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Australian Gas Networks UK Limited
Company number 09053205

Annual Report and Financial Statements for the year ended 31 December 2019

Contents

General information

The financial statements cover the consolidated entity consisting of Australian Gas Networks UK Limited and its subsidiaries. Unless otherwise stated, the financial statements are presented in Australian dollars which is Australian Gas Networks UK Limited's functional currency.

Australian Gas Networks UK Limited is a private limited company incorporated and domiciled in the United Kingdom. Its principal registered office is:

3 More London Riverside,
London, United Kingdom, SE1 2AQ

The financial statements were authorised for issue, in accordance with a resolution of Directors, on 22 April 2020.

Strategic Report

The Directors present their Strategic Report on Australian Gas Networks UK Limited and its subsidiaries (hereafter referred to as the "Group") for the financial year ended 31 December 2019.

Principal activities

Australian Gas Networks UK Limited controls, through its subsidiaries (refer note 29), 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:

- Provision of natural gas haulage services to retailers and industrial customers through the transmission pipelines and distribution networks it owns and manages; and
- Development of the business through expansion of the existing networks.

Financial and operational review

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 1.3 million domestic, commercial and industrial customers.

The Group's revenue was $632.3 million for the year ended 31 December 2019 (2018: $617.2 million). The higher revenue was mainly due to higher gas haulage volumes for domestic and smaller customers (<10 TJ) which increased by 3% when compared to the prior year (54.8 PJ vs 53.0 PJ in the previous year) reflecting the cooler weather in 2019 and annual tariff increases in all states.

Operating expenses of $154.6 million were higher than the previous financial year ($148.1 million). The increase was mainly associated with unaccounted for gas costs and employee costs.

Depreciation and impairment of $113.3 million was higher than the previous financial year ($108.5 million) mainly due to higher depreciation on meters, the effect of further additions and an increase in the provision for remediation of the site at Sale, Victoria.

Net finance costs were $120.2 million, $9.6 million higher than the previous financial year ($110.6 million). The increase is mainly due to the early settlement of an out of the money interest rate swap to reset lower interest rates into the future.

For the year ended 31 December 2019, Profit after Tax was $170.8 million which compares with a Profit after Tax of $175.3 million in the previous year.

Cash flow from operating activities was $373.0 million (2018: $346.0 million). The increase in cash flow reflects the higher haulage receipts in the current year and the deferment of the last operator payment for 2017 to January 2018 (due to the next business day rule), partly offset by higher cash borrowing costs in 2019 due to the swap settlement. Operating cash flow more than covered the $78.9 million of dividends and funding of the $270.8 million capital expenditure program.

Capital expenditure paid in this financial year was $270.8 million, $3.8 million lower than the previous year ($274.6 million) partly due to the deferral of the December 2017 operator payment to January 2018 offset by higher current year costs associated with the mains replacement program and major projects. A large proportion of the capex program continued to focus on the replacement of aging cast iron and steel gas mains (2019: $104.8 million, 2018: $89.2 million). During the reporting period 287 km of mains were replaced (2018: 298 km).

The net customer additions to the networks were around 24,600 (2018: 26,100). Capital expenditure of $89.6 million associated with the new connections was recorded in this reporting period (2018: $87.2 million).

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 2019 amounting to $115.1 million (2018: $159.8 million). This shortfall largely relates to: a $36.2 million net current borrowings position due for repayment before 31 December 2020; $13.3 million of accrued interest to be paid in the first quarter of 2020; derivative financial instruments with a net current liability position of $17.1 million due to expire before December 2020, which will be replaced with new derivative instruments at expiry in accordance with the Group's hedging policy; and $10.7 million of other income for which the recognition of revenue has been deferred beyond 31 December 2019.

The deficiency is more than covered by unused credit facilities on hand at 31 December 2019 of $273.5 million (2018: $392.0 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 22.

Events occurring after the balance sheet date

The AGN Group has not been impacted by the Australian bushfires that occurred late in 2019 and early 2020. Fundamentally, bushfires are not considered a significant risk to the Group's networks and pipelines as the vast majority of assets are underground. Whilst some of the Group's network and assets are located in the general proximity of the early 2020 bushfires in Victoria and New South Wales there was no damage to gas infrastructure or impact to the Group's operations. In South Australia no fires burned in locations where the Group has assets located.

At a management and operational level the AGN Group continues to actively monitor the situation surrounding the outbreak of the COVID-19 virus, and has implemented working from home arrangements. The AGN Group's business is characterised by fully (or highly) regulated operations that deliver an essential service with relatively low likelihood of disruption. Revenue receivables are protected by both the regulatory frameworks and the high quality credit profiles of our major counterparties. Notwithstanding this, we continue to monitor the payment cycles and have contingency arrangements in place for operational team (people, process and systems) to help ensure that the required metering and billing processes are not disrupted through this event, including the activation of business continuity arrangements. At a financial level the Group continues to maintain strong and active relationships across its banking group with conservative levels of liquidity coverage in place in both cash and available facilities across multiple bank facility providers.

Principal risks and uncertainties

Volume risk
The major regulated jurisdictions within AGN's distribution network operate under a Price Cap regime. This exposes the company to volume/consumption risk, which is largely driven by the weather with residential customers using natural gas for heating and cooling, hot water and cooking. To mitigate the risk of lower residential volumes in particular, the annual haulage revenue budget is established at a conservative level which enables AGN to still manage and meet its financial requirements in the event of lower volumes. This is supplemented by annual marketing programs including advertising and rebates for example, which aim to both maintain and grow the customer base.

Health and Safety
Health and Safety is our priority. There are dedicated Health, Safety and Environment teams in the operating businesses who manage and monitor the safety systems.

Financial risks
The Group's activities expose it to a variety of financial risks. 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 for trading or other speculative purposes. Risk management is carried out in accordance with policies approved by the Australian Gas Networks Limited Board of Directors. See note 4 for detailed disclosure around financial risk mitigation and hedging.

Foreign exchange risk
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.

Interest rate risk
The Group's interest rate risk arises from borrowings. The Group manages its cash flow interest rate risk by using floating to fixed interest rate swaps. Hedging activities are evaluated regularly to confirm alignment with the debt and liquidity management policies and ensure that the Group is not exposed to excess risk from interest rate volatility.

Price risk
The Group is exposed to inflation price risk from the principal and/or interest payments on Capital Indexed Bonds held by the Group which are escalated by changes in the Consumer Price Index.

Outlook

2020 is expected to produce further strong financial performance. Higher tariffs in all states will contribute to solid profit and cash flows, in addition to tight management of operating and borrowing costs.

The capital expenditure program in 2020 will again be focussed on capacity enhancements, mains replacement and continuation of connections to new areas of the network as well as increasing supply to high demand areas. Customer connections are expected to be around 23,600.

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.

Under Victorian law, the ultimate liability for remediation costs potentially lies with the original polluter. During the year the EPA issued a clean-up notice which encompasses site remediation activities up to October 2025. 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 2019 (refer note 23).

On behalf of the Board

Mark Horsley

MJ Horsley
Director

30 April 2020

Directors' Report

The Directors present their report on the audited consolidated entity consisting of Australian Gas Networks UK Limited and its subsidiaries for the financial year ended 31 December 2019. The financial statements are presented in Australian dollars unless otherwise stated.

Australian Gas Networks UK Limited is a company incorporated and resident in the United Kingdom.

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
Mark Horsley
Li Tzar Kuoi, Victor
Chan Loi Shun, Dominic
Graham Winston Edwards
Jonathan Theodore Miller
Guy Butterworth Ellis

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 4.

Dividends – Australian Gas Networks UK Limited

Australian Gas Networks UK Limited and its subsidiary, Australian Gas Networks UK 2 Limited declared and paid dividends during the financial year as follows:

	Consolidated	
	2019 $m	**2018 $m**
Final dividend for the year ended 31 December 2019: $nil (2018: $0.11) per ordinary share	-	122.9
Interim dividend for the year ended 31 December 2019 of $0.07 (2018: $0.06) per ordinary share	**78.9**	70.4
	78.9	193.3

Key Performance Indicators

For information relating to key performance indicators, refer to 'Financial and operational review' in the Strategic Report.

Directors' insurance and indemnities

As permitted by the Articles of Association, the Directors have the benefit of an indemnity which is a qualifying third party indemnity provision as defined by Section 234 of the Companies Act 2006. The indemnity was in force throughout the last financial year and is currently in force. The Group also purchased and maintained throughout the financial year Directors' and Officers' liability insurance in respect of itself and its Directors.

Statement of Disclosure of Information to 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 31.

Outlook

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

Greenhouse gas emissions

The AGN 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 2019. 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 2019 were 582,665 tonnes of CO2 equivalent (CO2e) (2018: 575,422 tonnes of CO2e) with the increase being due to generic growth in the gas distribution network. The emissions resulting from the purchase of electricity for the AGN Group's own use was 632 tonnes of CO2e (2018: 629 tonnes of CO2e) with the increase being due to increased electricity consumption in the South Australian gas distribution network.

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 2019 was 22.4 tonnes CO2e/km (2018: 22.3 tonnes CO2e/km).

On behalf of the Board

Mark Horsley

MJ Horsley
Director

30 April 2020

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 financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and 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 and company for that period. In preparing these financial statements, the Directors are required to:

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

The Directors are also responsible for safeguarding the assets of the group and company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group and company's transactions and disclose with reasonable accuracy at any time the financial position of the group and company and enable them to ensure that the financial statements comply with the Companies Act 2006.

Section 172(1) statement

The directors are fully aware of their responsibilities to promote the success of the company in accordance with s172 of the Companies Act 2006 to act in the way which they consider, in good faith, would be mostly likely to promote the success of the Company for the benefit of its members as a whole and, in doing so, to have regard (amongst other matters) to:

- the likely consequences of any decision in the long term;
- the interests of the Company's employees;
- the need to foster the Company's business relationships with suppliers, customers and others;
- the impact of the Company's operations on the community and the environment;
- the desirability of the Company maintaining a reputation for high standards of business conduct; and
- the need to act fairly as between members of the Company

Induction materials provided on appointment include an explanation of directors' duties, and the board is regularly reminded of the s.172(1) Matters

On behalf of the Board

Mark Horsley

MJ Horsley
Director

30 April 2020

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

Report on the audit of the financial statements

Opinion

In our opinion, Australian Gas Networks UK 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 2019 and of the group's profit and the group's and the company's cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the company's financial statements, as applied in accordance with the provisions of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the balance sheets as at 31 December 2019; the consolidated statement of profit or loss and other comprehensive income, the cash flow statements, and the statements of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's and company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's and company's ability to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the group and company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities set out on page 6, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

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.

Other required reporting

Companies Act 2006 exception reporting

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
- certain disclosures of directors' remuneration specified by law are not made; 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.

Andy Ward (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Leeds
30 April 2020

Australian Gas Networks UK Limited
Consolidated Statement of profit or loss and other comprehensive income
For the year ended 31 December 2019

	Note	2019 $mill.	2018 $mill.
Revenue from continuing operations	5	**632.3**	617.2
Operating costs	7	**(154.6)**	(148.1)
Operating profit		**477.7**	469.1
Depreciation and impairment		**(113.3)**	(108.5)
Net finance costs	8	**(120.2)**	(110.6)
Profit before income tax expense		**244.2**	250.0
Income tax expense	9	**(73.4)**	(74.7)
Profit after tax		**170.8**	175.3
Other comprehensive (expense)/income			
Items that may be reclassified subsequently to profit and loss			
Changes in the fair value of cash flow hedges		**(77.5)**	(14.9)
Cost of hedging		**(0.2)**	0.4
Income tax credit relating to changes in the fair value of cash flow hedges		**23.3**	4.4
Other comprehensive expense for the financial year		**(54.4)**	(10.1)
Total comprehensive income for the financial year		**116.4**	165.2
Profit for the financial year is attributable to:			
Owners of Australian Gas Networks UK Limited		**140.9**	144.7
Non-controlling interest		**29.9**	30.6
		170.8	175.3
Total comprehensive income for the financial year is attributable to:			
Owners of Australian Gas Networks UK Limited		**96.0**	136.4
Non-controlling interest		**20.4**	28.8
		116.4	165.2

The Consolidated Statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

Australian Gas Networks UK Limited
Company number 09053205
Balance Sheets
As at 31 December 2019

	Note	Group 2019 $mill.	Company 2019 $mill.	Group 2018 $mill.	Company 2018 $mill.
ASSETS					
Current assets					
Cash and cash equivalents	10	**132.3**	-	4.3	0.1
Receivables	11	**41.0**	-	43.0	-
Lease receivable	12	**0.2**	-	-	-
Contract assets	13	**9.4**	-	11.8	-
Derivative financial instruments	14	**11.1**	-	2.9	-
Other assets	15	**6.6**	-	4.2	-
Total current assets		**200.6**	-	66.2	0.1
Non-current assets					
Receivables	11	**22.7**	**0.2**	19.9	0.2
Lease receivable	12	**2.6**	-	-	-
Property, plant and equipment	16	**4,189.7**	-	4,013.7	-
Intangible assets	17	**1,302.8**	-	1,302.8	-
Right of use assets	18	**1.1**	-	-	-
Investments	19	-	**1,957.8**	-	1,957.8
Derivative financial instruments	14	**381.2**	-	309.4	-
Total non-current assets		**5,900.1**	**1,958.0**	5,645.8	1,958.0
Total assets		**6,100.7**	**1,958.0**	5,712.0	1,958.1
LIABILITIES					
Current liabilities					
Payables	20	**59.3**	-	45.8	-
Lease liabilities	21	**0.4**	-	-	-
Borrowings	22	**168.5**	-	108.0	-
Provisions	23	**16.5**	-	14.7	-
Derivative financial instruments	14	**28.2**	-	12.2	-
Contract liabilities	6	**10.7**	-	14.5	-
Other liabilities	24	**32.1**	-	30.8	-
Total current liabilities		**315.7**	-	226.0	-
Non-current liabilities					
Lease liabilities	21	**3.9**	-	-	-
Borrowings	22	**3,022.8**	-	2,893.5	-
Provisions	23	**25.2**	-	13.9	-
Derivative financial instruments	14	**95.4**	-	26.9	-
Contract liabilities	6	**4.7**	-	5.2	-
Deferred tax liabilities	9(f)	**271.5**	-	222.4	-
Total non-current liabilities		**3,423.5**	-	3,161.9	-
Total liabilities		**3,739.2**	-	3,387.9	-
Net Assets		**2,361.5**	**1,958.0**	2,324.1	1,958.1
EQUITY					
Contributed equity	25	**1,957.8**	**1,957.8**	1,957.8	1,957.8
Reserves	26	**(39.7)**	-	5.2	-
Retained earnings/(Accumulated losses)	27	**31.2**	**0.2**	(44.5)	0.3
Total equity attributable to owners of Australian Gas Networks UK Limited		**1,949.3**	**1,958.0**	1,918.5	1,958.1
Non-controlling interest		**412.2**	-	405.6	-
Total Equity		**2,361.5**	**1,958.0**	2,324.1	1,958.1

The Group and Company Balance Sheets 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 $56.5 million (2018: $152.2 million).

The financial statements on pages 8 to 46 were approved by the Board of Directors and signed on its behalf by:

Mark Horsley MJ Horsley, **Director** 30 April 2020

Group	**Contributed Equity $mill.**	**Reserves $mill.**	**(Accumulated Losses)/ Retained earnings $mill.**	**Total $mill.**	**Non-controlling Interests $mill.**	**Total Equity $mill.**
	Attributable to the owners of Australian Gas Networks UK Limited					
Balance at 1 January 2018	1,957.8	13.5	(29.7)	1,941.6	410.6	2,352.2
Profit for the financial year	-	-	144.7	144.7	30.6	175.3
Other comprehensive expense for the financial year	-	(8.3)	-	(8.3)	(1.8)	(10.1)
Transactions with owners in their capacity as owners						
Dividends	-	-	(159.5)	(159.5)	(33.8)	(193.3)
Balance at 31 December 2018	1,957.8	5.2	(44.5)	1,918.5	405.6	2,324.1
Adjustment for change in accounting policy	-	-	**(0.1)**	**(0.1)**	-	**(0.1)**
Profit for the financial year	-	-	**140.9**	**140.9**	**29.9**	**170.8**
Other comprehensive expense for the financial year	-	**(44.9)**	-	**(44.9)**	**(9.5)**	**(54.4)**
Transactions with owners in their capacity as owners						
Dividends	-	-	**(65.1)**	**(65.1)**	**(13.8)**	**(78.9)**
Balance at 31 December 2019	**1,957.8**	**(39.7)**	**31.2**	**1,949.3**	**412.2**	**2,361.5**

Company	**Contributed Equity $mill.**	**Reserves $mill.**	**Retained Earnings $mill.**	**Total $mill.**	**Non-controlling Interests $mill.**	**Total Equity $mill.**
	Attributable to the owners of Australian Gas Networks UK Limited					
Balance at 1 January 2018	1,957.8	-	-	1,957.8	-	1,957.8
Profit for the financial year	-	-	152.2	152.2	-	152.2
Other comprehensive income for the financial year	-	-	-	-	-	-
Transactions with owners in their capacity as owners						
Dividends	-	-	(151.9)	(151.9)	-	(151.9)
Balance at 31 December 2018	1,957.8	-	0.3	1,958.1	-	1,958.1
Profit for the financial year	-	-	**56.5**	**56.5**	-	**56.5**
Other comprehensive income for the financial year	-	-	-	-	-	-
Transactions with owners in their capacity as owners						
Dividends	-	-	**(56.6)**	**(56.6)**	-	**(56.6)**
Balance at 31 December 2019	**1,957.8**	-	**0.2**	**1,958.0**	-	**1,958.0**

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

	Note	Group 2019 $mill.	Company 2019 $mill.	Group 2018 $mill.	Company 2018 $mill.
Cash flows from operating activities					
Receipts from customers (inclusive of goods and services tax)		**692.5**	**-**	671.7	-
Payments to suppliers and employees (inclusive of goods and services tax)		**(205.3)**	**(0.1)**	(217.9)	-
		487.2	**(0.1)**	453.8	-
Income tax paid		**(1.1)**	**-**	(0.1)	-
Finance income received		**0.4**	**-**	0.6	-
Finance costs paid		**(113.5)**	**-**	(108.3)	-
Net cash inflow/(outflow) from operating activities	28(a)	**373.0**	**(0.1)**	346.0	-
Cash flows from investing activities					
Payments for remediation of land		**(0.8)**	**-**	(0.3)	-
Payments for property, plant and equipment		**(270.8)**	**-**	(274.6)	-
Net cash outflow from investing activities		**(271.6)**	**-**	(274.9)	-
Cash flows from financing activities					
Proceeds from borrowings		**343.5**	**-**	666.1	-
Repayment of borrowings		**(232.3)**	**-**	(559.7)	-
Borrowings (to)/from related parties		**(4.7)**	**-**	(9.6)	(0.3)
Dividends received		**-**	**56.6**	-	152.2
Dividends paid		**(78.9)**	**(56.6)**	(193.3)	(151.9)
Repayment of lease liabilities		**(0.2)**	**-**	-	-
Debt and capital raising costs		**(0.8)**	**-**	(0.9)	-
Net cash inflow/(outflow) from financing activities		**26.6**	**-**	(97.4)	-
Net increase/ (decrease) in cash and cash equivalents		**128.0**	**(0.1)**	(26.3)	-
Cash and cash equivalents at the beginning of the financial year		**4.3**	**0.1**	30.6	0.1
Cash and cash equivalents at the end of the financial year	10	**132.3**	**-**	4.3	0.1

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

1 Accounting policies

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below and in the relevant note 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 Group"). The Australian Gas Networks UK Limited's functional currency is Australian dollars, the financial statements are presented in Australian dollars unless otherwise stated.

(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.

Historical cost convention
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.

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.

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 2019 amounting to $115.1 million (2018: $159.8 million). This shortfall largely relates to: a $36.2 million net current borrowings position due for repayment before 31 December 2020; $13.3 million of accrued interest to be paid in the first quarter of 2020; derivative financial instruments with a net current liability position of $17.1 million due to expire before December 2020, which will be replaced with new derivative instruments at expiry in accordance with the Group's hedging policy; and $10.7 million of other income for which the recognition of revenue has been deferred beyond 31 December 2019.

The deficiency is more than covered by unused credit facilities on hand at 31 December 2019 of $273.5 million (2018: $392.0 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 22.

New and amended standards adopted by the Group
IFRS 16 Leases
The Group has adopted IFRS 16 *Leases* from 1 January 2019. The standard replaces IAS 17 *Leases* and for lessees eliminates the classifications of operating leases and finance leases. Except for short-term leases and leases of low-value assets, right-of-use assets and corresponding lease liabilities are recognised in the balance sheet. Straight-line operating lease expense recognition is replaced with a depreciation charge for the right-of-use assets and an interest expense on the recognised lease liabilities (included in finance costs). In the earlier periods of the lease, the expenses associated with the lease under IFRS 16 will be higher when compared to lease expenses under IAS 17. However, EBITDA (Earnings before interest, tax, depreciation and amortisation) results will improve as the operating expense is now replaced by interest expense and depreciation in profit or loss. For classification within the statement of cash flows, the interest portion is disclosed in operating activities and the principal portion of the lease payments are separately disclosed in financing activities. For lessor accounting the standard does not substantially change how a lessor accounts for leases, except when it involves a sublease that is classified as a finance lease. In this case the right-of-use asset resulting from the head lease is derecognised and a lease receivable is recognised. Interest income on the receivable is recognised within net finance cost in the profit and loss. The application has not resulted in a material impact to the Group (refer note 2).

Interpretation 23 Uncertainty over Income Tax Treatments
The interpretation explains how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment. There are no new disclosure requirements however entities are reminded of the general requirement to provide information about judgements and estimates made in preparing the financial statements. This interpretation has not resulted in an impact to the Group.

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.

1 Accounting polices (continued)

(b) 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)
AGN (Darling Downs) Pty Ltd (incorporated in Australia ACN 618798262)

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.

(c) 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 the income statement.

(d) 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).

(e) 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.

1 Accounting polices (continued)

(f) 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.

(g) 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.

(h) 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.

2 Changes in accounting policies

This note explains the impact of the adoption of IFRS 16 *Leases* on the Group's financial statements.

As indicated in note 1(a), the Group has adopted IFRS 16 *Leases* retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019. The new accounting policies are disclosed in note 12, note 18 and note 21.

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 *Leases*. These liabilities were measured at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate as of 1 January 2019. The Group's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 3.5%.

The associated right-of-use assets for property leases were measured on a retrospective basis as if the new rules had always applied.

The Group had no leases previously classified as finance leases under IAS 17. However the Group has subleases in relation to property leases which under IFRS 16 provisions for lessor accounting are classified as finance leases. The accounting for a sub-lease that is classified as a finance lease requires derecognition of the right-of-use asset and the recognition of a lease receivable.

In summary the following adjustments were made to the amounts recognised in the balance sheet at the date of initial application (1 January 2019):

	31 December 2018 $mill.	Adoption of standard $mill.	1 January 2019 $mill.
Lease receivable – current	-	0.2	0.2
Lease receivable – non-current	-	2.7	2.7
Right-of-use assets	-	0.9	0.9
Deferred tax assets	145.0	0.1	145.1
Lease liabilities – current	-	0.4	0.4
Lease liabilities – non-current	-	3.8	3.8
Other liabilities - current	30.8	(0.2)	30.6
Accumulated losses	(44.5)	(0.1)	(44.6)

3 Critical accounting estimates

The 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(d). The recoverable amounts have been determined based on fair value analysis. These calculations require the use of assumptions. Refer to note 17 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 16(c) for details of the estimated useful lives used by the Group.

4 Financial risk management

(a) Financial risk management objectives

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange 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 for trading or other speculative purposes. 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 expected loss rate 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.

Hedge accounting is applied to remove the accounting mismatch between the hedging instrument and the hedged item. The effective portion of the change in fair value of the hedging instrument is deferred into the cash flow hedge reserve through other comprehensive income and will be recognised in profit and loss when the hedged item affects profit or loss. This will effectively result in recognising interest expense at a fixed interest rate for the hedged loans.

(b) Market risk

(i) 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.

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

For further details of the Group's exposure to foreign exchange risk refer to note 22(e).

(ii) 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 $283 million CIBs (1% movement in CPI generates $2.8 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.

(iii) 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, 27% (2018: 28%) 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. At year end, 93% of variable rate borrowings were hedged.

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 align with 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 (quarterly and semi-annually), the difference between the contracted fixed rates and floating rate interest amounts calculated by reference to the agreed notional principal amounts.

The swap contracts require settlement of net interest receivable or payable over various periods as contracted. The settlement dates coincide with the dates in which interest is payable on the underlying debt.

4 Financial risk management (continued)

The Group enters into swaps that have similar critical terms as the hedged item, such as reference rate, reset dates, payment dates, and notional amount. The group does not hedge 100% of its loans, therefore the hedged item is identified as a proportion of the outstanding loans up to the notional amount of the swaps. As all critical terms matched during the year, the economic relationship was 100% effective. If due to certain circumstances one or more critical terms do not match, the economic relationship and the hedge effectiveness will be assessed quantitatively using a cumulative dollar-offset test.

Hedge ineffectiveness may occur due to:

- the credit value/debit value adjustment on the interest rate swaps which is not matched by the loan, and
- differences in critical terms between the interest rate swaps and loans.

For further information on hedge ineffectiveness refer to note 14(e).

(iv) 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 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 income immediately.

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.

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.

For quantitative information on the Group's swap contracts refer to note 14(b).

(v) 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. For further information on fair values of swap contracts refer to note 14(c).

(c) Credit risk

Credit risk arises from cash and cash equivalents, favourable derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables. Credit risk arises from the potential failure of counterparties to meet their obligations under the respective contracts at maturity.

(i) Risk management and security
Credit risk is managed on a Group basis. 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 4(b)*(iii)* for further details in relation to credit risk associated with derivatives.

Credit risk is centred on the large retailers. The Group has rights under the various haulage revenue contracts with Victorian retailers to demand bank guarantees from retailers who do not possess investment grade credit ratings. Under the National Energy Customer Framework (NECF) retailers in South Australia can only be required to provide bank guarantees under certain circumstances. For further information on credit risk in relation to trade receivables refer to note 11(a).

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

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.

4 Financial risk management (continued)

(c) Credit risk (continued)

(ii) Impaired trade receivables
The Group applies the simplified approach to providing for expected credit losses prescribed by AASB 9, which requires the use of the lifetime expected loss provision for all trade receivables.

To measure expected credit losses, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due. The expected loss rates are based on sales over a period of 5 years before December 2019 and the corresponding historical losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on factors that may affect the ability of the customers to settle the receivables.

(d) 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. 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. For further information on liquidity risk refer to note 22(f).

5 Revenue from continuing operations

	2019 $mill.	2018 $mill.
Revenue from contracts with customers	**630.9**	605.3
Revenue from other sources: rental and other income	**1.4**	11.9
	632.3	617.2

(a) Disaggregation of revenue

The disaggregation of revenue from contracts with customers is as follows:

	2019 $mill.	2018 $mill.
Timing of revenue recognition:		
At a point in time	**-**	-
Over time	**630.9**	605.3
	630.9	605.3

(b) Revenue recognised in relation to contract liabilities

The following table shows how much of the revenue recognised in the current reporting period relates to carried-forward contract liabilities and how much relates to performance obligations that were satisfied in a prior year.

	2019 $mill.	2018 $mill.
Revenue recognised that was included in the contract liability balance at the beginning of the financial year		
Customer contributions	**14.4**	19.1
Revenue recognised from performance obligations satisfied in previous periods		
Customer contributions	**0.4**	0.5

(c) Financing components

The Group does not expect to have any material contracts where the period between the satisfaction of the performance obligation to the customer and payments made by or received from the customer, exceeds one year. As a consequence the Group does not adjust any of the transaction prices for the time value of money.

5 Revenue from continuing operations (continued)

(d) Accounting policy

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 the performance obligations have been satisfied.

Haulage and other network services
The Group delivers natural gas to its customers through its distribution network and transmission pipelines, and provides ancillary services in relation to the network. Haulage services and ancillary services are distinct performance obligations and revenue on each of these is recognised when the service is provided to the customer. The price of the services is based on tariffs included in approved Access Arrangements or tariffs negotiated with the customer in unregulated areas. The customer receives the benefit of the service as it is performed therefore the performance obligation is satisfied "over time". Where the service has been provided and the customer has been billed a trade receivable is recognised on balance sheet. Where the service has been provided and the customer has not yet been billed a contract asset is recognised on balance sheet.

Capital works
The Group performs alteration and construction works on its distribution network at the request of customers. These works are funded by the customer. Where the contract only allows for capital works there is one performance obligation and revenue is recognised when the service is provided. The customer receives the benefit of the service as the work is performed therefore the performance obligation is satisfied "over time". As the contribution to the capital works is received from the customer it is recognised as a contract liability on balance sheet and taken to revenue over time using an output method, either percentage of completion or milestones reached as specified in the contract.

Some contracts will include more than one deliverable, being the capital works and the subsequent provision of haulage services and/or maintenance services:

- Where the performance obligations are determined to be distinct, the contract price is allocated to each performance obligation using estimated or actual construction costs, an estimation of maintenance costs if applicable and commercial tariffs for haulage revenue. Revenue is then recognised as each performance obligation is satisfied; or
- Where the performance obligations are determined to not be distinct, the total contract price is recognised over the life of the contract.

Other income includes rental income on leases that are classified as operating leases. Dividends are recognised as revenue when the right to receive payment is established.

6 Contract liabilities

	Group 2019 $mill.	Company 2019 $mill.	Group 2018 $mill.	Company 2018 $mill.
Current				
Contract liabilities	**10.7**	-	14.5	-
Non-current				
Contract liabilities	**4.7**	-	5.2	-
	15.4	-	19.7	-

(a) Significant changes in contract liabilities

Contract liabilities have decreased as the Group has fulfilled performance obligations relating to large projects that were ongoing in the previous financial year.

6 Contract liabilities (continued)

(b) Unsatisfied long term customer contribution contracts

For any customer contribution projects in progress at year end, revenue relating to unsatisfied performance obligations would be disclosed. At 31 December 2019, there are no unsatisfied performance obligations.

(c) Accounting policy

Contract liabilities represent the Group's obligation to transfer goods or services to a customer and are recognised when a customer pays consideration, or when the Group recognises a receivable to reflect its unconditional right to consideration (whichever is earlier) before the Group has transferred the goods or services to the customer.

7 Operating costs

Group	**2019 $mill.**	**2018 $mill.**
Network operating costs	**101.6**	100.6
Gas purchases	**14.6**	10.3
Salaries and wages	**10.4**	7.2
Other employee benefit costs	**1.1**	0.8
Marketing costs	**9.7**	10.4
Government licence fees	**7.3**	6.6
Other administration costs	**9.9**	12.2
	154.6	148.1

8 Net finance costs

Group	**2019 $mill.**	**2018 $mill.**
Interest income	**(0.5)**	(0.5)
Interest and indexation	**115.3**	112.0
Ineffective derivatives – cash flow hedges	**5.3**	-
Ineffective derivatives – fair value hedges	**(1.8)**	-
Fees on financing facilities	**1.5**	1.6
Amortisation of debt costs	**(1.6)**	(1.7)
Net interest expense on lease liabilities	**0.1**	-
Foreign currency translation expense/(credit)	**1.9**	(0.8)
	120.2	110.6

(a) Accounting policy

Interest revenue includes interest on money invested and is recognised when the interest is earned.

Net interest expense on leases includes the interest component that accrues on leases classified as finance leases and is calculated using the effective interest method.

Borrowing costs attributable to assets under construction are capitalised as part of the cost of those assets. All other borrowing costs are recognised in the income statement in the period in which they are incurred.

9 Income tax expense

Group	**2019 $mill.**	**2018 $mill.**
(a) Income tax expense		
Current tax	**0.9**	1.1
Deferred tax	**72.5**	73.6
	73.4	74.7
Attributable to:		
Profit from continuing operations	**73.4**	74.7
Deferred income tax expense included in income tax expense comprises:		
Decrease in deferred tax assets (note 9(e))	**6.9**	12.8
Increase in deferred tax liabilities (note 9(f))	**65.6**	60.8
	72.5	73.6
(b) Numerical reconciliation of income tax expense to prima facie tax payable		
Profit from continuing operations before income tax expense	**244.2**	250.0
Tax at the Australian tax rate of 30% (2018: 30%)	**73.3**	75.0
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
Non-(taxable)/deductible items	**-**	(0.2)
Other	**0.1**	(0.1)
Total income tax expense	**73.4**	74.7
(c) Amounts recognised directly in equity		
Aggregate current and deferred tax arising in the reporting year and not recognised in net profit or loss but directly debited or credited to equity		
Net deferred tax – credited directly to equity	**(23.3)**	(4.4)

(d) Accounting policy

The tax expense or benefit 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 benefit 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.

9 Income tax expense (continued)

(d) Accounting policy (continued)

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.

(e) Deferred tax asset

	Group 2019 $mill.	Company 2019 $mill.	Group 2018 $mill.	Company 2018 $mill.
The balance comprises temporary differences attributable to:				
Leases	**0.5**	-	-	-
Accrued expenses	**4.9**	-	4.4	-
Provision for employee benefits	**0.4**	-	0.3	-
Contract liabilities	**4.6**	-	5.9	-
Provision for land management costs	**7.7**	-	4.6	-
Other provisions	**4.2**	-	3.5	-
Derivatives/fair value borrowings adjustment	**29.6**	-	7.1	-
Deferred costs	**1.5**	-	1.3	-
Tax losses	**108.1**	-	117.9	-
	161.5	-	145.0	-
Set-off of deferred tax liabilities pursuant to set-off provisions	**(161.5)**	-	(145.0)	-
Net deferred tax assets	**-**	-	-	-
Deferred tax assets expected to be recovered after more than 12 months	**161.5**	-	145.0	-
Movements:				
Balance at the beginning of the financial year	**145.0**	-	153.4	-
Adjustment for adoption of new standard	**0.1**	-	-	-
Charged to the income statement	**(6.9)**	-	(12.8)	-
Debited to equity	**23.3**	-	4.4	-
Balance at the end of the financial year	**161.5**	-	145.0	-

9 Income tax expense (continued)

(f) Deferred tax liability

	Group 2019 $mill.	Company 2019 $mill.	Group 2018 $mill.	Company 2018 $mill.
The balance comprises temporary differences attributable to:				
Prepayments	**0.2**	-	0.1	-
Intangibles	**25.7**	-	25.7	-
Excess of book value over tax value of property, plant and equipment	**406.8**	-	341.6	-
Right of use assets	**0.3**	-	-	-
	433.0	-	367.4	-
Set-off of deferred tax assets pursuant to set-off provisions	**(161.5)**	-	(145.0)	-
Net deferred tax liabilities	**271.5**	-	222.4	-
Deferred tax liabilities expected to be recovered after more than 12 months	**433.0**	-	367.4	-
Movements:				
Balance at the beginning of the year	**367.4**	-	306.6	-
Charged to the income statement	**65.6**	-	60.8	-
Balance at the end of the year	**433.0**	-	367.4	-

10 Cash and cash equivalents

	Group 2019 $mill.	Company 2019 $mill.	Group 2018 $mill.	Company 2018 $mill.
Cash at bank – interest bearing	**132.3**	-	4.3	0.1
	132.3	-	4.3	0.1

(a) Accounting policy

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

11 Receivables

	Group 2019 $mill.	Company 2019 $mill.	Group 2018 $mill.	Company 2018 $mill.
Current				
Trade receivables	**41.1**	-	43.1	-
Provision for credit loss	**(0.1)**	-	(0.1)	-
	41.0	-	43.0	-
Non-Current				
Receivables from related entities	**22.7**	**0.2**	19.9	0.2
	22.7	**0.2**	19.9	0.2

(a) Impairment and risk exposure

Information about the approach used for impairment of trade receivables and the Group's exposure to credit risk can be found in note 4(c).

At balance date ten bank guarantees with an aggregate value of $10.5 million were in place (2018: six guarantees with an aggregate value of $9.1 million).

Allowance for credit losses
The Group has recognised a loss of $125,883 (2018: $33,403) in profit or loss in respect of the expected credit losses for the year ended 31 December 2019. Movements in the provision for impairment of receivables are as follows:

	Group 2019 $	Company 2019 $	Group 2018 $	Company 2018 $
Balance at the beginning of the financial year	**50,000**	-	50,000	-
Receivables written off during the year as uncollectable	**(125,883)**	-	(33,403)	-
Further provision taken to profit or loss	**175,883**	-	33,403	-
Balance at the end of the financial year	**100,000**	-	50,000	-

As of 31 December, trade receivables of $0.4 million (2018: $1.1 million) were past due. The ageing of these trade receivables is as follows:

	Group 2019 $mill.	Company 2019 $mill.	Group 2018 $mill.	Company 2018 $mill.
31 to 60 days	**0.2**	-	0.4	-
61 to 90 days	**-**	-	0.2	-
Over 90 days	**0.2**	-	0.5	-
	0.4	-	1.1	-

Of the $0.4 million of debtors over 30 days at 31 December 2019, $0.2 million has now been collected (2018: $1.1 million over 30 days at 31 December 2018, $0.2 million collected).

11 Receivables (continued)

(b) Accounting policy and significant terms and conditions

Trade receivables represent amounts that have been billed to customers for the provision of network services and are recognised initially at fair value and subsequently measured at amortised cost, less provision for credit losses.

Contract assets represent amounts that are accrued and yet to be billed to customers for the provision of network services.

The Access Arrangement covering the South Australian network requires the retailer to pay for gas delivered within 30 days and contractual arrangements for the Queensland network require the retailer to pay charges 10 business days after the date that the statement of charges is first sent.

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

The Group applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which requires the use of the lifetime expected loss provision for all trade receivables.

To measure expected credit losses, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due. The expected loss rates are based on sales over a period of 5 years before December 2019 and the corresponding historical losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on factors that may affect the ability of the customers to settle the receivables.

Other receivables are recognised at amortised cost, less any allowance for expected credit losses.

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

12 Lease receivable

	Group 2019 $mill.	Company 2019 $mill.	Group 2018 $mill.	Company 2018 $mill.
Current				
Lease receivable	0.2	-	-	-
Non-Current				
Lease receivable	2.6	-	-	-
	2.8	-	-	-

(a) Accounting policy

Lease receivables represent amounts due in respect of leases that have been classified as finance leases. The lease receivable is initially measured at an amount equal to the net investment in the lease using a discount rate equivalent to the interest rate implicit in the lease. Subsequently the lease receivable is increased for the amount of finance income recognised and decreased by the payments received.

13 Contract assets

The Group has recognised the following assets related to contracts with customers:

	Group 2019 $mill.	Company 2019 $mill.	Group 2018 $mill.	Company 2018 $mill.
Contract assets relating to haulage services	**9.4**	-	8.7	-
Contract assets relating to capital works	-	-	3.1	-
Total contract assets	**9.4**	-	11.8	-

(a) Accounting policy

Contract assets represent amounts that are accrued and yet to be billed to customers for the provision of network services.

14 Derivative financial instruments

The Group has the following derivative financial instruments:

	Group 2019 $mill.	Company 2019 $mill.	Group 2018 $mill.	Company 2018 $mill.
Current assets				
Cross currency swap contracts – fair value and cash flow hedges	**11.1**	-	2.9	-
	11.1	-	2.9	-
Non-current assets				
Interest rate swaps – cash flow hedges	**11.3**	-	-	-
Cross currency swap contracts – fair value and cash flow hedges	**369.9**	-	309.4	-
	381.2	-	309.4	-
	392.3	-	312.3	-
Current liabilities				
Interest rate swaps – cash flow hedges	**(28.2)**	-	(9.7)	-
Cross currency swap contracts – fair value and cash flow hedges	-	-	(2.5)	-
	(28.2)	-	(12.2)	-
Non-current liabilities				
Interest rate swaps – cash flow hedges	**(95.4)**	-	(26.9)	-
	(95.4)	-	(26.9)	-
	(123.6)	-	(39.1)	-
Net derivative assets	**268.7**	-	273.2	-

(a) Classification of derivatives

Derivatives are only used for economic hedging purposes and not as speculative investments. However, where derivatives do not meet the hedging criteria, they are classified as "held for trading" for accounting purposes and accounted for at fair value through profit or loss. They are presented as current assets or liabilities if they are expected to be settled in cash within 12 months after the end of the reporting period.

14 Derivative financial instruments (continued)

(b) Instruments used by the Group

At balance date, the notional principal amounts and periods of expiry of hedging instruments are as follows:

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

	Group 2019 $mill.	Company 2019 $mill.	Group 2018 $mill.	Company 2018 $mill.
Interest rate swap contracts				
Less than 1 year	**180.0**	-	180.0	-
1 – 2 years	**205.0**	-	180.0	-
2 – 5 years	**480.0**	-	465.0	-
Greater than five years	**1,045.0**	-	980.0	-
	1,910.0	-	1,805.0	-
Cross currency rate swap contracts				
1 – 2 years	**107.5**	-	-	-
2 – 3 years	**68.5**	-	107.5	-
3 – 4 years	**127.1**	-	68.5	-
4 – 5 years	**-**	-	127.1	-
Greater than 5 years	**823.4**	-	823.4	-
	1,126.5	-	1,126.5	-

(c) Fair value measurement

For information about the methods and assumptions used in determining the fair value of derivatives refer to note 4(b)*(v)*.

The effects of the foreign currency related hedging instruments and interest rate swaps on the Group's financial position are as follows:

	Notional $mill.	Weighted average effective interest rate %	Net Carrying Amount Asset/ (liability) $mill.	Change in value of hedging instruments used as the basis for recognising hedge ineffectiveness $mill.	Change in fair value used for calculating hedge ineffectiveness $mill.
2019					
Foreign currency risk					
Cross currency interest rate swaps – fair value hedges	**1,126.5**	**-**	**388.2**	**71.1**	**(71.1)**
Interest rate risk					
Interest rate swap contracts – cash flow hedges	**1,910.0**	**2.5**	**(119.5)**	**(78.4)**	**81.9**
2018					
Foreign currency risk					
Cross currency interest rate swaps – fair value hedges	1,126.5	-	309.8	124.1	(124.1)
Interest rate risk					
Interest rate swap contracts – cash flow hedges	1,805.0	2.5	(36.6)	(15.7)	15.7

14 Derivative financial instruments (continued)

(d) 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 2019				
Assets				
Derivatives used for hedging	-	**392.3**	-	**392.3**
Total assets	-	**392.3**	-	**392.3**
Liabilities				
Borrowings – US Private Placement Notes	-	**1,682.2**	-	**1,682.2**
Derivatives used for hedging	-	**123.6**	-	**123.6**
Total liabilities	-	**1,805.8**	-	**1,805.8**
At 31 December 2018				
Assets				
Derivatives used for hedging	-	312.3	-	312.3
Total assets	-	312.3	-	312.3
Liabilities				
Borrowings – US Private Placement Notes	-	1,619.2	-	1,619.2
Derivatives used for hedging	-	39.1	-	39.1
Total liabilities	-	1,658.3	-	1,658.3

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 Group has no instruments categorised at level 1 or 3.

(e) Hedging gains losses recognised in profit or loss

Hedge effectiveness is determined at the inception of the hedge relationship, and through periodic prospective effectiveness assessments to ensure that an economic relationship exists between the hedged item and hedging instrument.

The Group enters into hedge relationships where the critical terms of the hedging instrument match exactly with the terms of the hedged item, and so a qualitative assessment of effectiveness is performed. If changes in circumstances affect the terms of the hedged item such that the critical terms no longer match exactly with the critical terms of the hedging instrument, the Group uses the hypothetical derivative method is to assess effectiveness.

Hedge ineffectiveness for interest rate swaps may occur due to:

- The credit value/debit value adjustment on the interest rate swap which is not matched by the loan, and
- Differences in critical terms between the interest rate swaps and loans.

Hedge ineffectiveness for cross currency swaps may occur when the hedge relationship is effected by the alignment of repricing and repayments dates.

The ineffectiveness in relation to interest rate swaps and cross currency swaps is disclosed in note 8.

14 Derivative financial instruments (continued)

(f) Hedging reserves

The Group's hedging reserves disclosed in note 26 relate to the following hedging instruments:

Group	**Cost of hedging reserve $mill.**	**Interest rate swaps $mill.**	**Total hedge reserves $mill.**
Opening balance 1 January 2018	-	16.4	16.4
Add: change in fair value of hedging instruments recognised in OCI	0.4	(14.9)	(14.5)
Less: reclassified from OCI to profit and loss	-	-	-
Less: deferred tax	(0.1)	4.5	4.4
Closing balance 31 December 2018	0.3	6.0	6.3
Add: change in fair value of hedging instruments recognised in OCI	**(0.2)**	**(73.7)**	**(73.9)**
Less: reclassified from OCI to profit and loss	**-**	**(3.8)**	**(3.8)**
Less: deferred tax	**-**	**23.3**	**23.3**
Closing balance 31 December 2019	**0.1**	**(48.2)**	**(48.1)**

(g) Accounting policy

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: (1) hedges of the fair value of recognised liabilities (fair value hedge); or (2) hedges of highly probable forecast transactions (cash flow hedges).

The Group designates its currency swaps as hedges on foreign exchange risk associated with the cash flows of the US denominated borrowings. The Group designates its interest rate swaps as hedges of interest rate risk associated with the variable interest rate on borrowings.

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 14(d). Movements in the hedging reserve are shown in note 26. The full fair value of a hedging derivative is classified as a non-current asset or liability based on timing of future cash flows.

(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, limited to the cumulative change in fair value of the hedged item on a present value basis from the inception of the hedge. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Amounts accumulated in equity are reclassified in the periods when the hedged item affects profit and loss. The gain or loss relating to the effective portion of the interest rate swaps hedging variable rate borrowings is recognised in profit or loss within "finance costs".

14 Derivative financial instruments (continued)

(g) Accounting policy (continued)

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.

15 Other assets

	Group 2019 $mill.	Company 2019 $mill.	Group 2018 $mill.	Company 2018 $mill.
Current				
GST receivable	**2.4**	**-**	2.3	-
Prepayments	**4.2**	**-**	1.9	-
	6.6	**-**	4.2	-

16 Property, plant and equipment

Group	Freehold land $mill.	Freehold buildings $mill.	Plant and equipment $mill.	Total $mill.
Year ended 31 December 2018				
Opening net book amount	11.9	7.3	3,848.3	3,867.5
Additions	0.1	-	250.0	250.1
Disposals	-	-	(0.1)	(0.1)
Depreciation charge	-	(0.3)	(103.5)	(103.8)
Closing net book amount	12.0	7.0	3,994.7	4,013.7
At 31 December 2018				
Cost	12.0	8.2	4,383.8	4,404.0
Accumulated depreciation	-	(1.2)	(389.1)	(390.3)
Net book amount	12.0	7.0	3,994.7	4,013.7
Year ended 31 December 2019				
Opening net book amount	**12.0**	**7.0**	**3,994.7**	**4,013.7**
Additions	**-**	**0.1**	**277.7**	**277.8**
Depreciation charge	**-**	**(0.3)**	**(101.5)**	**(101.8)**
Closing net book amount	**12.0**	**6.8**	**4,170.9**	**4,189.7**
At 31 December 2019				
Cost	**12.0**	**8.3**	**4,632.4**	**4,652.7**
Accumulated depreciation	**-**	**(1.5)**	**(461.5)**	**(463.0)**
Net book amount	**12.0**	**6.8**	**4,170.9**	**4,189.7**

16 Property, plant and equipment (continued)

(a) Valuation of land and buildings

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

A land management cost provision of $24.9 million (2018: $13.6 million) has been included in the financial statements at 31 December 2019 in relation to freehold land.

(b) Non-current assets pledged as security

Refer to note 22(b) for information on non-current assets pledged as security by the Group.

(c) Accounting policy

Property, plant and equipment is stated at historical cost less accumulated depreciation and impairment. Historical 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	70
• Steel	100
• Cast iron	120
• Gas meters	25
• Regulators	50
• Gate stations	50
• Telemetry equipment	10

The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting 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(d)).

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

17 Intangible assets

Group	**Network maps $mill.**	**Distribution licence $mill.**	**Total $mill.**
Year ended 31 December 2018			
Opening net book amount	85.7	1,217.1	1,302.8
Closing net book amount	85.7	1,217.1	1,302.8
At 31 December 2018			
Cost	85.7	1,217.1	1,302.8
Net book amount	85.7	1,217.1	1,302.8
Year ended 31 December 2019			
Opening net book amount	**85.7**	**1,217.1**	**1,302.8**
Closing net book amount	**85.7**	**1,217.1**	**1,302.8**
At 31 December 2019			
Cost	**85.7**	**1,217.1**	**1,302.8**
Net book amount	**85.7**	**1,217.1**	**1,302.8**

17 Intangible assets (continued)

(a) Impairment tests for intangible assets

Intangible assets comprise distribution licences and network maps on acquisition of the Australian Gas Networks Limited Group. The recoverable amount of the cash-generating units (CGU) is based on fair value analysis.

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.

(b) Accounting policy

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.

Distribution licences
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.

18 Right of use assets

Group	**Land and buildings $mill.**	**Total $mill.**
Year ended 31 December 2019		
Opening net book amount	-	-
Adjustment for new standard applicable 1 January 2019	0.9	0.9
Additions	0.4	0.4
Depreciation expense	(0.2)	(0.2)
Closing net book amount	1.1	1.1
At 31 December 2019		
Cost	1.6	1.6
Accumulated depreciation	(0.5)	(0.5)
Net book amount	1.1	1.1

(a) Accounting policy

A right-of-use asset is recognised at the commencement date of a lease. The right-of-use asset is measured at cost, which comprises the initial amount of the lease liability, adjusted for, as applicable, any lease payments made at or before the commencement date net of any lease incentives received, any initial direct costs incurred, and an estimate of costs expected to be incurred for dismantling and removing the underlying asset, and restoring the site or asset.

Right-of-use assets are depreciated on a straight-line basis over the unexpired period of the lease or the estimated useful life of the asset, whichever is the shorter. Where the Group expects to obtain ownership of the leased asset at the end of the lease term, the depreciation is over its estimated useful life. Right-of use assets are subject to impairment or adjusted for any re-measurement of lease liabilities.

The Group has elected not to recognise a right-of-use asset and corresponding lease liability for short-term leases with terms of 12 months or less and leases of low-value assets. Lease payments on these assets are expensed to profit or loss as incurred.

19 Investments

	Group $mill.	Company $mill.
Shares in subsidiaries		
Year ended 31 December 2018	-	1,957.8
Closing net book amount	-	1,957.8
Year ended 31 December 2019	-	**1,957.8**
Closing net book amount	-	**1,957.8**

20 Payables

	Group 2019 $mill.	Company 2019 $mill.	Group 2018 $mill.	Company 2018 $mill.
Trade payables	**59.3**	-	45.8	-
	59.3	-	45.8	-

(a) Accounting policy

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.

21 Lease liabilities

	Group 2019 $mill.	Company 2019 $mill.	Group 2018 $mill.	Company 2018 $mill.
Current				
Lease liability	**0.4**	-	-	-
Non-Current				
Lease liability	**3.9**	-	-	-
	4.3	-	-	-

The Group leases various properties for office space and warehousing. Lease terms are negotiated on an individual basis and contain a range of different terms and conditions. The lease arrangements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

(a) Accounting policy

A lease liability is recognised at the commencement date of a lease. The lease liability is initially recognised at the present value of the lease payments to be made over the term of the lease, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Lease payments comprise of fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, amounts expected to be paid under residual value guarantees, exercise price of a purchase option when the exercise of the option is reasonably certain to occur, and any anticipated termination penalties. The variable lease payments that do not depend on an index or a rate are expensed in the period in which they are incurred.

Lease liabilities are measured at amortised cost using the effective interest method. The carrying amounts are remeasured if there is a change in the following: future lease payments arising from a change in an index or a rate used; residual guarantee; lease term; certainty of a purchase option and termination penalties. When a lease liability is remeasured, an adjustment is made to the corresponding right-of use asset, or to profit or loss if the carrying amount of the right-of-use asset is fully written down.

22 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 22 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.

	Group 2019 $mill.	Company 2019 $mill.	Group 2018 $mill.	Company 2018 $mill.
Current				
Bank loans	**168.5**	-	108.0	-
	168.5	-	108.0	-
Non-current				
Bank loans	**157.1**	-	99.6	-
Capital Indexed Bonds	**273.3**	-	267.3	-
Medium Term Notes	**910.2**	-	907.4	-
US Private Placement Notes	**1,682.2**	-	1,619.2	-
	3,022.8	-	2,893.5	-
Total	**3,191.3**	-	3,001.5	-

(a) 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
2019				
Bank loans	**326.5**	**325.6**	-	-
Capital Indexed Bonds	**283.2**	**273.3**	-	-
Medium Term Notes	**925.0**	**910.2**	-	-
US Private Placement Notes	**1,291.5**	**1,682.2**	-	-
	2,826.2	**3,191.3**	-	-
2018				
Bank loans	208.0	207.6	-	-
Capital Indexed Bonds	278.9	267.3	-	-
Medium Term Notes	925.0	907.4	-	-
US Private Placement Notes	1,291.5	1,619.2	-	-
	2,703.4	3,001.5	-	-

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.

22 Borrowings (continued)

(b) Assets pledged as security

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

	Group 2019 $mill.	Company 2019 $mill.	Group 2018 $mill.	Company 2018 $mill.
Current – floating charge				
Cash and cash equivalents	**9.3**	-	3.6	-
Receivables	**39.7**	-	42.2	-
Contract assets	**8.0**	-	10.1	-
Derivative financial instruments	**11.1**	-	2.9	-
Other assets	**6.4**	-	4.1	-
	74.5	-	62.9	-
Non-current – floating charge				
Receivables	**2.6**	-	-	-
Property, plant and equipment	**4,073.3**	-	3,899.8	-
Intangibles	**1,280.6**	-	1,280.6	-
Derivative financial instruments	**381.2**	-	309.4	-
	5,737.7	-	5,489.8	-
Assets not pledged as security	**288.5**	**1,958.0**	159.3	1,958.1
Total assets per balance sheet	**6,100.7**	**1,958.0**	5,712.0	1,958.1

(c) Accounting policy and significant terms and conditions

Borrowings are initially recognised at the fair value of the consideration received, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost using the effective interest method. 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. 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 Group'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 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 2019, the Group was in compliance with all covenants and undertakings (2018: in compliance).

22 Borrowings (continued)

(d) Group funding and liability structure

The Group's total interest bearing debt principal outstanding as at 31 December 2019 was $2,826.2 million (2018: $2,703.4 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 issued under the Medium Term Note Programme for varying terms and as at 31 December 2019 had terms to maturity of up to seven 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.

US Private Placement Notes
Notes are issued in the United States of America for varying terms. 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.

For more details on the existing debt instruments refer to note 22(f).

(e) Market risk

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

	2019 US$mill.	2018 US$mill.
Borrowings	**961.0**	961.0

(ii) Cash flow and fair value interest rate risk
The exposure of the Group's borrowings to interest rate changes and the contractual re-pricing dates if the borrowings at balance date are as follows:

	2019		2018	
	$mill.	% of loans	$mill.	% of loans
Variable rate borrowings	**2,053.0**	**72.6**	1,934.5	71.5
Other borrowings – repricing dates:				
1-5 years	**440.0**	**15.6**	440.0	16.3
Over 5 years	**333.2**	**11.8**	328.9	12.2
	2,826.2	**100.0**	2,703.4	100.0

22 Borrowings (continued)

(e) Market risk (continued)

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

	2019 Weighted average interest rate %	2019 Balance $mill.	2018 Weighted average interest rate %	2018 Balance $mill.
Interest bearing debt (at variable rates)	**2.2**	**2,053.0**	3.4	1,934.5
Interest rate swaps	**2.5**	**(1,910.0)**	2.5	(1,805.0)
Net exposure to cash flow interest rate risk		**143.0**		129.5

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.

	2019 $mill.	2018 $mill.
Impact on after-tax profit:		
Interest rates + 1%	**(1.0)**	(0.9)
Interest rates - 1%	**1.0**	0.9
Impact on equity:		
Interest rates + 1%	**(5.5)**	5.1
Interest rates - 1%	**4.4**	(7.1)

(f) Liquidity risk

(i) 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 2019					
Trade payables	**59.3**	-	-	-	**59.3**
Medium Term Notes	**23.3**	**671.7**	**306.6**	-	**1,001.6**
Capital Indexed Bonds	**8.7**	**37.1**	**331.7**	-	**377.5**
Bank loans	**136.9**	**194.9**	-	-	**331.8**
US Private Placement Notes	**44.9**	**558.7**	**957.8**	**77.0**	**1,638.4**
Interest rate swaps	**29.1**	**91.6**	**42.4**	-	**163.1**
	302.2	**1,554.0**	**1,638.5**	**77.0**	**3,571.7**
At 31 December 2018					
Trade payables	45.8	-	-	-	45.8
Medium Term Notes	30.3	416.5	623.6	-	1,070.4
Capital Indexed Bonds	8.6	36.5	344.6	-	389.7
Bank loans	111.3	101.7	-	-	213.0
US Private Placement Notes	58.1	624.2	1,031.5	81.1	1,794.9
Interest rate swaps	8.1	29.6	19.0	-	56.7
	262.2	1,208.5	2,018.7	81.1	3,570.5

22 Borrowings (continued)

(f) Liquidity risk (continued)

(ii) Financing arrangements

At the end of the financial year the group held cash of $132.3 million (2018: $4.3 million) and had unused credit facilities as follows:

		2019		2018	
	Maturity Date	Facility available $mill.	Facility drawn $mill.	Facility available $mill.	Facility drawn $mill.
Rollover Facility	11/05/2022	**60.0**	**-**	60.0	-
Bank Facility	05/05/2020	**75.0**	**12.0**	75.0	25.0
Bank Facility	03/03/2020	**50.0**	**34.5**	50.0	5.0
Bank Facility	28/02/2022	**50.0**	**50.0**	50.0	-
Bank Facility	28/02/2022	**50.0**	**8.0**	50.0	-
Bank Facility	30/06/2022	**100.0**	**100.0**	100.0	100.0
Bank Facility	01/10/2022	**50.0**	**-**	50.0	-
Bank Facility	20/12/2020	**100.0**	**100.0**	100.0	70.0
Bank Facility	11/12/2020	**50.0**	**22.0**	50.0	8.0
Working Capital Facility	01/07/2020	**10.0**	**-**	10.0	-
Working Capital Facility	01/07/2020	**5.0**	**-**	5.0	-
Medium Term Notes	01/07/2024	**300.0**	**300.0**	300.0	300.0
Medium Term Notes	01/07/2026	**300.0**	**300.0**	300.0	300.0
Medium Term Notes	17/12/2021	**325.0**	**325.0**	325.0	325.0
US Private Placement US$110	12/07/2021	**107.5**	**107.5**	107.5	107.5
US Private Placement US$70	12/07/2022	**68.5**	**68.5**	68.5	68.5
US Private Placement A$50	12/07/2022	**50.0**	**50.0**	50.0	50.0
US Private Placement US$130	12/07/2023	**127.1**	**127.1**	127.1	127.1
US Private Placement A$65	12/07/2023	**65.0**	**65.0**	65.0	65.0
US Private Placement US$150	12/07/2027	**172.2**	**172.2**	172.2	172.2
US Private Placement US$80	12/07/2027	**78.1**	**78.1**	78.1	78.1
US Private Placement US$50	19/09/2033	**76.1**	**76.1**	76.1	76.1
US Private Placement A$50	12/07/2041	**50.0**	**50.0**	50.0	50.0
US Private Placement US$65	10/09/2027	**85.1**	**85.1**	85.1	85.1
US Private Placement US$90	10/09/2030	**117.9**	**117.9**	117.9	117.9
US Private Placement US$121	18/09/2028	**164.7**	**164.7**	164.7	164.7
US Private Placement US$95	18/09/2030	**129.3**	**129.3**	129.3	129.3
Capital Indexed Bonds	28/08/2025	**283.2**	**283.2**	278.9	278.9
		3,099.7	**2,826.2**	3,095.4	2,703.4

22 Borrowings (continued)

(g) 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:

	2019 $mill.	2018 $mill.
Total borrowings	**3,191.3**	3,001.5
Add back unamortised debt costs/acquisition fair value of borrowings	**(11.8)**	(15.1)
Add back hedges impact on borrowings	**(353.3)**	(283.0)
Total borrowings	**2,826.2**	2,703.4
Less cash and cash equivalents per AGN Group	**(9.7)**	(3.9)
Net debt	**2,816.5**	2,699.5
Regulated asset base	**3,814.1**	3,674.1
Debt to RAB Ratio	**73.8%**	73.5%

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

(h) Set-off of assets and liabilities

The Group does not have financial instruments that meet the presentation offset requirements of IAS 32 *Financial Instruments: Presentation* and as such each individual financial instruments is presented gross in the Financial Statements. However, the Group has for credit management purposes, netting arrangements where offset is permitted as a result of certain credit events. Application of the credit arrangements for the Group at balance date would result in the following offsets as detailed below:

Group	Gross amounts of financial instruments presented in the statement of financial position $mill.	Financial instruments $mill.	Net amount $mill.
2019			
Assets			
Interest rate swaps	**3.0**	-	**3.0**
Cross currency swaps	**380.9**	-	**380.9**
	383.9	-	**383.9**
Liabilities			
Interest rate swaps	**(117.5)**	-	**(117.5)**
Cross currency swaps	-	-	-
	(117.5)	-	**(117.5)**
2018			
Assets			
Interest rate swaps	-	-	-
Cross currency swaps	309.8	-	309.8
	309.8	-	309.8
Liabilities			
Interest rate swaps	36.6	-	36.6
Cross currency swaps	-	-	-
	36.6	-	36.6

22 Borrowings (continued)

(i) 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.

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

	Group		Company	
	Carrying amount $mill.	Fair value $mill.	Carrying amount $mill.	Fair value $mill.
2019				
Non-traded financial liabilities				
Bank loans	**325.6**	**326.5**	-	-
US Private Placement Notes	**1,682.2**	**1,644.8**	-	-
Traded financial liabilities				
Capital Indexed Bonds	**273.3**	**308.8**	-	-
Medium Term Notes	**910.2**	**925.0**	-	-
	3,191.3	**3,205.1**	-	-
2018				
Non-traded financial liabilities				
Bank loans	207.6	208.0	-	-
US Private Placement Notes	1,619.2	1,574.5	-	-
Traded financial liabilities				
Capital Indexed Bonds	267.3	287.6	-	-
Medium Term Notes	907.4	925.0	-	-
	3,001.5	2,995.1	-	-

23 Provisions

	Group 2019 $mill.	Company 2019 $mill.	Group 2018 $mill.	Company 2018 $mill.
Current				
Employee benefits	**1.2**	-	0.9	-
Land management costs (monitoring)	**1.0**	-	1.8	-
Other provisions	**14.3**	-	12.0	-
	16.5	-	14.7	-
Non-current				
Employee benefits	**0.3**	-	0.3	-
Land management costs (remediation)	**24.9**	-	13.6	-
	25.2	-	13.9	-
Total	**41.7**	-	28.6	-

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.

23 Provisions (continued)

Movements in provisions
Movement in provisions (current and non-current) during the financial year are set out below:

Group	**Other provisions $mill.**	**Land management costs $mill.**
Balance at 1 January 2018	12.0	10.9
Additional provision recognised	1.7	4.7
Amounts paid during the financial year	(0.5)	(0.2)
Balance at 31 December 2018	13.2	15.4
Additional provision recognised	**2.6**	**11.3**
Amounts paid during the financial year	**-**	**(0.8)**
Balance at 31 December 2019	**15.8**	**25.9**

(a) Accounting policy for provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events and 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.

(b) Accounting policy for 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.

(c) Accounting policy for 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.

23 Provisions (continued)

(c) Accounting policy for employee benefits (continued)

(iii) Other
The Group had 41 employees at 31 December 2019 (2018: 31 employees). The monthly average number of employees throughout the year was 36 (2018: 29). The employees consist of senior management and those involved in the administration of the Group's regulatory, commercial, finance and treasury functions. The operational activities of the AGN Group are undertaken by APA Networks and associated subcontractors.

24 Other liabilities

	Group 2019 $mill.	Company 2019 $mill.	Group 2018 $mill.	Company 2018 $mill.
Prepayments from energy retailers	**0.1**	-	0.2	-
Accrued costs	**18.7**	-	16.6	-
Interest accrued	**13.3**	-	14.0	-
	32.1	-	30.8	-
Offsetting financial assets and financial liabilities				
Interest payable on interest rate swaps	**3.0**	-	2.2	-
Interest receivable on interest rate swaps	**(1.3)**	-	(1.9)	-
Other interest accrued not offset	**11.6**	-	13.7	-
Interest accrued	**13.3**	-	14.0	-

25 Contributed Equity

	2019 Number of Securities	2019 $mill.	2018 Number of Securities	2018 $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	$mill.
31 December 2018	Closing balance	1,099,104,768	£1	1,957.8
31 December 2019	Closing balance	**1,099,104,768**	£1	**1,957.8**

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.

(a) Accounting policy

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.

26 Reserves

	Group 2019 $mill.	Company 2019 $mill.	Group 2018 $mill.	Company 2018 $mill.
Hedging reserve – cash flow hedges	**(39.7)**	-	5.2	-
	(39.7)	-	5.2	-
Movements:				
Balance at the beginning of the year	**5.2**	-	13.5	-
Fair value movements	**(63.9)**	-	(12.2)	-
Cost of hedging	**(0.2)**	-	0.3	-
Deferred tax	**19.2**	-	3.6	-
Balance at the end of the year	**(39.7)**	-	5.2	-

(a) 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 14(f).

27 Retained earnings/(Accumulated losses)

Movements in retained earnings/(accumulated losses) were as follows:

	Group 2019 $mill.	Company 2019 $mill.	Group 2018 $mill.	Company 2018 $mill.
Balance at the beginning of the year	**(44.5)**	**0.3**	(29.7)	-
Adjustment for change in accounting policy	**(0.1)**	-	-	-
Profit for the year	**140.9**	**56.5**	144.7	152.2
Dividends paid	**(65.1)**	**(56.6)**	(159.5)	(151.9)
Balance at the end of the year	**31.2**	**0.2**	(44.5)	0.3

28 Cash flow information

(a) Cash inflow from operating activities

	Group 2019 $mill.	Company 2019 $mill.	Group 2018 $mill.	Company 2018 $mill.
Profit after income tax	**170.8**	**56.5**	175.3	152.2
Depreciation and impairment	**113.3**	-	108.5	-
Amortisation of debt establishment costs	**(1.6)**	-	(1.7)	-
Indexation of Capital Indexed Bonds	**4.3**	-	5.5	-
Foreign currency translation expense/(credit)	**1.9**	-	(0.8)	-
Items included as investing or financing activities				
Dividend income	-	**(56.6)**	-	(151.9)
Borrowings (to)/from related parties	-	-	-	(0.3)
Change in operating assets and liabilities				
Decrease/(increase) in trade debtors	**0.4**	-	(0.9)	-
(Increase)/decrease in other operating assets	**(2.3)**	-	-	-
Increase/(decrease) in trade creditors and other liabilities	**12.8**	-	(14.6)	-
Increase in provision for deferred income tax	**73.4**	-	74.7	-
Net cash inflow/(outflow) from operating activities	**373.0**	**(0.1)**	346.0	-

28 Cash flow information (continued)

(b) Net debt reconciliation

This section sets out an analysis of net debt and the movements in net debt for each of the years presented.

	Group 2019 $mill.	Company 2019 $mill.	Group 2018 $mill.	Company 2018 $mill.
Cash and cash equivalents	**132.3**	-	4.3	0.1
Borrowings – repayable within one year	**(168.5)**	-	(108.0)	-
Borrowings – repayable after one year	**(3,022.8)**	-	(2,893.5)	-
Net debt	**(3,059.0)**	-	(2,997.2)	0.1
Cash and cash equivalents	**132.3**	-	4.3	0.1
Gross debt – fixed interest rates	**(768.5)**	-	(756.9)	-
Gross debt – variable interest rates	**(2,422.8)**	-	(2,244.6)	-
Net debt	**(3,059.0)**	-	(2,997.2)	0.1

		Borrowings		
Group	**Cash $mill.**	**Due within one year $mill.**	**Due after one year $mill.**	**Total $mill.**
Net debt as at 1 January 2018	30.6	(228.7)	(2,555.4)	(2,753.5)
Cash flows	(26.3)	120.7	(227.1)	(132.7)
Other non-cash movements	-	-	(111.0)	(111.0)
Net debt as at 31 December 2018	4.3	(108.0)	(2,893.5)	(2,997.2)
Cash flows	**128.0**	**(60.5)**	**(58.0)**	**9.5**
Other non-cash movements	-	-	**(71.3)**	**(71.3)**
Net debt as at 31 December 2019	**132.3**	**(168.5)**	**(3,022.8)**	**(3,059.0)**

29 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(b):

Name of entity	**Country of incorporation**	**Class of shares**	**Nature of business**	**Equity holding of Australian Gas Networks UK Limited**
				2019 %
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) Limited (5) (6)	Australia	Ordinary	Holding Company	-
Australian Gas Networks (SA) Limited (5) (7)	Australia	Ordinary	Infrastructure ownership	-
Australian Gas Networks (QLD) Limited (5) (8)	Australia	Ordinary	Infrastructure ownership	-
Australian Gas Networks (Vic Holdings 1) Pty Ltd (5) (9)	Australia	Ordinary	Holding Company	-
Australian Gas Networks (Vic Holdings 2) Limited (5) (10)	Australia	Ordinary	Holding Company	-
Australian Gas Networks (Vic 3) Pty Ltd (5) (11)	Australia	Ordinary	Provision of funds	-
Australian Gas Networks (Vic) Pty Ltd (5) (12)	Australia	Ordinary	Gas distribution and infrastructure ownership	-
Australian Gas Networks (Albury) Pty 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	-
AGN (Darling Downs) Pty Ltd (18)	Australia	Ordinary	Non-operating Company	-

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 ASIC Legislative Instrument 2016/91 issued by the Australian Securities and Investments Commission.
6) Australian Gas Networks (SA Holdings 1) Limited is a subsidiary of Australian Gas Networks Limited.
7) Australian Gas Networks (SA) Limited is a subsidiary of Australian Gas Networks (SA Holdings 1) Limited.
8) Australian Gas Networks (QLD) Limited 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) Limited 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) Limited.
12) Australian Gas Networks (Vic) Pty Ltd is a subsidiary of Australian Gas Networks (Vic 3) Pty Ltd.
13) Australian Gas Networks (Albury) Pty 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.
18) AGN (Darling Downs) Pty Ltd is a subsidiary of Australian Gas Networks Limited.

The registered address of Australian Gas Networks UK 2 Limited is 3 More London Riverside, London, UK. The registered address of all the other entities is 400 King William St, Adelaide, Australia.

30 Related party transactions

(a) Ultimate parent undertaking company and controlling party

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

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

Australian Gas Networks UK Limited, incorporated in the United Kingdom, is the parent undertaking of largest and smallest group for which consolidated financial statements are produced. The financial statements are held at the registered office of the Company of the Company of 3 More London Riverside, London, United Kingdom, SE1 2AQ.

(b) Subsidiaries

Interests in subsidiaries are set out in note 29.

(c) Key management personnel compensation

Group	**2019** **$**	**2018** **$**
Renumerated by Australian Gas Networks Limited:		
Key management personnel compensation (AGN Group)	**4,903,445**	4,490,438

(d) Directors' emoluments

The Directors of Australian Gas Networks UK Limited are not remunerated by the Company or any other company within the Group for their qualifying services as Directors of Australian Gas Networks UK Limited.

(e) Loans to related parties

	2019 **$**	**2018** **$**
Balance at the beginning of the financial year	**19,889,626**	9,581,000
Loans advanced	**2,736,576**	10,308,626
Loans repaid	**-**	-
Balance at the end of the financial year	**22,626,202**	19,889,626

(f) Transactions with related parties

The following transactions occurred with entities under common control:

	2019 **$**	**2018** **$**
Management fee income/(expense)	**110,081**	(1,100,000)
Interest income on loans	**171,809**	-
Corporate overheads	**(781,029)**	(163,600)
Finance costs on loans	**(1,889,704)**	-
	(2,388,843)	(1,263,600)

The following balance are outstanding at the end of the reporting period with related parties:

	2019 **$**	**2018** **$**
Trade and other receivables	**464,004**	22,540
Trade and other payables	**(181,409)**	-
Other liabilities	**(1,561,894)**	(1,281,140)
	(1,279,299)	(1,258,600)

(g) 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.

31 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 £30,000 (2018: £25,000). 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 the AGN Group:

	Group 2019 $	Company 2019 $	Group 2018 $	Company 2018 $
PwC Australia				
Audit and other assurance services				
Audit and review of financial statements	**247,192**	-	218,606	-
Other assurance services				
Audit/review of regulatory financial information	-	-	28,560	-
Audit of reported gas volumes	**29,700**	-	34,782	-
	276,892	-	281,948	-
Taxation services				
Income tax return	**36,311**	-	41,501	-
Tax compliance and other services	**5,177**	-	6,811	-
	41,488	-	48,312	-
Total remuneration of PwC Australia	**318,380**	-	330,260	-

It is the policy of the AGN Group to engage PricewaterhouseCoopers LLP (PwC) on assignments additional to their statutory audit duties where PricewaterhouseCoopers' LLP expertise and experience with the AGN Group are likely to provide benefits. These assignments are principally tax compliance, auditing of regulatory statements and assistance with regulatory submissions.

32 Events occurring after the balance sheet date

The AGN Group has not been impacted by the Australian bushfires that occurred late in 2019 and early 2020. Fundamentally, bushfires are not considered a significant risk to the Group's networks and pipelines as the vast majority of assets are underground. Whilst some of the Group's network and assets are located in the general proximity of the early 2020 bushfires in Victoria and New South Wales there was no damage to gas infrastructure or impact to the Group's operations. In South Australia no fires burned in locations where the Group has assets located.

At a management and operational level the AGN Group continues to actively monitor the situation surrounding the outbreak of the COVID-19 virus, and has implemented working from home arrangements. The AGN Group's business is characterised by fully (or highly) regulated operations that deliver an essential service with relatively low likelihood of disruption. Revenue receivables are protected by both the regulatory frameworks and the high quality credit profiles of our major counterparties. Notwithstanding this, we continue to monitor the payment cycles and have contingency arrangements in place for operational team (people, process and systems) to help ensure that the required metering and billing processes are not disrupted through this event, including the activation of business continuity arrangements. At a financial level the Group continues to maintain strong and active relationships across its banking group with conservative levels of liquidity coverage in place in both cash and available facilities across multiple bank facility providers.

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