7,567	7,567
Cash and cash equivalents at beginning of period		-	-
Cash and cash equivalents at end of period	7	7,567	7,567

The above statements of cash flows should be read in conjunction with the accompanying notes

1. General information

GDI (EII) Pty Limited is a proprietary company incorporated on 13 December 2011, in Australia.

The financial statements incorporate the assets and liabilities of all entities in the Group as at 30 June 2012 and the results of all such entities for the current period from the purchase of the gas distribution assets on 16 December 2011.

The address of the Company's registered office and principal place of business is:
HSBC Building
Level 19, 580 George Street
Sydney NSW 2000

The entity's principal activity is the ownership of gas distribution assets in South East Queensland.

2. Adoption of new and revised Accounting Standards

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 July 2012, and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the Company, except for AASB 9 Financial Instruments, which becomes mandatory for the Company's 2014 financial statements and could change the classification and measurement of financial assets. The Company does not plan to adopt this standard early and the extent of the impact has not been determined.

3. Significant accounting policies

Financial reporting framework

The Company is not a reporting entity because in the opinion of the directors there are unlikely to exist users of the financial report who are unable to command the preparation of reports tailored so as to satisfy specifically all of their information needs. Accordingly, these special purpose financial statements have been prepared to satisfy the directors' reporting requirements under the Corporations Act 2001.

For the purpose of preparing the financial statements, the Company is a for-profit entity.

Statement of compliance

The financial statements have been prepared in accordance with the recognition, measurement and classification aspects of all applicable Australian Accounting Standards ("AASBs") adopted by the Australian Accounting Standards Board ("AASB"). It does not include disclosure requirements of all the AASBs, except for the following minimum requirements listed below:

- AASB 101 Presentation of Financial Statements;
- AASB 107 Statement of Cash Flows;
- AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors;
- AASB 1031 Materiality;
- AASB 1048 Interpretation of Standards; and
- AASB 1054 Australian Additional Disclosures.

3. Significant accounting policies (continued)

Basis of preparation

The financial statements have been prepared on the basis of historical cost, except for the revaluation of certain non-current assets and financial instruments. Cost is based on the fair values of the consideration given in exchange for assets. These financial statements are presented in Australian dollars, which is the Company's functional currency and the functional currency of the Group. The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, all financial information presented in Australian dollars has been rounded to the nearest thousand dollars, unless otherwise stated.

The following significant accounting policies have been adopted in the preparation and presentation of the annual financial report:

(a) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its controlled entities, referred to as the "Group". Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of controlled entities acquired during the period are included in the consolidated statement of comprehensive income from the effective date of acquisition.

Where necessary, adjustments are made to the financial statements of controlled entities to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

(b) Financial instruments

(i) Non-derivative financial instruments

Non derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings and trade and other payables.

Non derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition non derivative financial instruments are measured as described below.

Trade and other receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'trade and other receivables'. Trade and other receivables are stated at their amortised cost less impairment.

Trade and other payables

Trade and other payables are recognised when the Company becomes obliged to make future payments resulting from the purchase of goods and services. Trade and other payables are stated at amortised cost.

3. Significant accounting policies (continued)

(b) Financial instruments (continued)

(ii) Debt and equity instruments

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects. Dividends on ordinary shares are recognised as a liability in the period in which they are declared.

Redeemable preference shares

Redeemable preference shares are classified as a financial liability and measured at amortised cost using the effective interest method. Dividends on redeemable preference shares are recognised as a liability in the period in which they are declared.

(c) Cash and cash equivalents

Cash compromises cash on hand and call deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash which are subject to insignificant risk of changes in values.

(d) Borrowings

Borrowings are recorded initially at fair value, net of transaction costs. Subsequent to initial recognition, borrowings are measured at amortised cost with any difference between the initial recognised amount and the redemption value being recognised in the statement of comprehensive income over the period of the borrowing using the effective interest method.

(e) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(f) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Cost also may include transfers from equity of any gain or loss on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised net within "other income" or "other expenses" in the statement of comprehensive income.

3. Significant accounting policies (continued)

(f) Property, plant and equipment (continued)

(ii) Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day to day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

Depreciation is recognised so as to write off the cost or valuation of assets (other than freehold land and properties under construction) less their residual values over their useful lives, using the straight-line method. Land is not depreciated.

The following estimated useful lives are used in the calculation of depreciation:

Land and buildings	
• Buildings	40 years
Plant and equipment	
• Mains	70 to 105 years
• Regulators	60 years
• Services	70 years
• Meters	25 years
• Other plant and equipment	3 to 40 years

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimated accounted for on a prospective basis.

(g) Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at the fair value which calculated as the sum of the acquisition-date fair values of assets transferred, liabilities incurred and the equity instruments issued by the Company in exchange for control of the acquire. Acquisition-related costs are recognised in the profit and loss as incurred.

The acquirer's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under AASB 3 "Business Combinations" are recognised at their fair values at the acquisition date.

(h) Derivative financial instruments

The Company enters into a variety of derivative financial instruments to manage its exposure to interest rates.

Derivatives are initially recognised at fair value at the date a derivatives contract is entered into and are subsequently remeasured to their fair value at each reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship. The Group designates certain derivatives as hedges of highly probable forecast transactions (cash flow hedges).

The fair value of hedging derivatives is classified as a non-current asset or a non-current liability if the remaining maturity of the hedge relationship is more than 12 months and as a current asset or a current liability if the remaining maturity of the hedge relationship is less than 12 months.

3. Significant accounting policies (continued)

(h) Derivative financial instruments (continued)

Any derivative not designated into an effective hedge relationship is recognised in finance costs in the period to which it relates.

Hedge accounting

The Company designates certain hedging instruments, which include derivatives, as either fair value hedges or cash flow hedges.

At the inception of the hedge relationship, the Company documents the relationship between the hedging instrument and hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Company documents whether the hedging instrument that is used in the hedging relationship is highly effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk.

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated under the heading cash flow hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss as part of finance income or expenses.

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item is recognised in profit and loss, in the same line of the statement of comprehensive income as the recognised hedged item. However, when the hedged forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognised in the other comprehensive income and accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability.

Hedge accounting is discontinued when the Company revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. Any gain or loss recognised in other comprehensive income and accumulated in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in profit or loss.

(i) 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.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in profit or loss. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised.

3. Significant accounting policies (continued)

(i) Impairment (continued)

Non-financial assets

The carrying amounts of the Company's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

An impairment loss is recognised if the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognised in profit or loss.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(j) Revenue

Sales revenue

Sales revenue represents revenue earned for the distribution of gas and other related services and is recognised when the services are provided.

(k) Finance income and expenses

Finance income comprises interest income on funds invested and gains on hedging instruments that are recognised in profit or loss. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

Finance expenses comprise interest expense on borrowings and Redeemable Preference Shares, unwinding of the discount on provisions, impairment losses recognised on financial assets, and losses on hedging instruments that are recognised in profit or loss. All borrowing costs are recognised in profit or loss using the effective interest method.

(l) Income tax

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case the current and deferred tax are also recognised in other comprehensive income or directly in equity, respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

The company's liabilities for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period. Adjustments are made for transactions and events occurring within the tax-consolidated group that do not give rise to a tax consequence for the Group or that have a different tax consequence at the level of the Group.

3. Significant accounting policies (continued)

(l) Income tax (continued)

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities for financial statement and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Adjustments are made for transactions and events occuring within the tax-consolidated group that do not give rise to a tax consequence for the group or that have a different tax consequence at the level of the Group.

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

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same tax authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Deferred tax asset are generally recognised for all deductible temporary difference to the extent that is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither taxable profit nor the accounting profit.

Tax consolidation

The Company is the head entity of a tax consolidated group comprising the Company and its wholly owned Australian resident entities. The implementation date of the tax consolidation system for the tax-consolidated group was 16 December 2011.

The consolidated current and deferred tax amounts, for the tax-consolidated group are allocated to the members of the tax-consolidated group using the 'separate taxpayer within group' approach, with deferred taxes being allocated by reference to the carrying amounts in the financial statements of member entity and the tax values applying under tax consolidation.

Current tax liabilities and assets and deferred tax assets arising from unused tax losses and relevant tax credits arising from this allocation process are then accounted for as immediately assumed by the head entity, as under Australian taxation law the head entity has the legal obligation (or right) to these amounts.

Nature of tax funding arrangement and tax sharing agreements

The Company, in conjunction with other members of the tax-consolidated group, will be entering into a tax funding arrangement which will set out the funding obligations of members of the tax-consolidated group in respect of tax amounts. The tax funding arrangements will require payments to or from the head entity equal to the current tax liability or asset assumed by the head entity and any tax-loss deferred tax assets assumed by the head entity, resulting in the Company recognising an inter-entity payable (receivable), is at call.

The tax sharing agreement that will be entered into between members of the tax-consolidated group will provide for the determination of the allocation of the income tax liabilities between the entities should the head entity default on its tax payment obligations or if an entity should leave the tax-consolidated group. The effect of the tax sharing agreement will be that the Company's liability for tax payable by the tax-consolidated group is limited to the amount payable to the head entity under the tax funding arrangement.

3. Significant accounting policies (continued)

(m) Goods and services tax

Revenue, 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. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the taxation authority is included as part of the receivable or payables.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the taxation authority are classified as operating cash flows.

(n) Going concern

The financial statements are prepared on a going concern basis. The directors continually monitor the Group's working capital position, including forecast working capital requirements and believe operating cash flows are appropriate to accommodate debt repayments as and when they fall due.

4. Critical accounting judgements and key sources of estimation uncertainty

The following are the critical judgements (apart from those involving estimations, which are dealt with below) that management has made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognised in the financial statements:

Accounting for acquisitions

Assets acquired are recorded at the cost of acquisition, being the purchase consideration transferred as at the date of acquisition with transaction costs expensed through the income statement. Cost is allocated to individual identifiable assets and liabilities. Management makes a number of judgements in allocating cost, particularly in relation to the fair value of property, plant & equipment on the date of acquisition, including assumptions relating to potential contract renewals and associated useful life.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Impairment of assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of the return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the financial asset's original effective interest rate.

Useful lives of non-current assets

The Company reviews the estimated useful lives of property, plant and equipment at the end of each reporting period. Any reassessment of useful lives in a particular year will effect the depreciation or amortisation expense.

GDI (EII) Pty Limited and its controlled entities
Notes to the financial statements (continued)
For the period ending 30 June 2012

5. Revenue

	Consolidated 2012 $000	Parent 2012 $000
An analysis of the Group's revenue for the period is as follows:		
Operating revenue		
Gas distribution revenue	32,753	-
Other operating revenue	2,265	-
	35,018	-
Finance Income		
Interest income	358	14,876
	35,376	14,876

6. Expenses

Profit/(loss) before tax includes the following expenses:

	Consolidated 2012 $000	Parent 2012 $000
Depreciation expense		
Depreciation of non-current assets	5,191	-
Finance costs		
Interest expense	13,582	13,582
Amortisation of deferred borrowing costs	718	718
Borrowing costs	226	226
	14,526	14,526
Other expenses		
Loss on disposal of property, plant and equipment	598	-
Professional fees	140	139
	738	139

GDI (EII) Pty Limited and its controlled entities
Notes to the financial statements (continued)
For the period ending 30 June 2012

7. Cash and cash equivalents

	Consolidated 2012 $000	Parent 2012 $000
(a) Reconciliation of cash and cash equivalents		
Cash at the end of the financial period as shown in the statement of cash flows is reconciled to items in the statement of financial position as follows:		
Cash and cash equivalents	7,567	7,567
(b) Reconciliation of profit for the period to the net cash provided by operating activities		
Profit/(loss) for the period	(326)	51
Depreciation expense	5,191	-
Transaction Costs -Non-Operating cash flow	4,557	-
Amortisation of deferred borrowing costs	718	718
Loss on disposal of property, plant and equipment	598	-
Interentity interest	-	(14,518)
Income tax (benefit)/expense	(140)	22
Changes in assets and liabilities:		
Trade and other receivables	1,366	-
Trade and other payables	1,847	892
Other Financial liabilities	2,090	1,426
Deferred Revenue	1,767	-
Net cash provided by operating activities	17,668	(11,409)

8. Other financial assets

Non-current assets		
Investments carried at cost:		
Investments in controlled entities	-	195,100
Loans to related parties	-	349,816
	-	544,916

9. Other financial liabilities

	Consolidated	Parent
	2012	2012
	$000	$000
Current liabilities		
Derivatives - at fair value:		
Interest rates swaps - cash flow hedges	3,303	3,303
Redeemable preference shares - interest accrued	1,426	1,426
	4,729	4,729
Non-current liabilities		
Derivatives - at fair value:		
Interest rate swaps - cash flow hedges	8,335	8,335
Redeemable preference shares	52,000	52,000
	60,335	**60,335**
	65,064	**65,064**

10. Issued capital

	Consolidated and Parent	
	2012	2012
	No. of shares	$
	000	$000
Capital		
Ordinary shares	**195,100**	**195,100**
	195,100	**195,100**

Movements:		
Opening balance - fully paid	-	-
Shares Issued	**195,100**	**195,100**
Closing balance - fully paid	**195,100**	**195,100**

The Company does not have a limited amount of authorised capital and issued shares do not have a par value.

Fully paid ordinary shares carry one vote per share and carry a right to dividend.

Redeemable cumulative preference shares

52,000,000 redeemable cumulative preference shares were issued by the company in the current period. The redeemable cumulative preference shares issued by the Company, currently accruing dividends at a rate of 11% of the Issue Price each financial year, have been classified as liabilities.

11. Reserves

	Consolidated 2012 $000	Parent 2012 $000
Reserves		
Hedging	(8,087)	(8,087)
	(8,087)	(8,087)

Hedging reserve		
Movements:		
Balance at beginning of financial period	-	-
Gain/(loss) recognised:		
Interest rate swaps	(11,552)	(11,552)
Deferred tax arising on hedges	3,465	3,465
Balance at end of financial period	(8,087)	(8,087)

The hedging reserve represents hedging gains and losses recognised on the effective portion of cash flow hedges. The cumulative deferred gain or loss on the hedge is recognised in the statement of comprehensive income when the hedged transaction impacts the statement of comprehensive income or is included as a basis adjustment to the non-financial hedge item, consistent with the applicable accounting policy.

12. Dividends on equity instruments

	Cents per share	Total amount $'000	Franked/ Unfranked	Date of payment
Declared and paid during the current year				
Fully Paid ordinary shares				
Interim - March 2012	0.04	7,467	Unfranked	31 May 12

A final dividend on ordinary shares has not yet been declared at the time of signing this financial report.

13. Subsidiaries

Name of Entity	Country of Registration	Ownership Interest 2012 %
Parent Entity		
GDI (EII) Pty Limited		
Subsidiaries		
Allgas Energy Pty Limited	Australia	100
Allgas Toowoomba Pty Limited	Australia	100
Allgas Pipelines Operations 1 Pty Limited	Australia	100

14. Acquisition of business

Name of business acquired	Principal Activity	Date of Acquisition	Proportion Acquired %	Cost of Acquisition $'000
During the period ended 30 June 2012				
Allgas Energy	Gas Distribution	16 December 2011	100	547,900

	Fair Value on acquisition $'000
Net Assets Acquired	
Current assets	
Trade and other receivables	21,297
Non-current assets	
Property, plant and equipment	449,499
Goodwill	79,692
Current liabilities	
Trade and other payables	(1,266)
Unearned revenue	(1,086)
Non-current liabilities	
Deferred tax liabilites	(236)
Fair value of net assets acquired	547,900
Transaction costs paid	4,557
Total cash outflow on acquisition	552,457

15. Auditors remuneration

	Consolidated 2012 $	Parent 2012 $
Amounts received or due and receivable for:		
- audit services	85,850	85,850
	85,850	85,850

16. Subsequent events

On the 4 July 2012 the Option Notice for Allgas Pipelines Operations 1 Pty Limited to exercise the right to acquire the shares of APT Allgas Pipeline Operations Pty Limited was signed. Following satisfaction of the precedent conditions (primarily Ministerial approval under the Pipeline Licence), the transfer of the shares will take effect.

On 30 August the Board approved the quarterly Redeemable Preference Share dividend for the quarter ended 30 June 2012 for $1.4 million.

GDI (EII) Pty Limited and its controlled entities
Directors' declaration

For the period ending 30 June 2012

In the opinion of the directors of GDI (EII) Pty Limited ("the Company"):

(a) the Company and the Group are not reporting entities;

(b) the financial statements and notes, set out on pages 5 to 21 are in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the financial position of the Company and the Group as at 30 June 2012 and of their performance, as represented by the results of their operations and their cash flows, for the current period ended on that date in accordance with the statement of compliance and basis of preparation described in Note 3; and

(ii) complying with Australian Accounting Standards, other mandatory professional reporting requirements to the extent described in Notes 1 through 3 and the Corporations Act 2001; and

(c) there are reasonable grounds to believe that the Company and Group will be able to pay their debts as and when they become due and payable.

Signed in accordance with a resolution of the directors made pursuant to section 295(5) of the Corporations Act 2001.

PJ Fredricson
Chairman

Sydney, 31 August 2012

Deloitte.

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The Directors
GDI (EII) Pty Limited
HSBC Building
Level 19, 580 George Street
Sydney NSW 2000

31 August 2012

Dear Board Members

GDI (EII) Pty Limited

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of GDI (EII) Pty Limited.

As lead audit partner for the audit of the financial statements of GDI (EII) Pty Limited for the financial period ended 30 June 2012, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

(ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Jason Thorne
Partner
Chartered Accountants

Deloitte.

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Independent Auditor's Report to the shareholders of GDI (EII) Pty Limited

We have audited the accompanying financial report, being a special purpose financial report, of GDI (EII) Pty Limited, which comprises the statement of financial position as at 30 June 2012, the statement of comprehensive income, the statement of cash flows and the statement of changes in equity for the period ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the company and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 5 to 22.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view and have determined that the basis of preparation described in Note 3 to the financial report is appropriate to meet the requirements of the *Corporations Act 2001* and is appropriate to meet the needs of the shareholders. The directors' responsibility also includes such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We have conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view, 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 entity's internal control. 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 report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Deloitte.

Auditor's Independence Declaration

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of GDI (EII) Pty Limited would be in the same terms if given to the directors as at the time of this auditor's report.

Opinion

In our opinion, the financial report of GDI (EII) Pty Limited is in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2012 and of their performance for the period ended on that date; and

(b) complying with Australian Accounting Standards to the extent described in Note 3, and the *Corporations Regulations 2001*.

Basis of Accounting

Without modifying our opinion, we draw attention to Note 3 to the financial report, which describes the basis of accounting. The financial report has been prepared for the purpose of fulfilling the directors' financial reporting responsibilities under the *Corporations Act 2001*. As a result, the financial report may not be suitable for another purpose.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Jason Thorne
Partner
Chartered Accountants
Sydney, 31 August 2012