Australian Gas Networks UK Limited
Company number 09053205

Annual Report and Financial Statements for the year ended 31 December 2015

Contents

Strategic Report

The Directors present their Strategic Report on Australian Gas Networks UK Limited and the entities it controlled (hereafter referred to as the "Group") for the financial year ended 31 December 2015.

Principal activities

Australian Gas Networks UK Limited controls, through its subsidiaries (refer note 25), the Australian Gas Networks Holdings Pty Limited Group (AGN Group), which operates in Australia.

The principal activity of Australian Gas Networks UK Limited is that of a holding company.

During the year the principal activities of the AGN Group consisted of:
(a) Provision of natural gas haulage services to retailers and industrial customers through the transmission pipelines and distribution networks it owns and manages; and
(b) Development of the business through expansion of the existing networks.

Financial and Operational Review

Australian Gas Networks UK Limited was incorporated in the United Kingdom on 22 May 2014 for the purpose of acquiring 82.54% of the shares of Australian Gas Networks Limited through its Australian subsidiary Australian Gas Networks Holdings Pty Ltd.

This acquisition was completed on 29 August 2014. Consequently the comparatives in this consolidated financial report include the results of operations of the Australian Gas Networks Limited Group for the period from 29 August 2014 to 31 December 2014 and the amounts presented in the financial statements are not entirely comparable.

The AGN Group's natural gas distribution networks and transmission pipelines operate as regulated and unregulated monopolies in key population areas in South Australia, Victoria, Queensland, New South Wales and the Northern Territory. The AGN Group generates its revenue by delivering natural gas through its networks to over 1.2 million domestic, commercial and industrial customers.

The AGN Group's revenue, which is generated mainly from retailers for delivering natural gas to their customers, was $606.4 million for the year ended 31 December 2015 (2014: $185.6 million).

Gas distribution volumes were 106.9 PJ (2014: 34.5 PJ) in total, and volumes from domestic and smaller customers were 53.5 PJ (2014: 14.7 PJ). The Group earns the majority of its revenues from domestic (<10 TJ) customers.

Operating expenses were $147.1 million (2014: $55.0 million) and net finance costs were $122.1 million (2014: $44.3 million).

For the year ended 31 December 2015, Profit after Tax was $177.3 million (2014: $38.9 million).

Cash flows from operating activities were $338.6 million (2014: $104.2 million). Capital expenditure paid in the current year was $280.8 million (2014: $104.4 million). A large proportion of the capex program focussed on the replacement of aging cast iron and steel gas mains ($124.4 million, 2014: $53.0 million). During the year 430 km (2014: 186 km) of mains were replaced and around 23,500 (2014: 9,600) new customers were added to the networks. Capital expenditure associated with these new connections was $70.6 million (2014: $22.3 million).

Outlook

2016 is expected to produce further strong financial performance. Whilst there will be a half-year impact of lower tariffs in South Australia and Queensland from 1 July 2016 as a result of the commencement of a new regulatory period, a solid profit and cash flow are expected through tight management of operating and borrowing costs.

The capital expenditure program in 2016 will again be focussed on capacity enhancements, mains replacement and several major projects which will connect new areas to the network as well as increasing supply to high demand areas. Customer connections are expected to be around 25,000.

Environmental regulation

A Voluntary Risk Assessment has been prepared and submitted to the Victorian Environmental Protection Authority ("EPA") in respect of the site owned by the AGN Group at Sale, in Victoria, Australia, that was formerly used for the manufacture of town gas.

In respect to the site at Sale, under Victorian law, the ultimate liability for remediation costs potentially lies with the original polluter. The contamination is believed to have occurred when the site was owned and operated as a coal gas plant by two other parties. Whilst it is possible that these remediation costs will either be assumed by the other parties, or alternatively recovered from them, the matter is yet to be determined. Accordingly, the estimated liability for remediation of the site is recorded in the financial statements at 31 December 2015 in note 16.

On behalf of the Board

Mark Horsley

MJ Horsley
Director

26 April 2016

Directors' Report

The Directors present their report on the audited consolidated entity consisting of Australian Gas Networks UK Limited and the entities it controlled at the end of, or during, the financial year ended 31 December 2015. The financial statements are presented in Australian dollars unless otherwise stated.

Australian Gas Networks UK Limited is a company incorporated and domiciled in the United Kingdom. Its principal registered office is 3 More London Riverside, London SE1 2AQ.

The financial statements set out on pages 8 to 42 were approved by the Board of Directors and signed on its behalf by MJ Horsley on 26 April 2016.

Directors

The following persons were Directors of Australian Gas Networks UK Limited during the financial year covered by, and up to the date of this report:

Andrew John Hunter – Chairman
Mark Horsley
Hing Lam Kam
Loi Shun Chan
Tzar Kuoi Victor Li
Charles Chao Chung Tsai

Significant changes in the state of affairs

No changes have occurred during the year which significantly change the state of affairs of the Company or the Group.

Financial instruments

For information relating to financial risk management objectives and policies and the Group's exposure to market risk, credit risk and liquidity risk, refer note 2.

Dividends – Australian Gas Networks UK Limited

Australian Gas Networks UK Limited and its subsidiary, Australian Gas Networks UK 2 Limited, paid dividends of A$219,951,612 during the year (2014: A$nil).

Independent Auditors

Each of the persons who is a Director of the Company at the date of approval of this annual report confirms that:

- So far as the Director is aware, there is no relevant audit information of which the Company's Auditors are unaware; and
- The Director has taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's Auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Non-audit services

Details of the amounts paid or payable to the AGN Group's auditors (PricewaterhouseCoopers LLP) for audit and non-audit services provided during the year are set out in note 24.

Outlook

An indication of likely future developments in the Group's business can be found in the Strategic Report on page 1.

Matters subsequent to the end of the financial year

The Directors are not aware at the date of this report of any matter or circumstance which has arisen since 31 December 2015 that has significantly affected, or may significantly affect:

- the Group's operations in future financial years; or
- the results of those operations in future financial years; or
- the Group's state of affairs in future financial years.

Greenhouse gas emissions

The Australian Gas Networks Group is required to report emissions to a national regulator in Australia (Clean Energy Regulator) annually on a July-June basis. The last report prepared was for the year ending 30 June 2015. As the Group's business does not involve the material combustion of any fuel, its emissions essentially relate to fugitive emissions associated with the operation of its gas distribution networks.

Emissions for the year ended 30 June 2015 were 461,486 tonnes of CO2 equivalent (CO2e) (2014: 463,444 tonnes of CO2e), and the emissions resulting from the purchase of electricity, heat or cooling for the AGN Group's own use was 184 tonnes of CO2e (2014: 81 tonnes of CO2e).

The methodology used to calculate emissions is set out in government regulation, and is based on a formula that allocates an annual emissions factor to each component of the network. The emissions are expressed as a ratio of tonnes of CO2e per kilometre. The ratio for the year ending 30 June 2015 was 18.7 tonnes CO2e/km (2014: 19.2 tonnes CO2e/km).

On behalf of the Board

Mark Horsley

MJ Horsley
Director

26 April 2016

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the group and parent company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and the company and of the profit or loss of the group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company and the group will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and the group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

On behalf of the Board

Mark Horsley

MJ Horsley
Director

26 April 2016

Independent auditors' report to the members of Australian Gas Networks Limited

Report on the financial statements

Our opinion

In our opinion:

- Australian Gas Networks Limited's group financial statements and company financial statements (the "financial statements") give a true and fair view of the state of the group's and of the company's affairs as at 31 December 2015 and of the group's profit and the group's and the company's cash flows for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union;
- the company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), comprise:

- the balance sheet as at 31 December 2015;
- the consolidated income statement and consolidated statement of comprehensive income for the year then ended;
- the group and company cash flow statements for the year then ended;
- the group and company statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is IFRSs as adopted by the European Union, and applicable law and, as regards the company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion, the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- the company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Independent auditors' report to the members of Australian Gas Networks Limited (continued)

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the group's and the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Andy Ward (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Leeds
26 April 2016

	Notes	2015 $mill.	22 May-31 December 2014 $mill.
Revenue from continuing operations			
Network services		606.4	185.6
Total revenue and income excluding finance income		606.4	185.6
Network operating costs		(126.9)	(38.2)
Gas purchases		(11.9)	(3.8)
Corporate development, property and administration costs		(8.3)	(13.0)
Total operating costs		(147.1)	(55.0)
Depreciation and impairment	4	(83.3)	(27.3)
Profit before finance costs and tax		376.0	103.3
Finance income		0.6	0.4
Finance costs		(122.7)	(44.7)
Net finance costs	4	(122.1)	(44.3)
Profit before income tax expense		253.9	59.0
Income tax expense	5	(76.6)	(20.1)
Net profit after tax		177.3	38.9
Profit for the financial year/period is attributable to:			
Owners of Australian Gas Networks UK Limited		146.3	32.1
Non-controlling interest		31.0	6.8
		177.3	38.9

The Consolidated Income Statements should be read in conjunction with the accompanying notes.

The Company has elected to take the exemption under section 408 of the Companies Act 2006 not to present the parent Company profit and loss account. The profit of the parent Company for the year was $172.5 million (period 22 May to 31 December 2014: $nil).

	2015 $mill.	22 May-31 December 2014 $mill.
Net profit after tax for the financial year/period	177.3	38.9
Other comprehensive income/(expense)		
Items that may be reclassified subsequently to profit and loss		
Changes in the fair value of cash flow hedges	3.5	4.3
Income tax expense relating to changes in the fair value of cash flow hedges	(1.0)	(1.3)
Other comprehensive income for the financial year/.period	2.5	3.0
Total comprehensive income for the financial year/period	179.8	41.9
Profit for the financial year/period is attributable to:		
Owners of Australian Gas Networks UK Limited	146.3	32.1
Non-controlling interest	31.0	6.8
	177.3	38.9
Total comprehensive income for the financial year/period is attributable to:		
Owners of Australian Gas Networks UK Limited	148.3	34.6
Non-controlling interest	31.5	7.3
	179.8	41.9

The Consolidated Statements of Comprehensive Income should be read in conjunction with the accompanying notes.

	Notes	Group 2015 $mill.	Company 2015 $mill.	Group 2014 $mill.	Company 2014 $mill.
ASSETS					
Current assets					
Cash and cash equivalents	6	5.6	-	11.4	-
Receivables	7	55.7	-	51.7	-
Other assets	9	4.1	-	4.1	-
Total current assets		65.4	-	67.2	-
Non-current assets					
Property, plant and equipment	10	3,549.8	-	3,404.6	-
Intangible assets	11	1,292.0	-	1,246.5	-
Investments	12	-	1,957.8	-	1,957.8
Deferred tax assets	13	1.8	-	65.6	-
Derivative financial instruments	8	290.4	-	182.5	-
Total non-current assets		5,134.0	1,957.8	4,899.2	1,957.8
Total assets		5,199.4	1,957.8	4,966.4	1,957.8
LIABILITIES					
Current liabilities					
Payables	14	50.9	-	50.1	-
Borrowings	15	96.2	-	117.1	-
Provisions	16	2.5	-	5.7	-
Derivative financial instruments	8	10.3	-	11.9	-
Other liabilities	17	25.1	-	19.2	-
Total current liabilities		185.0	-	204.0	-
Non-current liabilities					
Borrowings	15	2,601.4	-	2,283.5	-
Provisions	16	12.8	-	6.5	-
Derivative financial instruments	8	26.7	-	58.7	-
Deferred tax liabilities	18	-	-	-	-
Total non-current liabilities		2,640.9	-	2,348.7	-
Total liabilities		2,825.9	-	2,552.7	-
Net Assets		2,373.5	1,957.8	2,413.7	1,957.8
EQUITY					
Contributed equity	19	1,957.8	1,957.8	1,957.8	1,957.8
Reserves	20	4.5	-	2.5	-
Accumulated losses/Retained earnings	20	(3.1)	-	32.1	-
Total Equity attributable to owners of Australian Gas Networks UK Limited		1,959.2	1,957.8	1,992.4	1,957.8
Non-controlling interest		414.3	-	421.3	-
Total Equity		2,373.5	1,957.8	2,413.7	1,957.8

The Consolidated and Company Balance Sheets should be read in conjunction with the accompanying notes.

The financial statements on pages 8 to 42 were approved by the Board of Directors and signed on its behalf by:

Mark Horsley

MJ Horsley
Director

26 April 2016

Group	Attributable to the owners of Australian Gas Networks UK Limited					
	Contributed Equity $mill.	Reserves $mill.	Accumulated losses/ Retained Earnings $mill.	Total $mill.	Non-controlling Interests $mill.	Total Equity $mill.
Balance at 22 May 2014	-	-	-	-	-	-
Profit for the financial period	-	-	32.1	32.1	6.8	38.9
Other comprehensive income for the financial period	-	2.5	-	2.5	0.5	3.0
Transactions with owners in their capacity as owners						
Issue of shares	1,957.8	-	-	1,957.8	414.0	2,371.8
Balance at 31 December 2014	1,957.8	2.5	32.1	1,992.4	421.3	2,413.7
Profit for the financial year	**-**	**-**	**146.3**	**146.3**	**31.0**	**177.3**
Other comprehensive income for the financial year	**-**	**2.0**	**-**	**2.0**	**0.5**	**2.5**
Transactions with owners in their capacity as owners						
Dividends	**-**	**-**	**(181.5)**	**(181.5)**	**(38.5)**	**(220.0)**
Balance at 31 December 2015	**1,957.8**	**4.5**	**(3.1)**	**1,959.2**	**414.3**	**2,373.5**

Company	Attributable to the owners of Australian Gas Networks UK Limited					
	Contributed Equity $mill.	Reserves $mill.	Retained Earnings $mill.	Total $mill.	Non-controlling Interests $mill.	Total Equity $mill.
Balance at 22 May 2014	-	-	-	-	-	-
Profit for the financial period	-	-	-	-	-	-
Other comprehensive income for the financial period	-	-	-	-	-	-
Transactions with owners in their capacity as owners						
Issue of shares	1,957.8	-	-	1,957.8	-	1,957.8
Balance at 31 December 2014	1,957.8	-	-	1,957.8	-	1,957.8
Profit for the financial year	**-**	**-**	**172.5**	**172.5**	**-**	**172.5**
Other comprehensive income for the financial year	**-**	**-**	**-**	**-**	**-**	**-**
Transactions with owners in their capacity as owners						
Dividends	**-**	**-**	**(172.5)**	**(172.5)**	**-**	**(172.5)**
Balance at 31 December 2015	**1,957.8**	**-**	**-**	**1,957.8**	**-**	**1,957.8**

The Consolidated and Company Statements of Changes in Equity should be read in conjunction with the accompanying notes.

	Notes	Group December 2015 $mill.	Company December 2015 $mill.	Group December 2014 $mill.	Company December 2014 $mill.
Cash flows from operating activities					
Receipts from customers (inclusive of goods and services tax)		670.2	-	240.9	-
Payments to suppliers and employees (inclusive of goods and services tax)		(207.3)	(0.1)	(86.2)	-
		462.9	(0.1)	154.7	-
Finance income received		0.7	-	0.4	-
Finance costs paid		(125.0)	-	(50.9)	-
Net cash inflow/(outflow) from operating activities	21	338.6	(0.1)	104.2	-
Cash flows from investing activities					
Acquisition of subsidiary (net of cash acquired)	26	(6.6)	-	(2,360.4)	-
Purchase of shares in subsidiary	12	-	-	-	(1,667.8)
Payments for remediation of land		(0.1)	-	-	-
Payments for property, plant and equipment		(280.8)	-	(104.4)	-
Net cash outflow from investing activities		(287.5)	-	(2,464.8)	(1,667.8)
Cash flows from financing activities					
Proceeds from issue of ordinary shares	19	-	-	2,371.8	1,667.8
Proceeds from borrowings		555.7	-	400.4	290.0
Repayment of borrowings		(390.2)	-	(399.4)	(290.0)
Dividends received		-	172.6	-	-
Dividends paid	22	(220.0)	(172.5)	-	-
Debt and capital raising costs		(2.4)	-	(0.8)	-
Net cash (outflow)/inflow from financing activities		(56.9)	0.1	2,372.0	1,667.8
Net (decrease)/increase in cash and cash equivalents		(5.8)	-	11.4	-
Cash and cash equivalents at the beginning of the financial year/period		11.4	-	-	-
Cash and cash equivalents at the end of the financial year/period	6	5.6	-	11.4	-

The Consolidated and Company Cash Flow Statements should be read in conjunction with the accompanying notes.

1 Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below and have been consistently adopted throughout the year. The financial statements are for the consolidated entity consisting of Australian Gas Networks UK Limited and its subsidiaries. The financial statements are presented in Australian dollars unless otherwise stated. The Australian dollar to UK pound exchange rate at 31 December 2015 was A$0.49. Australian Gas Networks UK Limited is a company incorporated and domiciled in the United Kingdom.

(a) Basis of preparation

The consolidated and Company financial statements of Australian Gas Networks UK Limited have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee (IFRS IC) interpretations as adopted by the European Union and the Companies Act 2006 applicable to companies reporting under IFRS. While the consolidated and Company financial statements have been prepared under the historical cost convention, certain financial assets and liabilities (including derivative instruments) are recorded at fair value through the income statement and cash flow hedge reserve.

Going concern
The Group meets its day-to-day working capital requirements through its bank facilities. The Group had current liabilities in excess of current assets at 31 December 2015 amounting to $119.6 million. This shortfall largely relates to $96.2 million of borrowings due for repayment before 31 December 2016. Current liabilities also include derivative financial instruments of $10.3 million due to expire before 31 December 2016. They will be replaced with new derivative instruments at expiry in accordance with the Group's hedging policy.

The deficiency is more than covered by unused credit facilities on hand at 31 December 2015 of $353.1 million. The Group continues to adopt the going concern basis in preparing its consolidated financial statements. Further information on the Group's borrowings is given in note 15.

Critical accounting estimates
The preparation of financial statements in conformity with International Financial Reporting Standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

(b) New accounting standards and interpretations

New and amended standards adopted by the Group
None of the new standards and amendments to standards that are mandatory for the first time for the financial year beginning 1 January 2015 affected any disclosures or any of the amounts recognised in the current period or any prior period and are not likely to affect future periods.

New standards not yet adopted by the Group
Certain new Accounting Standards and Interpretations have been published that are not mandatory for 31 December 2015 reporting periods. The Group's assessment of the impact of these new Standards and Interpretations is set out below.

(i) IFRS 9 Financial Instruments

IFRS 9 *Financial Instruments* addresses the classification, measurement and derecognition of financial assets and financial liabilities. Since December 2013 it also sets out new rules for hedge accounting. The Standard is not applicable until 1 January 2017, but is available for early adoption.

The Standard only permits the accounting for financial assets to be at either amortised cost or fair value, and for the recognition of fair value gains and losses to be in the income statement, or in other comprehensive income if they relate to equity investments that are not held for trading. The new requirements for financial liabilities only affect the accounting for financial liabilities that are designated at fair value through the income statement. The application of the new Standard is not expected to have any effect on the accounting for, or disclosures in relation to, financial assets and financial liabilities.

The new hedging rules align hedge accounting more closely with the Group's risk management practices. As a general rule it will be easier to apply hedge accounting going forward. The new Standard also introduces expanded disclosure requirements and changes in presentation. The Group has determined not to early adopt the new Standard. In order to apply the new hedging rules, the Group would have to adopt IFRS9 and the consequential amendments to IFRS7 and IFRS9 in their entirety.

(ii) IFRS 15 Revenue from Contracts with Customers

IFRS 15 *Revenue from Contracts with Customers* was released in May 2014 and deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 *Revenue* and IAS 11 *Construction contracts* and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted subject to EU endorsement.

1 Summary of significant accounting polices (continued)

(b) New accounting standards and interpretations (continued)

While the Group has not performed a complete detailed assessment of the new standard, the recognition of revenue under the standard is expected to be in line with the Group's current practices. Therefore the standard is not expected to have a major impact on the Group.

The Company will continue to assess the full impact of the standard, however does not expect to apply the new standard until 1 January 2018. Comparatives will be required for the financial year beginning on 1 January 2017.

(iii) IFRS 16 Leases

IFRS 16 *Leases* was released in January 2016. The standard provides a model for the identification of lease arrangements and their treatment in the financial statements of both lessees and lessors. The Group has yet to assess the impact of this standard. The new standard applies for reporting periods beginning on or after 1 January 2019.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

(c) Principles of consolidation

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The consolidated financial statements incorporate the activities and affairs of Australian Gas Networks UK Limited and its controlled entities (the "Group"):

Australian Gas Networks UK 2 Limited, Company Number 09178242
Australian Gas Networks Holdings Pty Ltd (incorporated in Australia ACN 169818026)
Australian Gas Networks Investments Pty Ltd (incorporated in Australia ACN 169818035)
Cheung Kong Infrastructure Holdings (Malaysian) Limited (incorporated in Malaysia)
Australian Gas Networks Limited, (incorporated in Australia ACN 078551685)
Australian Gas Networks (SA Holdings 1) Limited, (incorporated in Australia ACN 008181066)
Australian Gas Networks (SA) Limited, (incorporated in Australia ACN 008139204)
Australian Gas Networks (QLD) Limited, (incorporated in Australia ACN 009760883)
Australian Gas Networks (Vic Holdings 1) Pty Ltd, (incorporated in Australia ACN 085882337)
Australian Gas Networks (Vic Holdings 2) Limited, (incorporated in Australia ACN 085882364)
Australian Gas Networks (Vic 3) Pty Ltd, (incorporated in Australia ACN 085882373)
Australian Gas Networks (Vic) Pty Ltd, (incorporated in Australia ACN 085899001)
Australian Gas Networks (Albury) Pty Ltd, (incorporated in Australia ACN 000001249)
Australian Gas Networks (NSW Holdings 1) Pty Ltd, (incorporated in Australia ACN 108315957)
Australian Gas Networks (NSW Holdings 2) Pty Ltd, (incorporated in Australia ACN 108316249)
Australian Gas Networks (NSW Holdings 3) Pty Ltd, (incorporated in Australia ACN 108316007)
Australian Gas Networks (NSW) Pty Ltd, (incorporated in Australia ACN 083199839)

The effects of transactions between the entities within the Australian Gas Networks UK Limited Group are eliminated on consolidation. Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated income statement, statement of comprehensive income, statement of changes in equity and balance sheet respectively.

(d) Foreign currency translation

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Australian dollars, which is the Group's functional currency.

Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Australian dollars at the foreign exchange rate ruling on that date. Foreign exchange differences arising on translation are recognised in other comprehensive income.

1 Summary of significant accounting polices (continued)

(e) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Service revenue represents revenue earned from the provision of gas distribution haulage services and is recognised when the service is provided. Customer contributions are made in relation to various capital projects and are recognised when work has been substantially completed.

Interest revenue includes interest income on money invested and is recognised when the interest is earned. Dividends are recognised as revenue when the right to receive payment is established.

(f) Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs to be incurred on particular projects are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to depreciable assets are recognised by reducing the carrying amount of the asset.

(g) Income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income.

As the operations of the Group are based in Australia, the Group's income tax expense or revenue for the period is the tax payable on the current period's taxable income (as calculated under Australian tax laws), based on the Australian Federal income tax rate adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and for unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset, or a liability. No deferred tax asset, or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit, or taxable profit or loss.

Deferred tax assets and deferred tax liabilities associated with indefinite life intangibles are measured on the basis that these assets are not depreciated.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Australian Gas Networks Holdings Pty Ltd (the ultimate Australian parent) and its controlled entities have implemented the tax consolidation legislation. As a consequence, these entities are taxed as a single entity and the deferred tax assets and liabilities of these entities are set off in the consolidated financial statements.

(h) Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation or depreciation and are tested annually for impairment or more frequently if events or changes in circumstances indicate that they might be impaired. Assets that are subject to amortisation or depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

1 Summary of significant accounting polices (continued)

(i) Cash and cash equivalents

Cash includes cash on hand, deposits held at call with banks and investments in money market instruments, net of bank overdrafts.

(j) Receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for doubtful debts.

The Access Arrangements covering the South Australian and Queensland networks requires the retailer to pay for gas delivered within 30 days.

The Access Arrangements covering the Victorian and New South Wales networks require distributors to charge retailers and large industrial customers when the end user is billed.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off by reducing the carrying amount directly. A provision for impairment of trade receivables is used when there is objective evidence that the Group will not be able to collect all amounts due.

A provision for doubtful debts is recorded based on historical evidence of credit recovery in relation to invoices raised for miscellaneous items, such as costs to repair damage to the network caused by a third party. No provision has been raised for impairment in relation to debtors associated with any of the Access Arrangements because no debts are considered doubtful.

(k) Derivatives

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either: (i) hedges of the fair value of recognised liabilities (fair value hedge); or (ii) hedges of highly probable forecast transactions (cash flow hedges).

The Group documents at the inception of the hedging transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been, and will continue to be, highly effective in offsetting changes in fair values or cash flows of hedged items.

The fair values of various derivative financial instruments used for hedging purposes are disclosed in note 8. Movements in the hedging reserve in other comprehensive income are shown in note 20. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the derivative is more than 12 months; it is classified as a current asset or liability when the remaining maturity of the derivative is less than 12 months.

(i) Fair value hedge
Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to hedged risk.

(ii) Cash flow hedge
The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity in the hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

(iii) Derivatives that do not qualify for hedge accounting
Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the income statement.

1 Summary of significant accounting polices (continued)

(l) Property, plant and equipment

Property, plant and equipment is stated at cost less depreciation. Cost includes expenditure directly attributable to the acquisition of the items.

Land is not depreciated. Depreciation on other assets is calculated using the straight line method to allocate their cost, net of their residual values, over their estimated useful lives, as follows:

Category	*Useful life (years)*
Buildings	40
Furniture, fittings and computer equipment	3–10
Gas mains and inlets:	
• Polyethylene	60–70
• Steel	100
• Cast iron	120
• Gas meters	25
• Regulators	50
• Gate stations	50
• Telemetry equipment	10

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if its carrying amount is greater than its estimated recoverable amount (note 1(h)).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

(m) Intangible assets

Intangible assets acquired in a business combination and recognised separately from goodwill are initially recorded at their fair value at acquisition date. They are subsequently carried at cost less accumulated amortisation and accumulated impairment losses, on the basis that they are acquired separately.

The distribution licences held by the Group, in the opinion of the Directors have an indefinite life. Therefore no amortisation charge has been included in the financial statements. An assessment of the recoverable amount of the intangibles is made annually to ensure they are not below the carrying amounts of the intangibles (refer note 11).

(n) Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade accounts payable, including accruals not yet billed, are recognised when the Group becomes obliged to make future payments as a result of a purchase of assets or services. Trade accounts payable are generally settled within 30 days.

(o) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the income statement over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment and amortised over the period of the facility to which it relates.

For borrowings designated in a fair value hedge, carrying value is equal to fair value less transaction costs (refer note 1(k)*(i)*).

(p) Borrowing costs

Borrowing costs include:

- interest and indexation on borrowings;
- amortisation of debt establishment costs;
- ancillary costs, including fees; and
- ineffective derivatives.

1 Summary of significant accounting polices (continued)

(q) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

(r) Employee benefits

(i) Wages and salaries, annual leave and sick leave
Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months of the reporting date are recognised as current liabilities in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. No provision for sick leave has been included in the financial statements.

(ii) Long service leave
A liability for long service leave is recognised and is measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using interest rates on Australian government guaranteed securities with terms to maturity that match, as closely as possible, the estimated future cash outflows.

The obligations are presented as current liabilities in the balance sheet if the entity does not have an unconditional right to defer settlement for at least 12 months after the reporting date, regardless of when the actual settlement is expected to occur.

(iii) Other
The AGN Group had 20 employees at 31 December 2015 (2014: 15 employees). The average number of employees throughout the period was 17 (2014: 15). The employees consist of senior management and those involved in the administration of the Group's regulatory, commercial, finance and treasury functions. The parent entity, Australian Gas Networks UK Limited, has no employees. The operational activities of the AGN Group are undertaken by APA Networks and associated subcontractors.

(s) Contributed equity

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

(t) Dividends

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the reporting period, but not distributed at the end of the reporting period.

Dividends approved after the end of the reporting period, whether or not paid prior to signing of the financial statements are not recognised as a liability and are disclosed in note 22.

(u) Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the Australian taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the Australian taxation authority is included with other receivables or payables in the balance sheet.

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

1 Summary of significant accounting polices (continued)

(v) Environmental remediation expenditure

Provisions for future environmental remediation are recognised where sites, whether owned, or previously owned and subject to the relevant Australian state Environmental Protection Acts' liability provisions, are known to be contaminated and it is probable that an outflow of economic benefits will be required to remediate the site. The estimated future outflows are the best estimate of the expenditure required to remediate the sites. Future remediation costs are reviewed annually and any changes are reflected in the present value of the land management costs provision at the end of the reporting period, with a corresponding change in the cost of the associated asset, and/or the income statement.

In some cases, it is possible that estimated remediation costs included in the financial statements may be recoverable under relevant environmental laws from third parties. No allowances have been made for potential recovery.

(w) Leases

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases (note 28). Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

(x) Business combinations

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred and the liabilities incurred.

Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at acquisition date.

The excess of the consideration transferred over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in the income statement as a bargain purchase.

2 Financial risk management

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk, re-financing and liquidity risk. The AGN Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses derivative financial instruments such as cross-currency and interest rate swaps to hedge certain risk exposures. Derivatives are exclusively used for hedging purposes, that is, not as trading or other speculative instruments. The Group uses different methods to measure different types of risk to which it is exposed. These methods include cash flow forecasting analysis in the case of interest rate liquidity and other price risks and ageing analysis for credit risk.

Risk management is carried out in accordance with policies approved by the Australian Gas Networks Limited Board of Directors. The Group Treasurer, identifies, evaluates and hedges financial risks in close co-operation with the Chief Financial Officer. The Board oversees overall risk management, including policies covering specific areas, such as mitigating foreign exchange, interest rate and credit risks, use of derivative financial instruments and investing excess liquidity. The Australian Gas Networks Limited Board formally reviews and approves the Treasury Policy and Risk Management Policy annually.

Market risk

Foreign exchange risk
Foreign exchange transaction risk arises from the possibility that the Group's cash flows could be adversely affected by movements in exchange rates. The main sources of the Group's foreign exchange transaction exposures are interest and principal payments on US dollar denominated debt.

The AGN Group's Treasury Policy requires all of the foreign exchange rate risk associated with non-Australian dollar denominated debt to be hedged to minimise fluctuations in the cash flows of the business.

The Group's exposure to foreign exchange risk at the reporting date was as follows:

	2015 US$mill.	2014 US$mill.
Borrowings	**825.0**	715.0

As all foreign exchange commitments are swapped to Australian dollars, the Group has no exposure to movements in foreign exchange risk.

Price risk
The Group is exposed to inflation ("CPI") price risk. This arises from the principal and/or interest payments on the Capital Indexed Bonds (CIBs) held by the Group being escalated by changes in CPI.

The Group's exposure to movements in the CPI through its $265 million CIBs (1% movement in CPI generates $2.6 million indexation expense) is partially offset by the annual resetting of haulage tariffs in line with the CPI, together with the re-setting of the regulatory asset base at five-yearly intervals to reflect changes through the period in CPI.

Cash flow and fair value interest rate risk
As the Group has relatively minor interest-bearing assets, the Group's income and operating cash flows are not materially exposed to changes in market interest rates.

The Group's interest rate risk arises from borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. At the year-end, 31% of borrowings were at fixed rates.

The remainder of borrowings are at floating rates. AGN Group policy is to hedge between 80% and 100% of floating rate borrowings using floating to fixed interest rate swaps.

2 Financial risk management (continued)

Cash flow and fair value interest rate risk (continued)

As at reporting date, the Group had the following variable rate borrowings and interest rate swap contracts outstanding (excluding borrowing costs):

	2015		2014	
	Weighted average interest rate	**Balance**	**Weighted average interest rate**	**Balance**
	%	**$mill.**	**%**	**$mill.**
Interest bearing debt (at variable rates)	**3.7**	**1,650.9**	4.1	1,440.5
Interest rate swaps	**4.5**	**(1,500.0)**	4.3	(1,525.0)
Net exposure to cash flow interest rate risk		**150.9**		(84.5)

The Group manages its cash flow interest rate risk by using floating to fixed interest rate swaps. They have the economic effect of converting borrowings from floating rates to fixed rates. Generally, the Group raises long-term borrowings at floating rates and swaps them into fixed rates that match the rates used in the relevant regulatory determination for a term matched to the relevant regulatory period. Under the interest rate swaps, the Group agrees with other parties to exchange, at specified intervals (mainly quarterly), the difference between the contracted fixed rates and floating rate interest amounts calculated by reference to the agreed notional principal amounts.

Based upon the balance of gross debt at 31 December, if interest rates changed by +/-1%, with all other variables held constant and taking account of the hedging in place at 31 December, the estimated impact on after-tax profit (excluding credit value adjustments) and equity is set out below.

	2015	2014
	$mill.	**$mill.**
Impact on after-tax profit:		
Interest rates + 1%	**(1.1)**	0.6
Interest rates - 1%	**1.1**	(0.6)
Impact on equity:		
Interest rates + 1%	**16.0**	27.8
Interest rates - 1%	**(16.5)**	(28.9)

Credit risk

Credit risk is managed on a Group basis. Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to customers.

Derivative counterparties and cash transactions are limited to high credit quality financial institutions. The AGN Group has policies that limit the amount of credit exposure to any one financial institution. Counterparty limits for investment and hedging transactions are measured by reference to transaction limits set by the Board in relation to the counter parties' external credit ratings. Refer to note 8 for further details in relation to credit risk associated with derivatives.

At balance date there were no significant concentrations of credit risk within the Group. The maximum exposure to credit risk is represented by the carrying amount of financial assets of the Group which have been recognised on the balance sheet, including trade receivables. Refer to note 7 for further details of credit risk in relation to receivables.

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and an adequate amount of available committed credit facilities. Associated with this is the planning for unforeseen events which may curtail cash flows and put pressure on liquidity. At the end of the financial year the Group held cash and deposits at call of $1.4 million (2014: $0.6 million) (the balance sheet amount of $5.6 million includes $4.2 million of compulsory acquisition funds held), and had unused credit facilities on hand of $353.1 million that are readily available for managing liquidity risk.

The Group manages liquidity risk by continuously monitoring forecast and actual cash flows. The Group aims at maintaining flexibility in funding by keeping committed credit lines available with a variety of counterparties. Refer to note 15 for further details on the Group's approach to liquidity risk management.

2 Financial risk management (continued)

Maturities of financial liabilities

The Group's policy is to arrange refinancing at least six months prior to maturity and limit annual repayments to 15% of the debt portfolio, subject to conditions in financial markets enabling these targets to be met.

The table below presents the Group's financial liabilities and net settled derivative financial instruments into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows (including principal and interest obligations).

	Less than 1 year $mill.	Between 1 and 5 years $mill.	Between 5 and 15 years $mill.	Over 15 years $mill.	Total $mill.
At 31 December 2015					
Trade payables	**50.9**	**-**	**-**	**-**	**50.9**
Medium Term Notes	**32.1**	**128.2**	**1,017.5**	**-**	**1,177.8**
Capital Indexed Bonds	**8.2**	**35.2**	**398.9**	**-**	**442.3**
Bank loans	**97.4**	**-**	**-**	**-**	**97.4**
US Private Placement Notes	**54.8**	**330.9**	**1,134.0**	**178.0**	**1,697.7**
Interest rate swaps	**21.7**	**11.8**	**-**	**-**	**33.5**
	265.1	**506.1**	**2,550.4**	**178.0**	**3,499.6**
At 31 December 2014					
Trade payables	50.1	-	-	-	50.1
Medium Term Notes	81.6	137.7	1,062.6	-	1,281.9
Capital Indexed Bonds	8.1	34.7	414.3	-	457.1
Bank loans	21.4	-	-	-	21.4
US Private Placement Notes	120.3	315.1	913.3	186.4	1,535.1
Interest rate swaps	21.5	21.2	-	-	42.7
	303.0	508.7	2,390.2	186.4	3,388.3

Capital management

The Group's objectives when managing capital are to safeguard its ability to continue as a going concern, so that it can continue to provide returns for shareholders and to maintain an optimal capital structure.

The Group monitors capital on the basis of the debt to Regulatory Asset Basis (RAB) gearing ratio. Net debt is calculated as total borrowings less cash and cash equivalents.

The Group's debt to RAB gearing ratio at 31 December was as follows:

	2015 $mill.	2014 $mill.
Total borrowings (note 15)	**2,697.6**	2,400.6
Add back unamortised debt costs/acquisition fair value of borrowings	**(21.9)**	(28.0)
Add back hedges impact on borrowings	**(269.6)**	(135.8)
Total borrowings	**2,406.1**	2,236.8
Less cash and cash equivalents (note 6)	**(1.4)**	(0.6)
Net debt	**2,404.7**	2,236.2
Regulated asset base	**3,235.9**	3,050.0
Debt to RAB Ratio	**74.3%**	73.3%

The AGN Group has a financial covenant for its borrowing facilities which limits debt to being no more than 100% of the Regulatory Asset Base (RAB).

2 Financial risk management (continued)

Fair value estimation

The table below analyses the financial instruments carried at fair value by valuation method. The different levels have been defined as follows:

(a) Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
(b) Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (level 2).
(c) Inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

The following table presents the carrying amount of the Group's assets and liabilities that are measured and recognised at fair value at 31 December:

	Level 1 $mill.	Level 2 $mill.	Level 3 $mill.	Total $mill.
At 31 December 2015				
Assets				
Derivatives used for hedging	-	**290.4**	-	**290.4**
Total assets	-	**290.4**	-	**290.4**
Liabilities				
Borrowings – US Private Placement Notes	-	**1,455.1**	-	**1,455.1**
Derivatives used for hedging	-	**37.0**	-	**37.0**
Total liabilities	-	**1,492.1**	-	**1,492.1**
At 31 December 2014				
Assets				
Derivatives used for hedging	-	182.5	-	182.5
Total assets	-	182.5	-	182.5
Liabilities				
Borrowings – US Private Placement Notes	-	1,197.8	-	1,197.8
Derivatives used for hedging	-	70.6	-	70.6
Total liabilities	-	1,268.4	-	1,268.4

The fair value of financial liabilities that are not traded in an active market is determined using valuation techniques. The fair value of interest rate and cross currency swaps is calculated as the present value of the estimated future cash flows and the discount rate used is adjusted for counterparty or own credit risk. These instruments are categorised as level 2.

The carrying value of trade receivables and payables is a reasonable approximation of their fair values due to their short-term nature.

The Group has no instruments categorised at level 1 or 3.

3 Critical accounting estimates

The AGN Group makes estimates and assumptions concerning the future. Estimates and judgements are periodically evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonably prospective under the circumstances.

The key estimates and assumptions are discussed below.

Estimated impairment of intangibles
The Group tests whether intangible assets have suffered any impairment in accordance with the accounting policy stated in notes 1(h). The recoverable amounts have been determined based on fair value analysis. These calculations require the use of assumptions. Refer to note 11 for details of these assumptions.

Useful lives of property, plant and equipment
AGN Management advises the AGN Board in respect to the estimated useful lives and related depreciation charges for the Group's property, plant and equipment. These estimates are based on the concept that the effective lives should truly reflect the profile of the loss of economic benefits to the Group. Refer to note 1(l) for details of the estimated useful lives used by the Group.

4 Expenses

Group	2015 $mill.	22 May – 31 December 2014 $mill.
Profit before income tax includes the following expenses:		
Depreciation		
Depreciation on buildings	0.2	0.1
Depreciation on plant and equipment	80.8	27.2
Impairment cost adjustment – contaminated land	2.3	-
	83.3	27.3
Other charges against assets		
Bad and doubtful debts – trade debtors	0.1	-
Net Finance costs		
Finance income		
Interest income	0.6	0.4
	0.6	0.4
Finance costs		
Interest and indexation	113.3	37.1
Ineffective derivatives	7.7	7.3
Fees on financing facilities	1.7	0.3
	122.7	44.7
	122.1	44.3
Employee benefits expense		
Salaries and wages	4.4	2.1
Other	0.2	0.2
	4.6	2.3

5 Income tax expense

Group	2015 $mill.	22 May – 31 December 2014 $mill.
Income tax expense		
Current tax	1.7	-
Deferred tax	74.9	20.1
	76.6	20.1
Attributable to:		
Profit from continuing operations	76.6	20.1
Deferred income tax expense included in income tax expense comprises:		
Increase in deferred tax assets (note 13)	(2.3)	(20.3)
Increase in deferred tax liabilities (note 18)	77.2	40.4
	74.9	20.1
Numerical reconciliation of income tax expense to prima facie tax payable		
Profit from continuing operations before income tax expense	253.9	59.0
Tax at the Australian tax rate of 30%	76.2	17.7
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
Provision for amendment to tax legislation	1.7	-
Non-(taxable)/deductible stamp duty	(1.4)	2.4
Other	0.1	-
Total income tax expense	76.6	20.1
Amounts recognised directly in equity		
Aggregate current and deferred tax arising in the reporting year/period and not recognised in net profit or loss but directly debited or credited to equity		
Net deferred tax – debited directly to equity	1.0	1.3
Unrecognised temporary differences		
Deferred tax assets not recognised	-	2.0

6 Cash and cash equivalents

	Group 2015 $mill.	Company 2015 $mill.	Group 2014 $mill.	Company 2014 $mill.
Cash at bank – interest bearing	5.6	-	11.4	-
	5.6	-	11.4	-

Cash on hand includes $4.2 million (2014: $10.8 million) of compulsory acquisition funds held.

7 Receivables

	Group 2015 $mill.	Company 2015 $mill.	Group 2014 $mill.	Company 2014 $mill.
Current				
Trade receivables	**51.2**	-	51.7	-
Other receivables	**4.6**	-	0.1	-
Provision for impairment of receivables	**(0.1)**	-	(0.1)	-
	55.7	-	51.7	-

Impaired trade receivables

An amount of $62,364 was recognised in the income statement in respect of bad debts written off during the financial year ending 31 December 2015 (2014: $nil).

Movements in the provision for impairment of receivables are as follows:

	Group 2015 $	Company 2015 $	Group 2014 $	Company 2014 $
Balance at the beginning of the financial year/period	**50,000**	-	50,000	-
Balance at the end of the financial year/period	**50,000**	-	50,000	-

Past due but not impaired

As of 31 December, trade receivables of $0.6 million (2014: $0.7 million) were past due but not impaired. The ageing of these trade receivables is as follows:

	Group 2015 $mill.	Company 2015 $mill.	Group 2014 $mill.	Company 2014 $mill.
31 to 60 days	**0.1**	-	0.4	-
61 to 90 days	**0.4**	-	0.1	-
Over 90 days	**0.1**	-	0.2	-
	0.6	-	0.7	-

Of the $0.6 million of debtors over 30 days at 31 December, $0.5 million has now been collected.

Significant terms and conditions

Haulage revenue receivable from retailers in respect of the South Australian, Queensland and Northern Territory networks consists of billed revenue related to gas deliveries and is due within 30 days of billing date. Haulage revenue receivable from the Victorian and New South Wales retailers consists of billed revenue due within 14 days and unbilled revenue which has been estimated and is expected to be billed over the following two to three months.

Interest is receivable from the major banks that hold deposits at call for Group entities and is generally settled within a few days after the end of the month.

Credit risk

The Group's customers using the South Australia, Queensland and Northern Territory networks are required to pay for gas delivered within 30 days and credit risk is centred on the large retailers.

Under the National Energy Customer Framework (NECF) retailers in South Australia are required to provide bank guarantees in accordance with a pre-defined formula. No retailer in South Australia is required to provide a bank guarantee to Australian Gas Networks Holdings Pty Ltd at 31 December 2015. A bank guarantee for $11.7 million was in place with one retailer as at 31 December 2014.

One retailer in the Northern Territory is required to prepay an estimate of two months haulage services in advance. As at 31 December 2015 the prepayment totalled $73,000 (2014: $68,000).

7 Receivables (continued)

Credit risk (continued)

Retailers using the Victorian and New South Wales networks pay in arrears for haulage services, and credit risk is centred on the large retailers. The Group has exercised its right under the various haulage revenue contracts with Victorian retailers to demand bank guarantees from certain retailers who do not possess investment grade credit ratings. At 31 December 2015 there were seven bank guarantees in place with an aggregate value of $6.5 million (2014: seven with an aggregate value of $7.7 million). In addition a parent guarantee is in place for one retailer, with the parent providing credit support for the performance of this retailer.

Interest is receivable from major banks and no significant credit risk is perceived in relation to this amount.

Refer to note 2 for more information on the financial risk management policy of the AGN Group.

Fair value

Due to the short-term nature of these receivables, their carrying value is assumed to approximate their fair value.

8 Derivative financial instruments

	Group 2015 $mill.	Company 2015 $mill.	Group 2014 $mill.	Company 2014 $mill.
Non-current assets				
Cross currency swap contracts – fair value and cash flow hedges	**290.4**	-	182.5	-
	290.4	-	182.5	-
Current liabilities				
Interest rate swaps – cash flow hedges	**10.3**	-	0.5	-
Cross currency swap contracts – fair value and cash flow hedges	**-**	-	11.4	-
	10.3	-	11.9	-
Non-current liabilities				
Interest rate swaps – cash flow hedges	**26.7**	-	58.7	-
	37.0	-	70.6	-
Net derivative assets	**253.4**	-	111.9	-

Instruments used by the Group

The Group is party to derivative financial instruments in the normal course of business in order to hedge exposure to fluctuations in interest and foreign exchange rates in accordance with the AGN Group's financial risk management policies.

Interest rate swap contracts – cash flow hedges
The Group has entered into interest rate swap contracts that entitle it to receive interest at floating rates on notional principal amounts and oblige it to pay interest at fixed rates on the same amounts. Under the interest rate swaps, the Group agrees with other parties to exchange, at specified intervals, the difference between fixed rate and floating rate interest amounts calculated by reference to the agreed notional principal amounts.

The tables below include all swaps in place at the end of the financial period.

Interest rate swap contracts – cash flow hedges (continued)
At 31 December, the notional principal amounts and periods of expiry of the interest rate swap contracts are as follows:

	Group 2015 $mill.	Company 2015 $mill.	Group 2014 $mill.	Company 2014 $mill.
Less than 1 year	**600.0**	-	325.0	-
1–2 years	**900.0**	-	600.0	-
2–3 years	**-**	-	600.0	-
	1,500.0	-	1,525.0	-

8 Derivative financial instruments (continued)

Instruments used by the Group (continued)

The gain or loss from re-measuring the hedging instruments at fair value is deferred in equity in the hedging reserve, to the extent that the hedge is effective, and re-classified to the income statement when the hedged interest expense is recognised. The ineffective portion is recognised in the income statement immediately. In the year ended 31 December 2015, there were no amounts recognised in the income statement (2014: $nil).

At balance date these hedging contracts were recorded as liabilities with a fair value of $37.0 million (2014: liabilities with a fair value of $70.6 million).

Cross currency swaps – fair value and cash flow hedges
The Group has entered into cross currency swap contracts in order to swap the US dollar debt principal and interest repayments from US dollar fixed coupon to Australian dollar floating rates.

At 31 December, the notional principal amounts and periods of expiry of the cross currency swap contracts are as follows:

	Group 2015 $mill.	Company 2015 $mill.	Group 2014 $mill.	Company 2014 $mill.
Less than 1 year	-	-	68.4	-
2 – 3 years	121.7	-	-	-
3 – 4 years	-	-	121.7	-
Greater than 5 years	832.4	-	629.4	-
	954.1	-	819.5	-

The gain or loss from re-measuring hedging instruments used in fair value hedges to fair value is recorded in the income statement. To the extent these hedges are effective, offsetting entries are recorded against the underlying debt instruments. Ineffective portions result in a net impact to the income statement. In the year ended 31 December 2015 the ineffective portion resulted in a loss of $7.7 million (2014: $7.3 million loss). At balance date these contracts were assets with a fair value of $290.4 million (2014: assets with a fair value of $182.5 million). Fair value hedge movements offset against the hedged item were $133.8 million.

Credit risk

Credit risk arises from the potential failure of counterparties to meet their obligations under the respective contracts at maturity. This arises with amounts receivable from unrealised gains on derivative financial instruments.

The Group undertakes all of its transactions in foreign exchange and interest rate contracts with "A" rated financial institutions. Management has established limits such that, at any time, no more than $500 million of notional principal amounts are with any single counterparty. The carrying amount of derivative assets recorded in the financial statements represents the Group's maximum exposure to credit risk as of 31 December 2015 in relation to those assets.

Fair values

The fair value of interest rate and cross currency swaps is calculated as the present value of the estimated future cash flows using discount rates adjusted for own credit risk.

Interest rate risk exposures

Refer to note 2 for the Group's exposure to interest rate risk on interest rate swaps.

9 Other assets

	Group 2015 $mill.	Company 2015 $mill.	Group 2014 $mill.	Company 2014 $mill.
Current				
GST receivable	2.8	-	2.7	-
Prepayments	1.3	-	1.4	-
	4.1	-	4.1	-

10 Property, plant and equipment

Group	Freehold land $mill.	Freehold buildings $mill.	Plant and equipment $mill.	Total $mill.
Period ended 31 December 2014				
Acquisition of subsidiary	7.2	4.3	3,321.4	3,332.9
Additions	-	0.1	99.0	99.1
Depreciation charge	-	(0.1)	(27.2)	(27.3)
Disposals	-	-	(0.1)	(0.1)
Closing net book amount	7.2	4.3	3,393.1	3,404.6
At 31 December 2014				
Cost	7.2	4.4	3,420.3	3,431.9
Accumulated depreciation	-	(0.1)	(27.2)	(27.3)
Net book amount	7.2	4.3	3,393.1	3,404.6
Year ended 31 December 2015				
Opening net book amount	**7.2**	**4.3**	**3,393.1**	**3,404.6**
Finalisation of acquisition fair values	**(0.5)**	**-**	**(57.1)**	**(57.6)**
Additions	**-**	**-**	**283.8**	**283.8**
Depreciation charge	**-**	**(0.2)**	**(80.8)**	**(81.0)**
Closing net book amount	**6.7**	**4.1**	**3,539.0**	**3,549.8**
At 31 December 2015				
Cost	**6.7**	**4.4**	**3,647.0**	**3,658.1**
Accumulated depreciation	**-**	**(0.3)**	**(108.0)**	**(108.3)**
Net book amount	**6.7**	**4.1**	**3,539.0**	**3,549.8**

The accounting for the acquisition of the Australian Gas Networks Group (refer note 26) was finalised in the current financial year. At 31 December 2014, amounts were calculated on a provisional basis. Subsequent finalisation during 2015 has impacted the carrying amount of property, plant and equipment.

Valuation of land and buildings

As part of the accounting for the acquisition of the Australian Gas Networks Group, an independent valuation of land and buildings was undertaken during the previous reporting period by registered valuers. In accordance with IFRS 3 Business Combinations, land and buildings were recognised at a cost equal to fair value on acquisition date. The market valuations of these properties therefore approximate their carrying values.

The valuation of the properties did not take into account any potential remediation costs. A land management cost provision of $8.7 million (2014: $6.5 million) has been included in the financial statements at 31 December 2015 in relation to freehold land.

The Australian Gas Networks Limited Directors have decided to continue to carry land and buildings at cost less depreciation.

Non-current assets pledged as security

Refer to note 15 for information on non-current assets pledged as security by the Group.

11 Intangible assets

Group	**Network maps $mill.**	**Distribution licence $mill.**	**Total $mill.**
Period ended 31 December 2014			
Acquisition of subsidiary	-	1,246.5	1,246.5
Closing net book amount	-	1,246.5	1,246.5
At 31 December 2014			
Cost	-	1,246.5	1,246.5
Accumulated amortisation	-	-	-
Net book amount	-	1,246.5	1,246.5
Year ended 31 December 2015			
Opening net book amount	**-**	**1,246.5**	**1,246.5**
Finalisation of acquisition fair values	**85.7**	**(40.2)**	**45.5**
Closing net book amount	**85.7**	**1,206.3**	**1,292.0**
At 31 December 2015			
Cost	**85.7**	**1,206.3**	**1,292.0**
Accumulated amortisation	**-**	**-**	**-**
Net book amount	**85.7**	**1,206.3**	**1,292.0**

Impairment tests for intangible assets

Intangible assets comprise distribution licences on acquisition of the Australian Gas Networks Group. The recoverable amount of the cash-generating units (CGU) is based on fair value analysis at 31 December 2015.

The fair value calculations use cash flow projections based on current and expected regulatory outcomes for gas distributors. The assumptions applied have been determined with reference to historic information, current performance and expected changes in operations taking into account pertinent information.

The accounting for the acquisition of the Australian Gas Networks Group (refer note 26) was finalised in the current financial year. At 31 December 2014, amounts were calculated on a provisional basis. Subsequent finalisation during 2015 has impacted the carrying amount and categorisation of intangibles.

12 Investments

	Group $mill.	**Company $mill.**
Shares in subsidiaries		
Period ended 31 December 2014		
Purchase of shares in Australian Gas Networks UK 2 Limited	-	1,957.8
Closing net book amount	-	1,957.8
Year ended 31 December 2015	**-**	**1,957.8**
Closing net book amount	**-**	**1,957.8**

The Company's purchase of shares in the subsidiary was achieved through a combination of cash and a promissory note issued in favour of the subsidiary.

13 Deferred tax assets

	Group 2015 $mill.	Company 2015 $mill.	Group 2014 $mill.	Company 2014 $mill.
The balance comprises temporary differences attributable to:				
Accrued expenses	1.0	-	0.4	-
Provision for employee benefits	0.2	-	1.0	-
Deferred equity and debt raising costs	1.0	-	0.4	-
Deferred revenue	2.1	-	1.5	-
Provision for Carbon Tax permit costs	-	-	0.8	-
Provision for land management costs	2.6	-	1.9	-
Other provisions	1.2	-	-	-
Derivatives/fair value borrowings adjustment	18.0	-	17.5	-
Deferred costs	3.5	-	4.7	-
Other	1.1	-	-	-
Tax losses	146.9	-	136.3	-
	177.6	-	164.5	-
Set-off of deferred tax liabilities pursuant to set-off provisions (note 18)	(175.8)	-	(98.9)	-
Net deferred tax assets	1.8	-	65.6	-
Movements:				
Balance at the beginning of the financial year/period	164.5	-	-	-
Acquisition of business	11.8	-	145.5	-
Credited to the income statement (note 5)	2.3	-	20.3	-
Debited to equity	(1.0)	-	(1.3)	-
Balance at the end of the financial year/period	177.6	-	164.5	-

The accounting for the acquisition of the Australian Gas Networks Group (refer note 26) was finalised in the current financial year. At 31 December 2014, amounts were calculated on a provisional basis. Subsequent finalisation during 2015 has impacted the carrying amount of deferred tax assets and liabilities.

14 Payables

	Group 2015 $mill.	Company 2015 $mill.	Group 2014 $mill.	Company 2014 $mill.
Trade payables	50.9	-	50.1	-
	50.9	-	50.1	-

15 Borrowings

The Group owns gas distribution networks and transmission pipelines. Whilst the assets generally have very long lives, the financing of those assets is undertaken using a range of instruments with varying terms, including capital markets debt and bank loans, with maturities spread over the next 26 years to promote liquidity and minimise refinancing risk.

The loan portfolio is expected to be refinanced at regular intervals in the normal course of the Group's operations.

The accounting for the acquisition of the Australian Gas Networks Group (refer note 26) was finalised in the current financial year. At 31 December 2014, amounts were calculated on a provisional basis. Subsequent finalisation during 2015 has had no further impact on the carrying amount of borrowings.

	Group 2015 $mill.	Company 2015 $mill.	Group 2014 $mill.	Company 2014 $mill.
Current				
Bank loans	**96.2**	-	20.7	-
Medium Term Notes	-	-	45.9	-
US Private Placement Notes	-	-	50.5	-
	96.2	-	117.1	-
Non-current				
Capital Indexed Bonds	**248.4**	-	241.2	-
Medium Term Notes	**897.9**	-	895.0	-
US Private Placement Notes	**1,455.1**	-	1,147.3	-
	2,601.4	-	2,283.5	-
Total	**2,697.6**	-	2,400.6	-

Total secured liabilities

Total secured liabilities (current and non-current) are as follows:

	Group $mill. Principal outstanding	Group $mill. Book value	Company $mill. Principal outstanding	Company $mill. Book value
2014				
Bank loans	21.0	20.7	-	-
Capital Indexed Bonds	261.3	241.2	-	-
Medium Term Notes	970.0	940.9	-	-
US Private Placement Notes	984.5	1,197.8	-	-
	2,236.8	2,400.6	-	-
2015				
Bank loans	**96.9**	**96.2**	-	-
Capital Indexed Bonds	**265.1**	**248.4**	-	-
Medium Term Notes	**925.0**	**897.9**	-	-
US Private Placement Notes	**1,119.1**	**1,455.1**	-	-
	2,406.1	**2,697.6**	-	-

Book value of debt differs from principal outstanding due to acquisition related fair value adjustments, unamortised borrowing costs and adjustments for fair value of derivatives.

15 Borrowings (continued)

Assets pledged as security

The carrying amounts of assets pledged as security for borrowings are:

	Group 2015 $mill.	Company 2015 $mill.	Group 2014 $mill.	Company 2014 $mill.
Current – floating charge				
Cash and cash equivalents	**1.4**	-	0.6	-
Receivables	**49.6**	-	51.1	-
Other assets	**4.1**	-	4.1	-
	55.1	-	55.8	-
Non-current – floating charge				
Property, plant and equipment	**3,439.6**	-	3,292.7	-
Intangibles	**1,269.8**	-	1,224.4	-
Deferred tax assets	**-**	-	65.6	-
Derivative financial instruments	**290.4**	-	182.5	-
	4,999.8	-	4,765.2	-
Assets not pledged as security	**144.5**	**1,957.8**	145.4	1,957.8
Total assets per balance sheet	**5,199.4**	**1,957.8**	4,966.4	1,957.8

Significant terms and conditions

The bank loans, Capital Indexed Bonds, Medium Term Notes and US Private Placement Notes are secured by charges over the respective networks owned by the Group.

The Australian Gas Networks Limited Group and its senior debt financiers are parties to a deed, known as the Intercreditor Deed Poll, which sets out various events of default, representations, warranties and undertakings relating to the provision of debt and hedging arrangements to the Group. The occurrence of an event of default (as defined in the Intercreditor Deed Poll) gives Australian Gas Networks Limited's financiers the right to require repayment of debt and close out hedging arrangements, subject to certain majority approval requirements. The acceleration of debt, or close out of hedges, may give rise to "swap breakage", "make-whole" and other costs being incurred.

Generally, events of default (as defined in the Intercreditor Deed Poll) concern adverse changes in Australian Gas Networks Limited's financial position or business, including the Interest Service Cover Ratio falling below 1.2:1 or the ratio of Total Indebtedness to Regulatory Asset Value exceeding 1.05:1. A change in control (in accordance with the relevant accounting standard) is also an event of default but only if a majority of financiers (more than 66.7%) declare the change in control "unacceptable". This declaration can only be made 60 days or more after the change in control occurs.

At 31 December 2015, the Group was in compliance with all covenants and undertakings.

Group funding and liability structure

The Group's total interest bearing debt principal outstanding as at 31 December 2015 was $2,406.1 million comprising a range of financial instruments with varying maturities issued under the AGN Group's treasury management program with a view to diversifying funding sources, increasing future refinancing options and lowering overall borrowing costs.

The existing debt instruments include:

Bank loans
Bank loans are committed facilities for terms generally up to three years.

Capital Indexed Bonds
These bonds are due to mature in August 2025. The principal component is indexed by the quarterly movement in the CPI.

Medium Term Notes
Medium Term Notes totalling $925.0 million (2014: $970.0 million) are instruments issued under the Medium Term Note Programme for varying terms and as at 31 December 2015 had terms to maturity of up to 11 years. They are classified as current and non-current in accordance with these dates.

The Medium Term Note Programme is supported by undrawn committed bank facilities of $353.1 million at 31 December 2015.

15 Borrowings (continued)

Group funding and liability structure (continued)

US Private Placement Notes

Notes with a principal value of A$1,119.1 million (2014: A$984.5 million) are issued in the United States of America for terms ending in 2018, 2021, 2022, 2023, 2027, 2030, 2033 and 2041. Included in these, are $165 million in Australian dollars, while the remainder are in US dollars. There are cross currency swaps in place to swap both the principal and interest payments from the US dollar fixed coupon to Australian dollar floating rate for the term of the respective note.

Financing arrangements

Access was available at balance date to the following lines of credit:

	Group 2015 $mill.	Company 2015 $mill.	Group 2014 $mill.	Company 2014 $mill.
Bank loan facilities				
Total facilities	**450.0**	-	350.0	-
Used at the balance sheet date	**96.9**	-	21.0	-
Unused at the balance sheet date	**353.1**	-	329.0	-

Fair values

The fair value of current borrowings approximates their carrying amount since the interest payable on those borrowings is either close to current market rates or the borrowings are of a short-term nature. The fair value of non-current borrowings where it does not approximate carrying amount is based upon market prices where a market exists or by discounting the expected future cash flows by the current interest rates for liabilities with similar risk profiles. Carrying amounts also include unamortised fair value adjustments arising from the business acquisition (refer note 26).

The carrying amounts and fair values of borrowings at the balance sheet date are:

	Group		Company	
2014	Carrying amount $mill.	Fair value $mill.	Carrying amount $mill.	Fair value $mill.
Non-traded financial liabilities				
Bank loans	20.7	21.2	-	-
US Private Placement Notes	1,197.8	1,199.5	-	-
Traded financial liabilities				
Capital Indexed Bonds	241.2	251.2	-	-
Medium Term Notes	940.9	943.3	-	-
	2,400.6	2,415.2	-	-
2015				
Non-traded financial liabilities				
Bank loans	**96.2**	**96.9**	-	-
US Private Placement Notes	**1,455.1**	**1,456.2**	-	-
Traded financial liabilities				
Capital Indexed Bonds	**248.4**	**266.2**	-	-
Medium Term Notes	**897.9**	**900.0**	-	-
	2,697.6	**2,719.3**	-	-

Risk exposures

Information about the Group's exposure to interest rate and foreign currency changes is provided in note 2.

16 Provisions

	Group 2015 $mill.	Company 2015 $mill.	Group 2014 $mill.	Company 2014 $mill.
Current				
Employee benefits	**0.6**	-	2.8	-
Land management costs	**0.2**	-	0.2	-
Carbon Tax permit costs	**-**	-	2.7	-
Other provisions	**1.7**	-	-	-
	2.5	-	5.7	-
Non-current				
Employee benefits	**0.2**	-	0.2	-
Land management costs	**8.5**	-	6.3	-
Other provisions	**4.1**	-	-	-
	12.8	-	6.5	-
Total	**15.3**	-	12.2	-

Land management costs
Provisions for future environmental remediation are recognised where there is a present obligation as a result of the manufacture of gas from coal at various sites in the past, and it is probable that an outflow of economic benefits will be required to settle the obligation. The estimated future obligations include the costs required to remediate the sites.

Movements in provisions

Movement in provisions (current and non-current), other than employee and directors' benefits, during the financial period are set out below:

Group	Other provisions $mill.	Carbon permit costs $mill.	Land management costs $mill.	Total $mill.
Balance at 22 May 2014	-	-	-	-
Acquisition of subsidiary	-	2.7	6.7	9.4
Amounts paid during the period	-	-	(0.2)	(0.2)
Balance at 31 December 2014	-	2.7	6.5	9.2
Additional provision recognised	**5.8**	**-**	**2.3**	**8.1**
Amounts paid during the period	**-**	**(2.7)**	**(0.1)**	**(2.8)**
Balance at 31 December 2015	**5.8**	**-**	**8.7**	**14.5**

17 Other liabilities

	Group 2015 $mill.	Company 2015 $mill.	Group 2014 $mill.	Company 2014 $mill.
Prepayments from energy retailers	**0.1**	-	0.1	-
Accrued costs	**6.9**	-	4.9	-
Interest accrued	**11.5**	-	9.2	-
Other deferred income	**6.6**	-	5.0	-
	25.1	-	19.2	-
Offsetting financial assets and financial liabilities				
Interest payable on interest rate swaps	**0.9**	-	0.8	-
Interest receivable on interest rate swaps	**(0.6)**	-	(0.6)	-
Other interest accrued not offset	**11.2**	-	9.0	-
Interest accrued	**11.5**	-	9.2	-

18 Deferred tax liabilities

	Group 2015 $mill.	Company 2015 $mill.	Group 2014 $mill.	Company 2014 $mill.
The balance comprises temporary differences attributable to:				
Prepayments	0.2	-	0.1	-
Intangibles	25.7	-	-	-
Excess of book value over tax value of property, plant and equipment	149.9	-	98.8	-
	175.8	-	98.9	-
Set-off of deferred tax assets pursuant to set-off provisions (note 13)	(175.8)	-	(98.9)	-
Net deferred tax liabilities	-	-	-	-
Movements:				
Balance at the beginning of the year/period	98.9	-	-	-
Acquisition of subsidiary (note 26)	(0.3)	-	58.5	-
Charged to the income statement (note 5)	77.2	-	40.4	-
Balance at the end of the year/period	175.8	-	98.9	-

The accounting for the acquisition of the Australian Gas Networks Group (refer note 26) was finalised in the current financial year. At 31 December 2014, amounts were calculated on a provisional basis. Subsequent finalisation during 2015 has impacted the carrying amount of deferred tax assets and liabilities.

19 Contributed equity

Share capital and other equity components

	2015 Securities	2015 $mill.	2014 Securities	2014 $mill.
Ordinary shares				
Issued and paid up capital	1,099,104,768	1,957.8	1,099,104,768	1,957.8

Movements in contributed equity

Date	Details	Number of securities	Issue price	2014 $mill.
22 May 2014	Issue of shares	1	£1	-
27 May 2014	Issue of shares	2	£1	-
28 August 2014	Issue of shares	1,099,104,765	£1	1,957.8
31 December 2014	Closing balance	1,099,104,768		1,957.8
31 December 2015	Closing balance	1,099,104,768		1,957.8

The consideration received for the issue of the Company's shares was a combination of cash and a promissory note.

Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of, and amounts paid on, the shares held.

20 Reserves and Retained earnings

Reserves

	Group 2015 $mill.	Company 2015 $mill.	Group 2014 $mill.	Company 2014 $mill.
Hedging reserve – cash flow hedges	**4.5**	-	2.5	-
	4.5	-	2.5	-
Movements:				
Balance at the beginning of the year/period	**2.5**	-	-	-
Fair value movements	**2.8**	-	3.5	-
Deferred tax	**(0.8)**	-	(1.0)	-
Revaluation of investment in subsidiary	**-**	-	-	-
Balance at the end of the year/period	**4.5**	-	2.5	-

Retained earnings

Movements in retained earnings were as follows:

	Group 2015 $mill.	Company 2015 $mill.	Group 2014 $mill.	Company 2014 $mill.
Balance at the beginning of the year/period	**32.1**	**-**	-	-
Profit for the year/period	**146.3**	**172.5**	32.1	-
Dividends paid	**(181.5)**	**(172.5)**	-	-
Balance at the end of the year/period	**(3.1)**	**-**	32.1	-

Nature and purpose of reserves

Hedging reserve – cash flow hedges
The hedging reserve is used to record gains or losses on a hedging instrument in cash flow hedges that are recognised directly in equity, as described in note 1(k).

Foreign currency translation reserve
The foreign currency translation reserve in the parent Company is used to record gains or losses on the revaluation of the investment in subsidiary that are recognised directly in equity, as described in note 1(d).

21 Cash inflow/(outflow) from operating activities

	Group 2015 $mill.	Company 2015 $mill.	Group 2014 $mill.	Company 2014 $mill.
Profit after income tax	**177.3**	**172.5**	38.9	-
Depreciation and amortisation	**81.0**	**-**	27.3	-
Amortisation	**(16.0)**	**-**	(2.1)	-
Indexation of Capital Indexed Bonds	**3.8**	**-**	3.9	-
Items included as investing activities				
Dividend income	**-**	**(172.6)**	-	-
Change in operating assets and liabilities				
(Increase)/decrease in trade debtors	**(8.6)**	**-**	33.7	-
Increase in other operating assets	**-**	**-**	(1.2)	-
Increase/(decrease) in trade creditors and other liabilities	**26.2**	**-**	(16.4)	-
Increase in provision for deferred income tax	**74.9**	**-**	20.1	-
Net cash inflow/(outflow) from operating activities	**338.6**	**(0.1)**	104.2	-

22 Dividends

Ordinary shares

Dividends of $0.20 per share, totalling $219,951,612 were paid to parent entities in the current year. No dividends were paid during the period 22 May 2014 to 31 December 2014.

23 Related party transactions

Parent entity

The ultimate parent entity within the Group is Australian Gas Networks UK Limited. The financial statements are held at the registered office of the Company of 3 More London Riverside, London, SE1 2AQ.

Australian Gas Networks UK Limited is ultimately owned by a consortium of entities incorporated in Hong Kong comprising:

Shareholder	*Ownership interest*
Cheung Kong Infrastructure Holdings Limited	44.9704%
Power Assets Holdings Limited	27.5148%
CK Hutchison Holdings Limited	27.5148%

Subsidiaries

Interests in subsidiaries are set out in note 25.

Key management personnel compensation

Group	**2015** **$**	**22 May - 31 December 2014** **$**
Key management personnel compensation (AGN Group)	**3,224,607**	2,216,602

Directors' emoluments

The Directors of Australian Gas Networks UK Limited are not remunerated by the company for their qualifying services as directors of Australian Gas Networks UK Limited.

Loans to/from related parties

	2015 **$**	**2014** **$**
Balance at the beginning of the financial year/period	-	-
Loans advanced	-	290,034,000
Loans repaid	-	(290,034,000)
Balance at the end of the financial year/period	-	-

Terms and conditions

All transactions were made in accordance with executed commercial arrangements and/or on normal commercial terms and conditions and at market rates. Outstanding balances are unsecured and are repayable in cash.

24 Remuneration of auditors

These Group financial statements are audited by PricewaterhouseCoopers LLP, United Kingdom. The cost of the audit in relation to Australian Gas Networks UK Limited is borne by the immediate parent entities and is £11,000. The operational companies in Australia are audited by PricewaterhouseCoopers, Australia. The remuneration disclosed below is in relation to the operational companies.

During the year the following fees were paid, or payable, for services provided by the auditors of Australian Gas Networks Limited and its subsidiaries:

	Group 2015 $	Company 2015 $	Group 2014 $	Company 2014 $
PwC Australia				
Audit and other assurance services				
Audit and review of financial statements	**271,597**	-	116,267	-
Other assurance services				
Audit of regulatory financial information	**48,450**	-	-	-
Debt raising advice	**30,000**	-	-	-
Accounting consultation on Business Acquisition	**32,042**	-	102,500	-
Audit of reported gas volumes	**21,250**	-	12,500	-
General advice	**5,000**	-	-	-
	408,339	-	231,267	-
Taxation services				
Acquisition related advice	**-**	-	25,403	-
Tax compliance and other services	**1,930**	-	46,211	-
	1,930	-	71,614	-
Total remuneration of PwC Australia	**410,269**	-	302,881	-

It is the policy of the Australian Gas Networks Group to engage PricewaterhouseCoopers (PwC) on assignments additional to their statutory audit duties where PricewaterhouseCoopers' expertise and experience with the Group are likely to provide benefits. These assignments are principally tax compliance, auditing of regulatory statements and assistance with regulatory submissions. During the previous year, PwC were also engaged to provide advisory and due diligence services in relation to the merger and takeover proposals received from APA Group and the Cheung Kong Group Consortium.

25 Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 1(c):

Name of entity	Country of incorporation	Class of shares	Nature of business	Equity holding of Australian Gas Networks UK Limited
				December 2015 %
Australian Gas Networks UK 2 Limited	United Kingdom	Ordinary	Holding Company	**82.54**
Australian Gas Networks Holdings Pty Ltd (1)	Australia	Ordinary	Holding Company	-
Australian Gas Networks Investments Pty Ltd (2)	Australia	Ordinary	Holding Company	-
Cheung Kong Infrastructure (Malaysian) Limited (3)	Malaysia	Ordinary	Holding Company	-
Australian Gas Networks Limited (4)	Australia	Ordinary	Gas distribution and provision of funds	-
Australian Gas Networks (SA Holdings 1) Ltd (5) (6)	Australia	Ordinary	Holding Company	-
Australian Gas Networks (SA) Ltd (5) (7)	Australia	Ordinary	Infrastructure ownership	-
Australian Gas Networks (QLD) Ltd (5) (8)	Australia	Ordinary	Infrastructure ownership	-
Australian Gas Networks (Vic Holdings 1) Pty Ltd (9)	Australia	Ordinary	Holding Company	-
Australian Gas Networks (Vic Holdings 2) Ltd (10)	Australia	Ordinary	Holding Company	-
Australian Gas Networks (Vic 3) Pty Ltd (11)	Australia	Ordinary	Provision of funds	-
Australian Gas Networks (Vic) Pty Ltd (12)	Australia	Ordinary	Gas distribution and infrastructure ownership	-
Australian Gas Networks (Albury) Ltd (13)	Australia	Ordinary	Gas distribution and infrastructure ownership	-
Australian Gas Networks (NSW Holdings 1) Pty Ltd (14)	Australia	Ordinary	Holding Company	-
Australian Gas Networks (NSW Holdings 2) Pty Ltd (15)	Australia	Ordinary	Holding Company	-
Australian Gas Networks (NSW Holdings 3) Pty Ltd (16)	Australia	Ordinary	Holding Company	-
Australian Gas Networks (NSW) Pty Ltd (17)	Australia	Ordinary	Gas distribution and infrastructure ownership	-

1) Australian Gas Networks Holdings Pty Ltd is a subsidiary of Australian Gas Networks UK 2 Limited.
2) Australian Gas Networks Investments Pty Ltd is a subsidiary of Australian Gas Networks Holdings Pty Ltd.
3) Cheung Kong Infrastructure (Malaysian) Limited is a subsidiary of Australian Gas Networks Investments Pty Ltd.
4) Australian Gas Networks Limited is a subsidiary of Australian Gas Networks Investments Pty Ltd and Cheung Kong Infrastructure (Malaysian) Limited.
5) These subsidiaries have been granted relief from the necessity to prepare financial reports in accordance with Class Order 98/1418 issued by the Australian Securities and Investments Commission.
6) Australian Gas Networks (SA Holdings 1) Ltd is a subsidiary of Australian Gas Networks Limited.
7) Australian Gas Networks (SA) Ltd is a subsidiary of Australian Gas Networks (SA Holdings 1) Ltd.
8) Australian Gas Networks (QLD) Ltd is a subsidiary of Australian Gas Networks Limited.
9) Australian Gas Networks (Vic Holdings 1) Pty Ltd is a subsidiary of Australian Gas Networks Limited.
10) Australian Gas Networks (Vic Holdings 2) Ltd is a subsidiary of Australian Gas Networks (Vic Holdings 1) Pty Ltd.
11) Australian Gas Networks (Vic 3) Pty Ltd is a subsidiary of Australian Gas Networks (Vic Holdings 2) Ltd.
12) Australian Gas Networks (Vic) Pty Ltd is a subsidiary of Australian Gas Networks (Vic 3) Pty Ltd.
13) Australian Gas Networks (Albury) Ltd is a subsidiary of Australian Gas Networks (Vic) Pty Ltd.
14) Australian Gas Networks (NSW Holdings 1) Pty Ltd is a subsidiary of Australian Gas Networks Limited.
15) Australian Gas Networks (NSW Holdings 2) Pty Ltd is a subsidiary of Australian Gas Networks (NSW Holdings 1) Pty Ltd.
16) Australian Gas Networks (NSW Holdings 3) Pty Ltd is a subsidiary of Australian Gas Networks (NSW Holdings 2) Pty Ltd.
17) Australian Gas Networks (NSW) Pty Ltd is a subsidiary of Australian Gas Networks (NSW Holdings 3) Pty Ltd.

26 Business combination

Summary of acquisition

On 29 August 2014, Australian Gas Networks UK Limited acquired 82.54% of the Australian Gas Networks Limited Group.

This was achieved by acquiring 82.54% of the share capital of Australian Gas Networks UK 2 Limited who acquired the Australian Gas Networks Limited Group through its subsidiary, Australian Gas Networks Holdings Pty Ltd. Australian Gas Networks Investments Pty Ltd (a subsidiary of Australian Gas Networks Holdings Pty Ltd) acquired 82.54% of the share capital of Australian Gas Networks Limited directly and all of the shares of Cheung Kong Infrastructure (Malaysian) Limited, a Company that holds the previous ownership interest of 17.46% held by the Cheung Kong Consortium.

This acquisition reflects the Group's strategy of investing in infrastructure opportunities around the world, leveraging the Group's strong financial position and solid experience in infrastructure. The excess of consideration over net assets acquired is attributable to the distribution licences held by the business.

The accounting for the acquisition of the Australian Gas Networks Group was finalised in the current financial year. At 31 December 2014, amounts were calculated on a provisional basis. Subsequent finalisation during 2015 has impacted the carrying amount of recognised assets and liabilities.

Details of the purchase consideration and the net assets acquired as provisionally reported at December 2014 and then finalised at December 2015, are as follows:

	Final Dec 15 $mill.	**Provisional Dec 14 $mill.**
Purchase consideration (refer below):		
Cash paid	**2,371.8**	2,371.8
	2,371.8	2,371.8

Total assets and liabilities recognised as a result of the acquisition are as follows:

	Final fair value $mill.	**Provisional fair value $mill.**
Cash and cash equivalents	**0.6**	0.6
Trade receivables	**85.4**	85.4
Other assets	**3.7**	3.7
Property, plant and equipment	**3,275.3**	3,332.9
Network maps	**85.7**	-
Distribution licence	**1,206.3**	1,246.5
Deferred tax assets	**157.3**	145.5
Payables	**(106.2)**	(106.2)
Borrowings	**(2,231.5)**	(2,231.5)
Provisions	**(12.4)**	(12.4)
Derivative financial instruments	**(28.3)**	(28.3)
Other liabilities	**(5.9)**	(5.9)
Deferred tax liabilities	**(58.2)**	(58.5)
Total identifiable net assets	**2,371.8**	2,371.8
Less: Non-controlling interest	**414.0**	414.0
Net assets acquired	**1,957.8**	1,957.8

Acquisition related costs of $8.7 million incurred in the previous period are included in corporate development, property and administration costs in the income statement.

The contractual amount of acquired trade receivables is equivalent to their fair value disclosed above due to their short-term nature. None of these are considered to be uncollectable.

All of the revenue of $606.4 million (2014: $185.6 million) and $177.4 million (2014: ($38.9 million) of the net profit after tax for the year ended 31 December 2015 was attributable to the acquired business. A calculation of the effect on Group revenue and profit, had the acquisition occurred on the date of incorporation of the Company, has not been disclosed in these financial statements. Due to the possible difference in acquisition entries and the related income statement effects, it is considered impractical to do so.

26 Business combination (continued)

Purchase consideration – cash outflow

	2015 $mill.	2014 $mill.
Outflow of cash to acquire subsidiary, net of cash acquired:		
Cash consideration	-	2,371.8
Less: cash balance acquired	-	0.6
Less: compulsory acquisition funds held	-	10.8
Compulsory acquisition funds disbursed during the financial year/period	**6.6**	-
Outflow of cash – investing activities	**6.6**	2,360.4

27 Events occurring after the balance sheet date

There have been no significant events that have occurred after the balance sheet date.

28 Commitments

Operating leases

The Group has non-cancellable operating leases for office space and warehouses expiring within five to eleven years. The leases have varying terms, escalation clauses and renewal rights. The warehouses are sublet to APA Networks as its works depot, also under non-cancellable operating leases.

Group	2015 $mill.	2014 $mill.
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	**1.0**	0.9
Later than one year but not later than five years	**3.9**	1.0
Later than five years	**1.2**	0.2
	6.1	2.1

Other expenditure commitments as at 31 December 2015 are contracted by the Group's operator (APA Networks).