

**Note 1 – Summary of significant accounting policies  
(continued)**

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the consolidated entity recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

**(g) Segment reporting**

An operating segment is a component of the consolidated entity that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses relating to transactions with other components of the consolidated entity. Operating segments are identified on the basis of internal reports about components of the consolidated entity that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance. The chief operating decision maker has been identified as the Board of Directors.

**(h) Investments in associates and jointly controlled entities**

Associates are those entities in which the consolidated entity has significant influence, but not control, over the financial and operating policies. Significant influence generally exists when the consolidated entity holds between 20% and 50% of the voting power of another entity. Jointly controlled entities are those entities over whose activities the consolidated entity has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions.

In the consolidated financial statements, investments in associates and jointly controlled entities are accounted for using the equity method, except when the investment is classified as held for sale, in which case it is accounted for in accordance with AASB 5 *Non-current Assets Held for Sale and Discontinued Operations*.

Under the equity method, investments in associates and jointly controlled entities are carried in the consolidated statement of financial position at cost as adjusted for post-acquisition changes in the consolidated entity's share of the net assets of the associates and jointly controlled entities, less any impairment in the value of individual investments.

The consolidated entity's share of its associates' and jointly controlled entities' post-acquisition profits or losses is recognised in the income statement and its share of post-acquisition movement in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment.

When the consolidated entity's share of losses in an associate or jointly controlled entity equals or exceeds its interest in that associate or jointly controlled entity, including any unsecured long-term receivables and loans, the consolidated entity does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate or the jointly controlled entity.

Any excess of the cost of acquisition over the consolidated entity's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate or jointly controlled entity recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of that investment.

Any excess of the consolidated entity's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

Unrealised gains on transactions between the consolidated entity and an associate or a jointly controlled entity are eliminated to the extent of the consolidated entity's interest in the associate or jointly controlled entity. Unrealised losses are also eliminated, but only to the extent that there is no evidence of an impairment.

**(i) Jointly controlled operations and assets**

The consolidated entity has certain contractual arrangements with other venturers to engage in joint venture activities that do not give rise to a jointly controlled entity. These arrangements involve the joint ownership of assets dedicated to the purposes of the joint venture. The assets are used to derive benefits for the venturers.

The interests of the consolidated entity in unincorporated joint ventures are brought to account by recognising in the financial statements under the appropriate categories, the consolidated entity's proportionate share of joint venture revenues, expenses, assets and liabilities.

**(j) Foreign currency**

**Functional and presentation currency**

The functional and presentation currency of AGL Energy Limited and its Australian subsidiaries is Australian dollars.

**Foreign currency transactions and balances**

Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the exchange rate ruling at the end of the reporting period.

Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the exchange rates ruling at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Foreign exchange differences arising on translation are recognised in the income statement in the period in which they arise except for exchange differences on transactions entered into in order to hedge certain foreign currency risks (refer to Note 1(ab)).

**Foreign operations**

On consolidation, the assets and liabilities of the consolidated entity's foreign operations are translated into Australian dollars at exchange rates ruling at the end of the reporting period. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising on translation are recognised directly in equity in the foreign currency translation reserve. Such exchange differences are reclassified to profit or loss in the period in which the foreign operation is disposed.

**(k) Cash and cash equivalents**

Cash and cash equivalents comprise cash at bank and on hand and short-term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

For the purposes of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.