Australian Gas Networks UK Limited

Company number 09053205

Annual Report and Financial Statements - 31 December 2021

General information

The financial statements cover Australian Gas Networks UK Limited as a Group consisting of Australian Gas Networks UK Limited and the entities it controlled at the end of, or during, the year. The financial statements are presented in Australian dollars, which is Australian Gas Networks UK Limited's functional and presentation currency.

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

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

The financial statements were authorised for issue, in accordance with a resolution of Directors, on 2 September 2022.

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 2021.

Principal activities

Australian Gas Networks UK Limited controls, through its subsidiaries (refer note 28), the Australian Gas Networks Holdings Pty Ltd 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 1.36 million domestic, commercial and industrial customers.

The Group's revenue was $665.3 million for the year ended 31 December 2021 (2020: $656.2 million). The higher revenue is primarily due to additional customer contributions of $10.6 million, associated with large customer funded works undertaken during the year.

Operating expenses of $149.8 million were higher than the previous financial year ($146.3 million). The increase was mainly associated with the write-back of a provision in 2020, related to a contractor dispute that had been taken up in a previous year.

Depreciation and impairment of $120.8 million was higher than the previous financial year ($116.7 million) mainly due to higher depreciation on mains and remediation costs incurred at the site at Sale, Vicotria.

Net finance costs were $113.0 million, $12.0 million lower than the previous financial year ($125.0 million). The previous financial year included higher indexation on the Capital Indexed Bonds and a loss on the close-out of an interest rate swap.

For the year ended 31 December 2021, Profit after Tax was $197.1 million which compares with a Profit after Tax of $187.7 million in the previous year.

Cash flow from operating activities was $392.2 million (2020: $422.4 million). The decrease in cash flow reflects lower receipts in the current year from customer contribution projects offset by lower operating cost payments mainly due to the effect of unaccounted for gas washup receipts. Operating cash flow more than covered the $202.7 million of dividends and contributed $189.5 million to the funding of the $315.2 million capital expenditure program.

Capital expenditure paid in this financial year was $315.2 million, $23.4 million higher than the previous year ($291.8 million) due to higher current year costs associated with customer contribution projects and other major projects. A large proportion of the capex program continued to focus on the replacement of aging cast iron and steel gas mains (2021: $128.3 million, 2020: $127.8 million). During the reporting period 260 km of mains were replaced (2020: 275 km).

The net customer additions to the networks were around 21,200 (2020: 23,300). Capital expenditure of $79.3 million associated with the new connections was recorded in this reporting period (2020: $82.9 million).

The net asset of the group at 31 December 2021 was $2,398.9 million (31 December 2020: $2,299.5 million). The net increase is due to total comprehensive income for the year offset by the dividend payments.

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 2021 amounting to $212.3 million (2020: $494.9 million). This shortfall largely relates to: $268.5 million of borrowings due for repayment before 31 December 2022; $12.5 million of accrued interest to be paid in the first quarter of 2022; $14.1 million of other income for which the recognition of revenue has been deferred beyond 31 December 2021, offset by derivative financial instruments with a net current asset position of $9.7 million due to expire before 31 December 2022, which will be replaced with new derivative instruments at expiry in accordance with the Group's hedging policy.

The deficiency is covered by strong and reliable cashflows generated from continuing operations and by unused credit facilities on hand at 31 December 2021 of $273.3 million (2020: $420.8 million) and plans for the refinancing (both bank and term capital markets) of the borrowings maturing in 2022 as captured in the 2022 Funding Plan approved by the AGN Board at its December 2021 meeting. In line with the Groups Funding Plan as at 31 August 2022 the AGN Group have renewed 7 facilities, which have a total available balance of $570 million. Therefore the directors believe the Group is able to pay its debts as and when the debts become due and payable, and 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 21.

Principal risks and uncertainties

Volume risk

The major regulated jurisdictions within AGN's distribution network operate under a Price Cap regime. This exposes the Group 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 3 for detailed disclosure around financial risk mitigation and hedging.

(i) 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.

(ii) 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.

(iii) 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.

Impact of COVID-19 virus

In the prior year, Management created a provision of $3.3 million for potential implications related to COVID19, including the possibility that the Group would need to provide support to customers and retailers experiencing payment difficulty as a result of increased financial hardship. No such support has been required and the provision was reversed in the current financial year.

Outlook

2022 is expected to produce further strong financial performance. Annual tariff increases 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 2022 will again be focused 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 20,000.

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

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 March 2026. 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 2021 (refer note 22).

On behalf of the Board of Directors

MJ Horsley
Director

2 September 2022

The Directors present their report and the audited consolidated financial statements of the entity consisting of Australian Gas Networks UK Limited and its subsidiaries for the financial year ended 31 December 2021. The financial statements are presented in Australian dollars unless otherwise stated.

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

Directors
The following persons were Directors of Australian Gas Networks UK Limited during the whole of the financial year and up to the date of this report, unless otherwise stated:

Andrew John Hunter
Mark Horsley
Li Tzar Kuoi, Victor
Chan Loi Shun, Dominic
Graham Winston Edwards
Jonathon Theodore Miller
David Graham Ashley

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 3.

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

	2021 $m	2020 $m
Final dividend for the year ended 31 December 2021: $0.13 cents (2020: $0.07 cents) per ordinary share	139.5	75.8
Interim dividend for the year ended 31 December 2021 of $0.06 cents (2020: $0.12 cents) per ordinary share	63.2	137.3
	202.7	213.1

Dividends declared and paid after the reporting date:

- January 2022: $95.75 million ($0.09 cents per share)
- July 2022: $57.90 million ($0.05 cents per share)

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.

Disclosure of information to the auditors

So far as each person who was a Director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditors in connection with preparing its report, of which the auditors are unaware. Having made enquiries of fellow Directors and the Group's auditors, each Director has taken all the steps that they are obliged to take as a Director in order to made themselves aware of any relevant audit information and to establish that the 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 30.

Outlook

Information on likely future developments of the Group are disclosed in the strategic report.

Streamlined energy and carbon reporting

The AGN group qualify as a low energy user and has taken the exemption from UK streamlined energy and carbon regulation reporting requirement as the consumption is less than 40MWh or less in the UK. However, 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 2021. 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.

Total emissions for the year ended 30 June 2021 were 381,897 tonnes of CO2 equivalent (CO2e) (2020: 584,661 tonnes of CO2e). The emissions resulting from the combustion of natural gas (Scope 1 emissions) were 381,173 tonnes of CO2e (2020: 583,968 tonnes of CO2e) whilst the emissions resulting from the purchase of electricity for the AGN Group's own use (Scope 2 emissions) were 724 tonnes of CO2e (2020: 693 tonnes of CO2e). Energy consumed in total was 2,006,296 GJ (2020: 2,025,642 GJ).

The reduction in Scope 1 emissions is due to the adoption of a new fugitive emissions reporting methodology. This is a more precise fugitive emissions calculation with greater levels of complexity that utilises pipeline material type breakdowns and segregation of stations by pressure in order to produce better estimates of emissions. The methodology used is one of four approved methods available to business reporters under the Australian Clean Energy Regulator regulations. As such the decrease in emissions represents improvements in reporting rather than changes to underlying business activity. The increase in Scope 2 emissions is due to increased electricity consumption in the South Australian gas distribution network.

The emissions are expressed as a ratio of tonnes of CO2e per kilometre. The ratio for the year ending 30 June 2021 was 14.5 tonnes CO2e/km (2020: 22.5 tonnes CO2e/km).

Directors' responsibilities statement

The Directors are responsible for preparing the strategic report, Directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the group and the company financial statements in accordance with UK-adopted international accounting standards. Under company law, 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 of the profit or loss of the Group for that period.

In preparing these financial statements, the Directors are required to:
- select suitable accounting policies and then apply them consistently;
- state whether applicable UK-adopted international accounting standards have been followed, 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 will continue in business.

The directors are responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The directors are also responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group 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.

We have complied with the S172 reporting standards and reflect some of the key themes of the new governance and reporting rules below.

Our vision, strategy, and consideration of the consequence of the decisions for the long term
Our vision is to be the leading gas infrastructure business in Australia. We will achieve this by delivering for our customers, being a good employer and being sustainably cost efficient.

We provide natural gas haulage services to retailers and industrial customers through the distribution networks and transmission pipelines we own and manage; and development of the business through expansion of the existing networks. We aim for leading performance in the way we deliver for customers, be a good employer and remain sustainably cost efficient. In another successful year, 2021 has encompassed some important advances in underpinning this commitment, which includes the following highlights:

(1) AGN delivered 99.9 PJ of gas (2020: 99.8 PJ). Gas haulage volumes for domestic and smaller customers (<10 TJ) increased by 1.3% (56.5 PJ compared to 55.8 PJ in the prior year) reflecting cooler weather and customer growth. This was partly offset a reduction in larger customers (>10 TJ).
(2) Customer satisfaction and key operational parameters all exceeded targets.
(3) The Group made substantial improvements in safety performance in 2021 bringing down the Total Reportable Injury Frequency Rate by 18% to 8.3 from the 2020 average result of 10.1.
(4) 260 km (2020: 275 km) of mains were replaced across the network to improve efficiency and reliability. The Group completed mains renewal throughout the Adelaide CBD in accordance with the South Australian Access Arrangement plans. This is a substantial safety milestone removing all cast iron from the CBD area. Approximately 80% of the Melbourne CBD mains renewal was also completed and the Group is on target to achieve the full program by the end of 2022 in accordance with the Victorian Access Arrangement plans.
(5) The Group completed a major IT project – the Geographic Information System (GIS) upgrade - which combined five separate instances of GIS into one, completing a three year $27 million project on budget.
(6) The Australian Energy Regulator's (AER) Final Decision for the South Australian Gas Distribution Network for the period 2021/22 to 2025/26 was published in April 2021. The Final Decision delivered a price reduction for customers of around 7%.
Work is progressing on Final Plans for both the Victorian and Albury networks for the 2023/24 to 2027/28 period. Submissions are due to the AER on 1 July 2022, with the AER's Final Decision expected in April 2023.
(7) The 1.25 megawatt Hydrogen Park South Australia (HyP SA) was launched, delivering an Australian-first blend of up to 5% renewable hydrogen to more than 700 homes in metropolitan Adelaide. HyP SA is Australia's largest electrolyser delivered with funding support from the South Australian Government and has received multiple awards for its role spearheading the industry in green hydrogen supply. Development works have also progressed on Hydrogen Park Gladstone and Hydrogen Park Murray Valley projects which build on HyP SA by delivering up to 10% of blended hydrogen to the entire city networks in regional Queensland and regional Victoria and New South Wales respectively. After receiving substantial funding from the Australian Government, the circa $45 million HyP Murray Valley aims for a Final Investment Decision later in 2022.

Impact of COVID-19 virus
In the prior year, Management created a provision of $3.3 million for potential implications related to COVID19, including the possibility that the Group would need to provide support to customers and retailers experiencing payment difficulty as a result of increased financial hardship. No such support has been required and the provision was reversed in the current financial year.

The Group successfully implemented arrangements to manage the impact of COVID-19 on the workforce, including employees working from home and alignment with our operator (APA Group), to ensure the delivery of the network program with enhanced hygiene and social distancing arrangements.

Our Culture
Our culture is built on our values. These principles guide how we behave and how we make decisions that impact our people, partners, suppliers and customers:
Perform – we are accountable to our customers and stakeholders, we are transparent on our performance and we deliver results. We continuously improve by bringing fresh ideas and constructive challenge.
Respect – we treat our customers and our colleagues the way we would want to be treated, and we embrace and respect diversity.
Trust – we act with integrity, we do the right thing, we are safe guardians of essential Australian infrastructure. We act in a safe and professional manner.
One Team – we communicate well and support each other, and we are united behind our shared vision.

Understanding the views of all our stakeholders and business relationships
Engaging with customers and stakeholders is an important part of how we operate our national business, from day to day service delivery to preparing plans for the future. Our customers and stakeholders want us to deliver them reliable, sustainable and affordable energy solutions. By taking the time to listen and understand customer needs we can align our services and investment with customer expectations. We also use customer and stakeholder feedback as part of improving our services every day. In 2021 we continued our engagement effort, engaging with customers and stakeholders and delivering engagement activities in new and innovative ways.

Our People
We are committed to being a responsible business. Our behaviour is aligned with the expectations of our people, customers, shareholders, communities and society as a whole. For our business to succeed we need to manage our people's performance and develop and bring through talent while ensuring we operate as efficiently as possible. We must also ensure we share common values that allow our employees to work as one team.

Our management of risk
Our management of risks is documented on page 4.

The impact of the Company's operations on the community and the environment
87% of the Group's customers surveyed in South Australia told us it is 'very important' or 'extremely important' that we consider ways to lower carbon emissions. In 2021, we set ambitious, Board-endorsed renewable gas targets as part of the broader push to achieve net zero emissions by 2050 or sooner in Australia. In 2021, the Board also supported that the Group develop its first Environmental, Social and Governance (ESG) report for publication in 2022. An ESG Committee and ESG Working Group were established to deliver the report and provide appropriate governance of its delivery to meet the expectations of all stakeholders.

Each year the Group continues to work with organisations to support the community. In line with our vision we have supported a broad variety of environmental organisations, industry bodies, charities, youth development, Science, Technology, Engineering and Mathematics initiatives and sporting clubs. These and more make up the framework of our broader community sponsorship programme.

Overview of how the Board discharged its duties
In 2021 there were 4 Board meetings of the Company. At the Board meetings there is in-depth review of strategy and performance covering but not limited to: financial performance, health and safety, strategy and regulation and customer service. In making decisions concerning the business plan and future strategy, the Board has regard to a variety of matters including the interest of various stakeholders, the consequences of its decisions in the longer term and its long-term reputation. The Board supports the Chief Executive Officer and his Executive Management Team in embedding a culture that will help deliver long-term success.

On behalf of the Board of Directors

MJ Horsley
Director

2 September 2022

Australian Gas Networks UK Limited

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 2021 and of the group's profit and the group's and company's cash flows for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards; 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 2021; the Statement of profit or loss and other comprehensive income, the Statements of changes in equity, and the Statements of cash flows 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

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's and the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

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

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Australian Gas Networks UK Limited

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

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 our work undertaken in the course of the audit, the Companies Act 2006 requires 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 2021 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 Directors' responsibilities statement, 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.

Australian Gas Networks UK Limited

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

Responsibilities for the financial statements and the audit (continued)

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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the group and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of health and safety regulations, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as Companies Act 2006 and tax legislation. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting manual journal entries to manipulate financial performance and management bias in determining significant accounting estimates. Audit procedures performed by the engagement team included:

- Enquiry of management and the legal team and inspecting legal correspondence in respect of actual and potential litigation and claims;
- Obtaining supporting evidence for the significant assumptions and judgements made by management, particularly in respect of revenue recognition and impairment of Property, plant and equipment and intangibles;
- Identifying and testing journal entries, in particular any journals entries posted with unusual account combinations;
- Reviewing financial statement disclosures and testing to supporting documentation, where appropriate, to assess compliance with applicable laws and regulations.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

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.

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

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 obtained 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

Andy Ward (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Leeds
2 September 2022

Australian Gas Networks UK Limited
Statement of profit or loss and other comprehensive income
For the year ended 31 December 2021

	Note	Consolidated 2021 $m	2020 $m
Revenue from continuing operations	4	665.3	656.2
Operating costs	6	(149.8)	(146.3)
Operating profit		515.5	509.9
Depreciation and impairment		(120.8)	(116.7)
Net finance costs	7	(113.0)	(125.0)
Profit before income tax expense		281.7	268.2
Income tax expense	8	(84.6)	(80.5)
Profit after income tax expense for the year		197.1	187.7
Other comprehensive income/(expense)			
Items that may be reclassified subsequently to profit or loss			
Change in the fair value of cash flow hedges		150.0	(52.3)
Income tax (charge)/credit related to changes in the fair value of cash flow hedges		(45.0)	15.7
Other comprehensive income/(expense) for the year, net of tax		105.0	(36.6)
Total comprehensive income for the year		302.1	151.1
Profit for the year is attributable to:			
Non-controlling interest		34.4	32.8
Owners of Australian Gas Networks UK Limited	26	162.7	154.9
		197.1	187.7
Total comprehensive income for the year is attributable to:			
Non-controlling interest		52.7	26.4
Owners of Australian Gas Networks UK Limited		249.4	124.7
		302.1	151.1

The above statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes

Australian Gas Networks UK Limited
Balance sheets
As at 31 December 2021

	Note	Consolidated 2021 $m	Consolidated 2020 $m	Company 2021 $m	Company 2020 $m
Assets					
Current assets					
Cash and cash equivalents	9	123.1	7.3	-	-
Receivables	10	44.2	45.1	-	-
Lease receivable	11	0.2	0.2	-	-
Contract assets	12	12.7	2.1	-	-
Derivative financial instruments	13	46.3	52.6	-	-
Other assets	14	5.9	4.1	-	-
Total current assets		232.4	111.4	-	-
Non-current assets					
Receivables	10	9.0	8.5	0.2	0.3
Lease receivable	11	2.2	2.4	-	-
Property, plant and equipment	15	4,562.2	4,359.8	-	-
Intangibles	16	1,302.8	1,302.8	-	-
Right-of-use assets	17	1.1	1.6	-	-
Investments	18	-	-	1,957.8	1,957.8
Derivative financial instruments	13	289.6	254.2	-	-
Deferred tax	8	-	-	0.1	0.1
Total non-current assets		6,166.9	5,929.3	1,958.1	1,958.2
Total assets		6,399.3	6,040.7	1,958.1	1,958.2
Liabilities					
Current liabilities					
Payables	19	67.8	61.4	-	-
Lease liabilities	20	0.5	0.7	-	-
Borrowings	21	268.5	432.4	-	-
Provisions	22	21.6	6.6	-	-
Derivative financial instruments	13	36.6	40.9	-	-
Contract liabilities	5	14.1	33.1	-	-
Other liabilities	23	35.6	31.2	0.1	0.1
Total current liabilities		444.7	606.3	0.1	0.1
Non-current liabilities					
Lease liabilities	20	3.5	4.0	-	-
Borrowings	21	3,014.0	2,655.3	-	-
Provisions	22	25.6	25.1	-	-
Derivative financial instruments	13	43.8	110.0	-	-
Contract liabilities	5	4.0	4.3	-	-
Deferred tax liabilities	8	463.9	335.6	-	-
Other liabilities	23	0.9	0.6	-	-
Total non-current liabilities		3,555.7	3,134.9	-	-
Total liabilities		4,000.4	3,741.2	0.1	0.1
Net assets		2,398.9	2,299.5	1,958.0	1,958.1

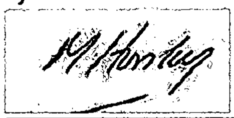
The above balance sheets should be read in conjunction with the accompanying notes

Australian Gas Networks UK Limited
Balance sheets
As at 31 December 2021

	Note	Consolidated 2021 $m	Consolidated 2020 $m	Company 2021 $m	Company 2020 $m
Equity					
Contributed equity	24	1,957.8	1,957.8	1,957.8	1,957.8
Reserves	25	16.8	(69.9)	-	-
Retained earnings	26	5.6	10.2	0.2	0.3
Equity attributable to the owners of Australian Gas Networks UK Limited		1,980.2	1,898.1	1,958.0	1,958.1
Non-controlling interest		418.7	401.4	-	-
Total equity		2,398.9	2,299.5	1,958.0	1,958.1

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 $154.0 million (2020: $172.8 million).

The financial statements on pages 16 to 66 were approved by the Board of Directors and signed on its behalf by:



MJ Horsley
Director

2 September 2022

Australian Gas Networks UK Limited
Statements of changes in equity
For the year ended 31 December 2021

Consolidated	**Contributed equity $m**	**Reserves $m**	**Retained earnings $m**	**Non-controlling interest $m**	**Total equity $m**
Balance at 1 January 2020	1,957.8	(39.7)	31.2	412.2	2,361.5
Profit after income tax expense for the year	-	-	154.9	32.8	187.7
Other comprehensive expense for the year, net of tax	-	(30.2)	-	(6.4)	(36.6)
Total comprehensive income/(expense) for the year	-	(30.2)	154.9	26.4	151.1
Transactions with owners in their capacity as owners:					
Dividends paid	-	-	(175.9)	(37.2)	(213.1)
Balance at 31 December 2020	1,957.8	(69.9)	10.2	401.4	2,299.5

Consolidated	**Contributed equity $m**	**Reserves $m**	**Retained earnings $m**	**Non-controlling interest $m**	**Total equity $m**
Balance at 1 January 2021	1,957.8	(69.9)	10.2	401.4	2,299.5
Profit after income tax expense for the year	-	-	162.7	34.4	197.1
Other comprehensive income for the year, net of tax	-	86.7	-	18.3	105.0
Total comprehensive income for the year	-	86.7	162.7	52.7	302.1
Transactions with owners in their capacity as owners:					
Dividends paid	-	-	(167.3)	(35.4)	(202.7)
Balance at 31 December 2021	1,957.8	16.8	5.6	418.7	2,398.9

The equity attributable to the owners of Australian Gas Networks UK Limited at 31 December 2021 was $1,980.2 million (31 December 2020: $1,898.1 million).

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

Australian Gas Networks UK Limited
Statements of changes in equity
For the year ended 31 December 2021

Company	**Issued capital $m**	**Reserves $m**	**Retained earnings $m**	**Total equity $m**
Balance at 1 January 2020	1,957.8	-	0.2	1,958.0
Profit after income tax expense for the year	-	-	172.8	172.8
Other comprehensive income for the year, net of tax	-	-	-	-
Total comprehensive income for the year	-	-	172.8	172.8
Transactions with owners in their capacity as owners:				
Dividends paid	-	-	(172.7)	(172.7)
Balance at 31 December 2020	1,957.8	-	0.3	1,958.1

Company	**Issued capital $m**	**Reserves $m**	**Retained earnings $m**	**Total equity $m**
Balance at 1 January 2021	1,957.8	-	0.3	1,958.1
Profit after income tax expense for the year	-	-	154.0	154.0
Other comprehensive income for the year, net of tax	-	-	-	-
Total comprehensive income for the year	-	-	154.0	154.0
Transactions with owners in their capacity as owners:				
Dividends paid (note 26)	-	-	(154.1)	(154.1)
Balance at 31 December 2021	1,957.8	-	0.2	1,958.0

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

	Note	Consolidated 2021 $m	Consolidated 2020 $m	Company 2021 $m	Company 2020 $m
Cash flows from operating activities					
Receipts from customers (inclusive of goods and services tax)		718.4	753.8	-	-
Payments to suppliers and employees (inclusive of goods and services tax)		(214.8)	(217.0)	-	-
		503.6	536.8	-	-
Finance income received		0.1	0.2	-	-
Finance costs paid		(110.6)	(113.1)	-	-
Income taxes paid		(0.9)	(1.5)	-	-
Net cash inflow from operating activities	27	392.2	422.4	-	-
Cash flows from investing activities					
Payments for property, plant and equipment		(315.2)	(291.8)	-	-
Payments for remediation of land		(0.5)	(0.9)	-	-
Net cash outflow from investing activities		(315.7)	(292.7)	-	-
Cash flows from financing activities					
Proceeds from borrowings		1,274.5	287.0	-	-
Repayment of borrowings		(1,029.5)	(342.4)	-	-
Borrowings (to)/from related parties		(0.1)	15.0	-	-
Dividends received		-	-	154.1	172.7
Dividends paid		(202.7)	(213.1)	(154.1)	(172.7)
Repayment of lease liabilities		(0.3)	(0.3)	-	-
Debt and capital raising costs		(2.6)	(0.9)	-	-
Net cash inflow/(outflow) from financing activities		39.3	(254.7)	-	-
Net increase/(decrease) in cash and cash equivalents		115.8	(125.0)	-	-
Cash and cash equivalents at the beginning of the financial year		7.3	132.3	-	-
Cash and cash equivalents at the end of the financial year	9	123.1	7.3	-	-

The above statements of cash flows 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 within the relevant note. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the consolidated entity consisting of Australian Gas Networks UK Limited and its subsidiaries (referred to hereafter as "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
On 31 December 2020, IFRS as adopted by European Union at that date was brought into UK law and became UK-adopted International Accounting Standards, with future changes being subject to endorsement by the UK Endorsement Board. Australian Gas Networks UK Limited transitioned to UK-adopted International Accounting Standards in its consolidated and company financial statements on 1 January 2021. This change constitutes a change in accounting framework. However, there is no impact on recognition, measurement or disclosure in the period reported as a result of the change in framework.

The consolidated and company financial statements of Australian Gas Networks UK Limited have been prepared in accordance with UK-adopted International Accounting Standards and with the requirements of the Companies Act 2006 as applicable to companies reporting under those standards.

Historical cost convention
The financial statements have been prepared under the historical cost convention, except for, where applicable, the revaluation of financial assets and liabilities at fair value through profit or loss, financial assets at fair value through other comprehensive income and derivative financial instruments.

Critical accounting estimates
The preparation of financial statements 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 2.

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 2021 amounting to $212.3 million (2020: $494.9 million). This shortfall largely relates to: $268.5 million of borrowings due for repayment before 31 December 2022; $12.5 million of accrued interest to be paid in the first quarter of 2022; $14.1 million of other income for which the recognition of revenue has been deferred beyond 31 December 2021, offset by derivative financial instruments with a net current asset position of $9.7 million due to expire before 31 December 2022, which will be replaced with new derivative instruments at expiry in accordance with the Group's hedging policy.

The deficiency is covered by unused credit facilities on hand at 31 December 2021 of $273.3 million (2020: $420.8 million) and plans for the refinancing (both bank and term capital markets) of the borrowings maturing in 2022 as captured in the 2022 Funding Plan approved by the AGN Board at its December 2021 meeting. Therefore the directors believe the Group is able to pay its debts as and when the debts become due and payable, and have prepared the financial statements on a going concern basis. Further information on the Group's borrowings is given in note 21.

New and amended standards adopted by the Group
The Group has adopted all of the new or amended UK-adopted International Accounting Standards and Interpretations that are mandatory and applicable for the current period. The amendments did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

New standards and interpretations not yet adopted
Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2021 reporting periods and have not been early adopted by the group. None of these are expected to have a material impact on the group in the current or future reporting periods and on foreseeable future transactions.

1. Accounting policies (continued)

Comparative information
The comparative financial information has been updated wherever necessary to confirm to the current year presentation

(b) Principles of consolidation
Subsidiaries are all those 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 de-consolidated 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 169 818 035)
Cheung Kong Infrastructure Holdings (Malaysian) Limited (incorporated in Malaysia)
Australian Gas Networks Limited (incorporated in Australia ACN 078 551 685)
Australian Gas Networks (SA Holdings 1) Limited (incorporated in Australia ACN 008 181 066)
Australian Gas Networks (SA) Limited (incorporated in Australia ACN 008 139 204)
Australian Gas Networks (QLD) Limited (incorporated in Australia ACN 009 760 883)
Australian Gas Networks (Vic Holdings 1) Pty Ltd (incorporated in Australia ACN 085 882 337)
Australian Gas Networks (Vic Holdings 2) Limited (incorporated in Australia ACN 085 882 364)
Australian Gas Networks (Vic 3) Pty Ltd (incorporated in Australia ACN 085 882 373)
Australian Gas Networks (Vic) Pty Ltd (incorporated in Australia ACN 085 899 001)
Australian Gas Networks (Albury) Pty Ltd (incorporated in Australia ACN 000 001 249)
Australian Gas Networks (NSW Holdings 1) Pty Ltd (incorporated in Australia ACN 108 315 957)
Australian Gas Networks (NSW Holdings 2) Pty Ltd (incorporated in Australia ACN 108 316 249)
Australian Gas Networks (NSW Holdings 3) Pty Ltd (incorporated in Australia ACN 108 316 007)
Australian Gas Networks (NSW) Pty Ltd (incorporated in Australia ACN 083 199 839)
AGN (Darling Downs) Pty Ltd (incorporated in Australia ACN 618 798 262)

The effects of transactions between the entities within the Australian Gas Networks UK Limited Group are eliminated on consolidation.

Non-controlling interest in the results and equity of subsidiaries are shown separately in the statement of profit or loss and other comprehensive income, balance sheet and statement of changes in equity of the Group. Losses incurred by the Group are attributed to the non-controlling interest in full, even if that results in a deficit balance.

(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).

1. Accounting policies (continued)

(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.

(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 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 the 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 in other receivables or other 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. 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 note 1(d). The recoverable amounts have been determined based on fair value analysis. These calculations require the use of assumptions. Refer to note 16 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 15 for details of the estimated useful lives used by the Group.

Our AGIG strategy on hydrogen which involves blending renewable hydrogen with natural gas, is an important first step in showing the role our assets have in a low-carbon future. During the year a major milestone was achieved with Hydrogen Park SA (HyP SA) commissioned, with network injection of hydrogen into the local network operational. This is complimented by ongoing projects such as the Hydrogen Park project at Gladstone, which will enable up to 10% blending into the Gladstone gas distribution network for use by not only residential (as with HyP SA) but also small industrial and commercial customers.

Demonstrating that gas has a decarbonisation pathway, much like electricity, ensures that we are part of future energy systems and helps to secure the future of our investments. As such, management has concluded that the existing economic life assessments of assets are still appropriate.

Impact of COVID-19 virus
In the prior year, Management created a provision of $3.3 million for potential implications related to COVID19, including the possibility that the Group would need to provide support to customers and retailers experiencing payment difficulty as a result of increased financial hardship. No such support has been required and the provision was reversed in the current financial year.

3. 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 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 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 21.

(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 $293.1 million CIBs (1% movement in CPI generates $2.9 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.

3. Financial risk management (continued)

(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, 30% (2020: 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 all 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 or 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.

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 13.

(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.

3. Financial risk management (continued)

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 13.

(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 13.

(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, and the potential failure of these 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 3(b)(iii) and note 13 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 10.

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.

(ii) Impaired trade receivables
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 five years before 31 December 2021 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 21.

4. Revenue from continuing operations

	Consolidated	
	2021	**2020**
	$m	**$m**
Revenue from contracts with customers		
Network services	663.7	654.7
Revenue from other sources		
Rental and other income	1.6	1.5
Revenue from continuing operations	665.3	656.2

(a) Disaggregation of revenue

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

	Consolidated	
	2021	**2020**
	$m	**$m**
Timing of revenue recognition		
At a point in time	-	-
Over time	663.7	654.7
	663.7	654.7

(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.

	Consolidated	
	2021	**2020**
	$m	**$m**
Revenue recognised that was included in the contract liability balance at the beginning of the financial year		
Customer contributions	29.6	10.5
Revenue recognised from performance obligations satisfied in previous periods		
Customer contributions	0.4	0.4

(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.

4. Revenue from continuing operations (continued)

(d) Accounting policy and significant judgements

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.

5. Contract liabilities

	Consolidated		Company	
	2021	2020	2021	2020
	$m	$m	$m	$m
Current				
Contract liabilities	14.1	33.1	-	-
Non-current				
Contract liabilities	4.0	4.3	-	-
	18.1	37.4	-	-

(a) Significant changes in contract liabilities

Contract liabilities have decreased as the Group has fulfilled performance obligations during the financial year for which contributions were received in a prior period.

5. 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 2021, 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.

6. Operating costs

	Consolidated	
	2021 $m	**2020 $m**
Network operating costs	98.8	97.2
Gas purchases	7.8	11.4
Salaries and wages	15.2	14.1
Marketing costs	5.9	6.7
Government licence fees	7.8	8.1
Other employee benefits costs	1.0	1.2
Other administration costs	13.3	7.6
	149.8	146.3

7. Net finance costs

	Consolidated	
	2021 $m	**2020 $m**
Interest income	(0.1)	(0.1)
Interest and indexation	111.6	117.7
Ineffective derivatives - cash flow hedges	-	7.9
Fees on financing facilities	2.3	1.6
Amortisation of debt costs and acquisition fair values	(0.5)	(1.3)
Net interest expense on lease liabilities	-	0.1
Foreign currency translation credit	(0.3)	(0.9)
	113.0	125.0

(a) Accounting policy

Interest income 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.

8. Income tax

	Consolidated 2021 $m	Consolidated 2020 $m
(a) Income tax expense		
Current tax	1.4	0.7
Deferred tax	83.2	79.8
Aggregate income tax expense	84.6	80.5
Deferred tax included in income tax expense comprises:		
Decrease in deferred tax assets	10.6	12.4
Increase in deferred tax liabilities	72.6	67.4
Deferred tax	83.2	79.8
(b) Numerical reconciliation of income tax expense and tax at the statutory rate		
Profit before income tax expense	281.7	268.2
Tax at the statutory tax rate of 30% (2020: 30%)	84.5	80.5
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Prior year provision adjustment	0.1	-
Income tax expense	84.6	80.5

	Consolidated 2021 $m	Consolidated 2020 $m
(c) Amounts debited/(credited) directly to equity		
Deferred tax assets	45.0	(15.7)

8. Income tax (continued)

(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.

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.

8. Income tax (continued)

	Consolidated 2021 $m	Consolidated 2020 $m	Company 2021 $m	Company 2020 $m
(e) Deferred tax asset				
Deferred tax asset comprises temporary differences attributable to:				
Tax losses	84.1	98.1	-	-
Contract liabilities	2.0	5.0	-	-
Employee benefits	1.2	0.8	-	-
Leases	0.5	0.6	-	-
Accrued expenses	5.0	4.8	0.1	0.1
Provision for land management costs	8.0	7.6	-	-
Other provisions	5.3	1.1	-	-
Derivatives/fair value borrowings adjustment	-	45.6	-	-
Deferred costs	0.3	1.2	-	-
	106.4	164.8	0.1	0.1
Set-off of deferred tax assets pursuant to set-off provisions	(106.4)	(164.8)	-	-
Deferred tax asset	-	-	0.1	0.1
Amount expected to be settled after more than 12 months	106.4	164.8	-	-
Movements:				
Opening balance	164.8	161.5	0.1	-
Credited/(charged) to profit or loss	(10.6)	(12.4)	-	0.1
Credited/(charged) to equity	(45.0)	15.7	-	-
Adjustment for prior period unders/overs	(2.8)	-	-	-
Closing balance	106.4	164.8	0.1	0.1

8. Income tax (continued)

	Consolidated 2021 $m	Consolidated 2020 $m	Company 2021 $m	Company 2020 $m
(f) Deferred tax liability				
Deferred tax liability comprises temporary differences attributable to:				
Property, plant and equipment	544.0	474.0	-	-
Prepayments	0.2	0.2	-	-
Intangibles	25.7	25.7	-	-
Right of use assets	0.4	0.5	-	-
	570.3	500.4	-	-
Set off of deferred tax assets pursuant to set-off provisions	(106.4)	(164.8)	-	-
Deferred tax liability	463.9	335.6	-	-
Amount expected to be settled after more than 12 months	570.3	500.4	-	-
Movements:				
Opening balance	500.4	433.0	-	-
Charged to profit or loss	72.6	67.4	-	-
Adjustment for prior period unders/overs	(2.7)	-	-	-
Closing balance	570.3	500.4	-	-

9. Cash and cash equivalents

	Consolidated 2021 $m	Consolidated 2020 $m	Company 2021 $m	Company 2020 $m
Current				
Cash at bank - interest bearing	123.1	7.3	-	-

(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.

10. Receivables

	Consolidated 2021 $m	Consolidated 2020 $m	Company 2021 $m	Company 2020 $m
Current				
Trade receivables	42.4	44.9	-	-
Provision for credit loss	(0.2)	(0.2)	-	-
	42.2	44.7	-	-
Other receivables	2.0	0.4	-	-
	44.2	45.1	-	-
Non-current				
Receivables from related entities	9.0	8.5	0.2	0.3
	53.2	53.6	0.2	0.3

(a) Impairment and risk exposure
Information about the approach used for impairment of trade receivables and Group's exposure to credit risk can be found in note 3(c).

At balance date 17 bank guarantees with an aggregate value of $13.4 million were in place (2020: ten guarantees with an aggregate value of $10.4 million).

Allowance for expected credit losses
The Group has recognised a loss of $131,975 (2020: $210,149) in profit or loss in respect of the expected credit losses for the year ended 31 December 2021.

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

	Consolidated 2021 $m	Consolidated 2020 $m	Company 2021 $m	Company 2020 $m
Balance at the beginning of the financial year	0.2	0.1	-	-
Receivables written off during the year as uncollectable	(0.1)	(0.2)	-	-
Further provision taken to profit or loss	0.1	0.3	-	-
Balance at the end of the financial year	0.2	0.2	-	-

The impairment provision during the year is included in the operating costs line item in the income statement.

As of 31 December 2021, trade receivables of $2.1 million (2020: $0.8 million) were past due. The ageing of these trade receivables is as follows:

	Consolidated 2021 $m	Consolidated 2020 $m	Company 2021 $m	Company 2020 $m
31 to 60 days	0.6	0.5	-	-
61 to 90 days	0.2	-	-	-
Over 90 days	1.3	0.3	-	-
	2.1	0.8	-	-

10. Receivables (continued)

Of the $2.1 million of debtors over 30 days at 31 December 2021, $0.6 million has now been collected (2020: $0.8 million over 30 days at 31 December, $0.2 million collected).

(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. The fair values of the receivables approximate their carrying value due to their short term of payment.

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 five years before 31 December 2021 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.

11. Lease receivable

	Consolidated		Company	
	2021 $m	2020 $m	2021 $m	2020 $m
Current				
Lease receivable	0.2	0.2	-	-
Non-current				
Lease receivable	2.2	2.4	-	-
	2.4	2.6	-	-

(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.

12. Contract assets

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

	Consolidated		Company	
	2021	2020	2021	2020
	$m	$m	$m	$m
Contract assets relating to haulage services	12.7	2.1	-	-

(a) Accounting policy

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

13. Derivative financial instruments

	Consolidated		Company	
	2021	2020	2021	2020
	$m	$m	$m	$m
Current assets				
Interest rate swap contracts - cash flow hedges	3.5	-	-	-
Cross currency swap contracts - fair value and cash flow hedges	42.8	52.6	-	-
	46.3	52.6	-	-
Non-current assets				
Interest rate swap contracts - cash flow hedges	51.7	3.9	-	-
Cross currency swap contracts - fair value and cash flow hedges	237.9	250.3	-	-
	289.6	254.2	-	-
Current liabilities				
Interest rate swap contracts - cash flow hedges	(36.6)	(40.9)	-	-
Non-current liabilities				
Interest rate swap contracts - cash flow hedges	(43.8)	(110.0)	-	-
	255.5	155.9	-	-

(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. Amounts are presented as current or non- current assets or liabilities based on timing of future cash flows.

13. 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:

	Consolidated		Company	
	2021	2020	2021	2020
	$m	$m	$m	$m
Interest rate swap contracts				
Less than one year	150.0	205.0	-	-
1 - 2 years	325.0	150.0	-	-
3 - 5 years	815.0	545.0	-	-
Greater than five years	1,525.0	1,045.0	-	-
	2,815.0	1,945.0	-	-
Cross currency rate swap contracts				
Less than one year	68.5	107.5	-	-
1 - 2 years	127.1	68.5	-	-
2 - 3 years	-	127.1	-	-
Greater than five years	823.4	823.4	-	-
	1,019.0	1,126.5	-	-

13. Derivative financial instruments (continued)

(c) Fair value measurement

For information about the methods and assumptions used in determining the fair value of derivatives refer to note 3(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 $m	Weighted average effective interest rate %	Net carrying amount asset/ (liability) $m	Change in value of hedging instruments used as the basis for recognising hedge ineffectiveness $m	Change in fair value used for calculating hedge ineffectiveness $m
2021					
Cross currency interest rate swaps - fair value hedges	1,019.0	-	218.1	42.8	(42.8)
Cross currency interest rate swaps - cash flow hedges	1,019.0	-	62.6	(20.6)	20.6
Interest rate swap contracts - fair value hedges	450.0	1.1	(13.7)	13.7	(13.7)
Interest rate swap contracts - cash flow hedges	2,365.0	2.0	(11.5)	(135.5)	135.5
2020					
Cross currency interest rate swaps - fair value hedges	1,126.5	-	260.9	(57.2)	57.2
Cross currency interest rate swaps - cash flow hedges	1,126.5	-	42.0	(20.9)	20.9
Interest rate swap contracts - cash flow hedges	1,945.0	2.3	(147.0)	(34.7)	42.6

Effect of IBOR Reform

The Group holds a portfolio of foreign currency denominated fixed rate borrowings that are exposed to changes in fair value due to movements in market interest rates. The Group uses fair value hedge accounting to manage this interest rate risk exposure, which is determined as the change in fair value of the borrowings arising from changes in three month US$ London Interbank Offered Rate (LIBOR) for US$ denominated borrowings (the benchmark rates of interest).

Under the temporary relief provided by the amendments, the Group has assessed whether the hedged US$ LIBOR risk component is a separately identifiable risk only when it first designates the hedge relationship and not on an ongoing basis.

The Group also has designated cash flow hedge relationships where the valuation of hedged items and/or hedging instruments reference three month US$ LIBOR.

As at 31 December 2021, the Group had $1,019 million (31 December 2020: $1,126.5 million) of notional swaps in a hedging relationship with a US$ three month US$ LIBOR exposure.

13. 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 carrying amounts of the Group's assets and liabilities that are measured and recognised at fair value at 31 December are:

	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
At 31 December 2021				
Assets				
Derivatives used for hedging	-	335.9	-	335.9
	-	335.9	-	335.9
Liabilities				
Borrowings - US Private Placement Notes	-	1,465.2	-	1,465.2
Derivatives used for hedging	-	80.4	-	80.4
	-	1,545.6	-	1,545.6
At 31 December 2020				
Assets				
Derivatives used for hedging	-	306.8	-	306.8
	-	306.8	-	306.8
Liabilities				
Borrowings - US Private Placement Notes	-	1,615.4	-	1,615.4
Derivatives used for hedging	-	150.9	-	150.9
	-	1,766.3	-	1,766.3

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.

13. Derivative financial instruments (continued)

(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 7.

(f) Hedging reserves

The Group's hedging reserves disclosed in note 25 relate to the following hedging instruments:

Consolidated	Foreign currency basis spread $m	Interest rate swaps $m	Total hedge reserve $m
Opening balance 1 January 2020	0.1	(48.2)	(48.1)
Add: change in fair value of hedging instruments recognised in OCI	(9.3)	(43.0)	(52.3)
Less: deferred tax	2.8	12.9	15.7
Closing balance 31 December 2020	(6.4)	(78.3)	(84.7)
Add: change in fair value of hedging instruments recognised in OCI	3.7	146.3	150.0
Less: deferred tax	(1.1)	(43.9)	(45.0)
Closing balance 31 December 2021	(3.8)	24.1	20.3

13. Derivative financial instruments (continued)

(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 above. Movements in the hedging reserve in shareholders' equity are shown in note 25 . The fair value of a hedging derivative is classified as a current or 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".

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.

14. Other assets

	Consolidated 2021 $m	Consolidated 2020 $m	Company 2021 $m	Company 2020 $m
Current				
GST receivable	3.4	1.6	-	-
Prepayments	2.5	2.3	-	-
Other current assets	-	0.2	-	-
	5.9	4.1	-	-

15. Property, plant and equipment

	Consolidated 2021 $m	Consolidated 2020 $m	Company 2021 $m	Company 2020 $m
Freehold land	12.5	12.0	-	-
	12.5	12.0	-	-
Buildings at cost	10.5	8.5	-	-
Buildings - accum depn	(2.4)	(1.8)	-	-
	8.1	6.7	-	-
Plant and equipment at cost	5,227.3	4,915.4	-	-
Plant and equipment - accum depn	(685.7)	(574.3)	-	-
	4,541.6	4,341.1	-	-
	4,562.2	4,359.8	-	-

Reconciliations of the written down values at the beginning and end of the current financial year are set out below:

Consolidated	Freehold land $m	Freehold buildings $m	Plant and equipment $m	Total $m
Balance at 1 January 2020	12.0	6.8	4,170.9	4,189.7
Additions	-	-	286.4	286.4
Depreciation expense	-	(0.1)	(116.2)	(116.3)
Balance at 31 December 2020	12.0	6.7	4,341.1	4,359.8
Additions	0.5	2.0	318.5	321.0
Depreciation expense	-	(0.6)	(118.0)	(118.6)
Balance at 31 December 2021	12.5	8.1	4,541.6	4,562.2

(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 (2020: $24.9 million) has been included in the financial statements at 31 December 2021 in relation to freehold land.

(b) Non-current assets pledged as security
Refer to note 21(b) for information on non-current assets pledged as security by the Group.

15. Property, plant and equipment (continued)

(c) Accounting policy

Property, plant and equipment is stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Land is not depreciated. Depreciation on other assets is calculated on a straight-line basis to write off the net cost of each item of property, plant and equipment over their expected useful lives as follows:

Buildings	40 years
Furniture, fittings and computer equipment	3-10 years
Other plant and equipment	5-40 years
Gas mains and inlets:	
- Polyethylene	70 years
- Steel	100 years
- Cast Iron	120 years
- Gas meters	25 years
- Regulators	50 years
- Gate and meter stations	50 years
- Telemetry equipment	10 years

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.

16. Intangibles

	Consolidated		Company	
	2021 $m	2020 $m	2021 $m	2020 $m
Non-current				
Distribution licence	1,217.1	1,217.1	-	-
Network maps	85.7	85.7	-	-
	1,302.8	1,302.8	-	-

16. Intangibles (continued)

(a) Impairment tests for intangible assets

Intangible assets comprise distribution licences and network maps on acquisition of the Australian Gas Networks 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.

The recoverable amount of cash generating units are determined based on a fair value less cost of disposal calculation using an income approach based on discounted cash flow model. The cash flow model includes projected cash flows for a 10 year period as the revenue and associated costs can reasonably be estimated for this period based on existing regulatory arrangements and future expectations in the gas industry. Cash flows beyond this period are covered by terminal value of the assets that are determined based on the Regulatory Asset Base (RAB) multiple as common in the industry. The post tax and pre-tax discount rate applied to the cash flow projections is 3.5% and 5% respectively (2020: 3.4% post-tax and 4.9% pre-tax) which has been determined based on a weighted average cost of capital calculation which incorporates the specific risks relating to the cash generating units identified. The impairment model also includes consideration for the climate risk.

A sensitivity analysis has been performed in relation to the reasonably possible changes in the discount rate and the RAB multiples used in the terminal value. The sensitivity analysis showed that no impairment would arise under the scenarios assessed.

(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 and network maps

The distribution licences and network maps 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.

17. Right-of-use assets

	Consolidated		Company	
	2021 $m	2020 $m	2021 $m	2020 $m
Non-current				
Land and buildings - right-of-use	2.1	2.5	-	-
Land and buildings - right-of-use: accumulated depreciation	(1.0)	(0.9)	-	-
	1.1	1.6	-	-

(a) Reconciliations

Reconciliations of the written down values at the beginning and end of the current financial year are set out below:

17. Right-of-use assets (continued)

Consolidated	Motor Vehicles $m	Land and buildings $m	Total $m
Balance at 1 January 2020	-	1.1	1.1
Additions	0.2	0.7	0.9
Depreciation expense	-	(0.4)	(0.4)
Balance at 31 December 2020	0.2	1.4	1.6
Disposals	-	(0.2)	(0.2)
Depreciation expense	-	(0.3)	(0.3)
Balance at 31 December 2021	0.2	0.9	1.1

(b) 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 remeasurement 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.

18. Investments

	Consolidated		Company	
	2021 $m	2020 $m	2021 $m	2020 $m
Non-current				
Shares in subsidiaries	-	-	1,957.8	1,957.8

19. Payables

	Consolidated		Company	
	2021 $m	2020 $m	2021 $m	2020 $m
Current				
Trade and other payables	67.8	61.4	-	-

(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.

20. Lease liabilities

	Consolidated		Company	
	2021	2020	2021	2020
	$m	$m	$m	$m
Current				
Lease liability	0.5	0.7	-	-
Non-current				
Lease liability	3.5	4.0	-	-
	4.0	4.7	-	-

The Group leases motor vehicles and 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 agreements 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.

21. 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 21 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.

21. Borrowings (continued)

	Consolidated		Company	
	2021 $m	2020 $m	2021 $m	2020 $m
Current				
Bank loans	150.0	-	-	-
Medium Term Notes	-	324.9	-	-
US Private Placement Notes	118.5	107.5	-	-
	268.5	432.4	-	-
Non-current				
Bank loans	355.3	277.7	-	-
Capital Indexed Bonds	286.7	281.7	-	-
Medium Term Notes	1,025.3	588.0	-	-
US Private Placement Notes	1,346.7	1,507.9	-	-
	3,014.0	2,655.3	-	-
	3,282.5	3,087.7	-	-

(a) Total secured liabilities

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

	Consolidated		Company	
	2021 $m	2020 $m	2021 $m	2020 $m
Bank loans	506.5	279.0	-	-
Capital Indexed bonds	293.1	289.9	-	-
Medium Term Notes	1,050.0	925.0	-	-
US Private Placement Notes	1,184.0	1,291.5	-	-
	3,033.6	2,785.4	-	-

Principal outstanding differs differs to book value of debt due to acquisition related fair value adjustments, unamortised borrowing costs and adjustments for fair value of derivatives.

21. Borrowings (continued)

(b) Assets pledged as security

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

	Consolidated		Company	
	2021	**2020**	**2021**	**2020**
	$m	**$m**	**$m**	**$m**
Cash and cash equivalents	5.8	7.0	-	-
Receivables	44.7	46.2	-	-
Contract assets	11.2	0.9	-	-
Derivative financial instruments	335.9	305.3	-	-
Other assets	5.9	4.1	-	-
Property, plant and equipment	4,447.2	4,245.7	-	-
Intangibles	1,280.6	1,280.6	-	-
	6,131.3	5,889.8	-	-

(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 2021, the Group was in compliance with all covenants and undertakings (2020: in compliance).

21. Borrowings (continued)

(d) Group funding and liability structure

The Group's total interest bearing debt principal outstanding as at 31 December 2021 was $3,033.6 million (2020: $2,785.4 million) comprising a range of financial instruments with varying maturities issued under the 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 2021 had terms to maturity of up to nine 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 21(f).

(e) Market risk

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

	2021 US$m	2020 US$m
Consolidated		
Borrowings	851.0	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:

	2021 $m	2021 % of loans	2020 $m	2020 % of loans
Consolidated				
Variable rate borrowings	2,575.5	84.8	2,005.5	72.0
Other borrowings - repricing dates:				
Less than 1 year	50.0	1.7	-	-
1 - 5 years	358.1	11.8	325.0	11.7
Over 5 years	50.0	1.7	454.9	16.3
	3,033.6	100.0	2,785.4	100.0

21. Borrowings (continued)

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

	2021 Weighted average interest rate	2021 Balance $m	2020 Weighted average interest rate	2020 Balance $m
Interest bearing debt (at variable rates)	1.2%	2,575.5	1.3%	2,005.5
Interest rate swaps	1.9%	(2,365.0)	2.3%	(1,945.0)
Net exposure to cash flow interest rate risk		210.5		60.5

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.

	Consolidated 2021 $m	Consolidated 2020 $m
Impact on after-tax profit:		
Interest rates + 1%	(1.5)	(0.4)
Interest rates - 1%	1.5	0.4
Impact on equity:		
Interest rates +1%	(9.6)	(18.2)
Interest rates -1%	9.7	19.1

(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).

21. Borrowings (continued)

Consolidated	**Less than one year $m**	**Between 1 and 5 years $m**	**Between 5 and 15 years $m**	**Over 15 years $m**	**Total $m**
At 31 December 2021					
Trade payables	67.8	-	-	-	67.8
Lease liabilities	0.5	1.3	2.2	-	4.0
Medium term notes	8.8	629.9	14.7	-	653.4
Capital Indexed Bonds	9.0	345.5	-	-	354.5
Bank loans	150.3	356.7	-	-	507.0
US Private Placement Notes	148.9	275.7	896.2	68.7	1,389.5
Interest rate swaps	46.3	142.9	47.3	-	236.5
	431.6	1,752.0	960.4	68.7	3,212.7
At 31 December 2020					
Trade payables	61.4	-	-	-	61.4
Lease liabilities	0.7	1.6	2.4	-	4.7
Medium term notes	342.3	310.6	300.8	-	953.7
Capital Indexed Bonds	8.9	359.4	-	-	368.3
Bank loans	-	279.0	-	-	279.0
US Private Placement Notes	141.2	402.7	910.3	72.8	1,527.0
Interest rate swaps	43.8	135.1	52.9	-	231.8
	598.3	1,488.4	1,266.4	72.8	3,425.9

21. Borrowings (continued)

(ii) Financing arrangements
At the end of the financial year the Group held cash of $123.1 million (2020: $7.3 million) and had unused credit facilities as follows:

	Maturity Date	Facility available 2021 $m	Facility drawn 2021 $m	Facility available 2020 $m	Facility drawn 2020 $m
Rollover Facility	03/05/2022	60.0	-	60.0	-
Bank Facility	05/05/2023	75.0	30.0	75.0	-
Bank Facility	03/03/2023	50.0	50.0	50.0	-
Bank Facility	26/11/2024	100.0	100.0	-	-
Bank Facility	22/01/2024	30.0	26.5	-	-
Bank Facility	28/02/2022	-	-	50.0	-
Bank Facility	26/11/2024	50.0	50.0	50.0	15.0
Bank Facility	30/06/2022	100.0	100.0	100.0	100.0
Bank Facility	01/10/2022	50.0	50.0	50.0	50.0
Bank Facility	31/03/2023	100.0	100.0	100.0	100.0
Bank Facility	27/06/2022	50.0	-	50.0	-
Bank Facility	07/07/2025	75.0	-	75.0	-
Working Capital Facility	01/07/2022	9.8	-	9.8	-
Working Capital Facility	01/07/2022	5.0	-	5.0	-
Working Capital Facility	21/10/2022	25.0	-	25.0	14.0
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	24/04/2028	250.0	250.0	-	-
Medium Term Notes	28/04/2031	200.0	200.0	-	-
Medium Term Notes	17/12/2021	-	-	325.0	325.0
US Private Placement US$110	12/07/2021	-	-	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	01/07/2027	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	20/08/2025	293.1	293.1	289.9	289.9
		3,306.9	3,033.6	3,206.2	2,785.4

21. 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:

	Consolidated	
	2021	**2020**
	$m	**$m**
Total borrowings	3,282.5	3,087.7
Add back unamortised debt costs / acquisition fair values of borrowings	(4.7)	(8.6)
Add back hedges impact on borrowings	(244.2)	(293.7)
Total debt	3,033.6	2,785.4
Total debt	3,033.6	2,785.4
Less cash and cash equivalents per AGN Group	(6.0)	(7.1)
Net debt	3,027.6	2,778.3
Regulated asset base	3,982.2	3,921.8
Debt to RAB Ratio	76.0%	70.8%

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:

21. Borrowings (continued)

Consolidated	Gross amounts of financial instruments presented in the balance sheet $m	Financial instruments $m	Net amount $m
2021			
Assets			
Interest rate swaps	44.7	-	44.7
Cross currency swaps	280.8	-	280.8
	325.5	-	325.5
Liabilities			
Interest rate swaps	(70.0)	-	(70.0)
Cross currency swaps	-	-	-
	(70.0)	-	(70.0)
2020			
Assets			
Interest rate swaps	1.6	-	1.6
Cross currency swaps	302.9	-	302.9
	304.5	-	304.5
Liabilities			
Interest rate swaps	(148.6)	-	(148.6)
Cross currency swaps	-	-	-
	(148.6)	-	(148.6)

(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.

21. Borrowings (continued)

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

Consolidated	**Carrying amount $m**	**Fair value $m**
2021		
Non-traded financial liabilities		
Bank loans	505.3	507.0
US Private Placement Notes	1,465.2	1,441.8
Traded financial liabilities		
Capital Indexed Bonds	286.7	321.2
Medium Term Notes	1,025.3	1,036.4
	3,282.5	3,306.4
2020		
Non-traded financial liabilities		
Bank loans	277.7	279.0
US Private Placement Notes	1,615.4	1,585.2
Traded financial liabilities		
Capital Indexed Bonds	281.7	316.8
Medium Term Notes	912.9	925.0
	3,087.7	3,106.0

22. Provisions

	Consolidated		**Company**	
	2021 $m	**2020 $m**	**2021 $m**	**2020 $m**
Current				
Employee benefits	2.8	2.6	-	-
Land management costs (monitoring)	1.3	0.4	-	-
Other provisions	17.5	3.6	-	-
	21.6	6.6	-	-
Non-current				
Employee benefits	0.2	0.2	-	-
Land management costs (remediation)	25.4	24.9	-	-
	25.6	25.1	-	-
	47.2	31.7	-	-

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.

22. Provisions (continued)

Movements in provisions
Movements in each class of provision during the current financial year, other than employee benefits, are set out below:

Consolidated - 2021	Land management costs $m	Other provisions $m
Carrying amount at the start of the year	25.3	3.6
Additional provisions recognised	1.9	15.8
Payments	(0.5)	(0.2)
Unused amounts reversed	-	(1.7)
Carrying amount at the end of the year	26.7	17.5

(a) Accounting policy for provisions

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

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

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

(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 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.

22. Provisions (continued)

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

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

(iii) Other
The Group had 75 employees at 31 December 2021 (2020: 69 employees). The monthly average number of employees throughout the year was 72 (2020: 64). 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 Group and associated subcontractors.

23. Other liabilities

	Consolidated		Company	
	2021 $m	2020 $m	2021 $m	2020 $m
Current				
Interest accrued	12.5	12.8	-	-
Accrued costs	23.0	18.3	0.1	0.1
Prepayments from energy retailers	0.1	0.1	-	-
	35.6	31.2	0.1	0.1
Non-current				
Revenue received in advance	0.9	0.6	-	-
	36.5	31.8	0.1	0.1
Offsetting financial assets and financial liabilities				
Interest payable on interest rate swaps	2.6	2.7	-	-
Interest receivable on interest rate swaps	(0.1)	(0.1)	-	-
Other interest accrued not offset	10.0	10.2	-	-
Interest accrued	12.5	12.8	-	-

24. Contributed equity

	Consolidated 2021 Shares	2020 Shares	2021 $m	2020 $m
Contributed equity	1,099,104,768	1,099,104,768	1,957.8	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. Ordinary shares have no par value and all authorised shares have been fully issued.

(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.

25. Reserves

	Consolidated		Company	
	2021 $m	2020 $m	2021 $m	2020 $m
Hedge reserves - cash flow hedges	16.8	(69.9)	-	-

(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 13.

(b) Movements in reserves
Movements in each class of reserve during the current and previous financial year are set out below:

Consolidated	Hedging reserve $m	Total $m
Balance at 1 January 2020	(39.7)	(39.7)
Fair value movements	(35.5)	(35.5)
Foreign currency basis spread	(7.7)	(7.7)
Deferred tax	13.0	13.0
Balance at 31 December 2020	(69.9)	(69.9)
Fair value movements	120.7	120.7
Foreign currency basis spread	3.1	3.1
Deferred tax	(37.1)	(37.1)
Balance at 31 December 2021	16.8	16.8

26. Retained earnings

	Consolidated		Company	
	2021 $m	2020 $m	2021 $m	2020 $m
Retained earnings at the beginning of the financial year	10.2	31.2	0.3	0.2
Profit after income tax expense for the year	162.7	154.9	154.0	172.8
Dividends paid	(167.3)	(175.9)	(154.1)	(172.7)
Retained earnings at the end of the financial year	5.6	10.2	0.2	0.3

27. Cash flow information

(a) Cash flow from operating activities

	Consolidated		Company	
	2021 $m	2020 $m	2021 $m	2020 $m
Profit after income tax	197.1	187.7	154.0	172.8
Depreciation and amortisation	120.8	116.7	-	-
Amortisation of debt establishment costs	(0.5)	(1.3)	-	-
Indexation of Capital Indexed Bonds	3.3	6.7	-	-
Foreign currency translation expense/(credit)	(0.3)	(0.9)	-	-
Items included as investing or financing activities:				
Dividend income	-	-	(154.0)	(172.8)
Change in operating assets and liabilities:				
Decrease/(increase) in trade debtors	(6.2)	3.6	-	-
(Increase)/decrease in other operating assets	(1.8)	2.5	-	-
Increase/(decrease) in trade creditors and other liabilities	(4.8)	26.9	-	-
Increase in provision for deferred income tax	84.6	80.5	-	-
Net cash inflow/(outflow) from operating activities	392.2	422.4	-	-

27. Cash flow information (continued)

(b) Net borrowings reconciliation

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

	Consolidated		Company	
	2021 $m	2020 $m	2021 $m	2020 $m
Cash and cash equivalents	123.1	7.3	-	-
Borrowings - repayable within one year	(268.5)	(432.4)	-	-
Borrowings - repayable after one year	(3,014.0)	(2,655.3)	-	-
	(3,159.4)	(3,080.4)	-	-
Cash and cash equivalents	123.1	7.3	-	-
Gross debt - fixed interest rates	(889.8)	(771.6)	-	-
Gross debt - variable interest rates	(2,392.7)	(2,316.1)	-	-
	(3,159.4)	(3,080.4)	-	-

	Cash $m	Borrowings due within one year $m	Borrowings due after one year $m	Total $m
Consolidated				
Net borrowings as at 1 January 2020	132.3	(168.5)	(3,022.8)	(3,059.0)
Cash flows	(125.0)	(263.9)	311.5	(77.4)
Other non-cash movements	-	-	56.0	56.0
Net borrowings as at 31 December 2020	7.3	(432.4)	(2,655.3)	(3,080.4)
Cash flows	115.8	282.5	(524.8)	(126.5)
Other non-cash movements	-	(118.6)	166.1	47.5
Net borrowings as at 31 December 2021	123.1	(268.5)	(3,014.0)	(3,159.4)

28. 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 Ltd 2021 %
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	-

28. Subsidiaries (continued)

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.

29. 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 Asset 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

Interest in subsidiaries are set out in note 28.

29. Related party transactions (continued)

(c) Key management personnel

	Consolidated 2021 $m	Consolidated 2020 $m
Renumerated by Australian Gas Networks Limited:		
Key management personnel compensation (AGN Group)	6.9	5.5

(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) Transactions with related parties

The following transactions occurred with related parties:

	Consolidated 2021 $m	Consolidated 2020 $m
Management fee expense	(0.1)	(0.6)
Corporate overheads	1.6	(0.8)
Finance income/(costs) on loans	0.3	(0.4)

The following balances are outstanding at the reporting date in relation to transactions with related parties:

	Consolidated 2021 $m	Consolidated 2020 $m
Current assets:		
Trade receivables from commonly controlled entity	2.4	1.9
Current liabilities:		
Trade payables	(0.7)	-
Accrued costs	(7.8)	(1.7)

(f) Loans to related parties

The following balances are outstanding at the reporting date in relation to loans with related parties:

	Consolidated 2021 $m	Consolidated 2020 $m
Non-current receivables:		
Loan to commonly controlled entity	8.8	8.5

(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.

30. 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 £48,000 (2020: £36,000). The operational companies in Australia are audited by PricewaterhouseCoopers, Australia. The remuneration disclosed below is in relation to the operational companies.

During the financial year the following fees were paid or payable for services provided by PricewaterhouseCoopers, the auditors of the AGN Group:

	Consolidated	
	2021	**2020**
	$m	**$m**
Audit services		
Audit of the financial statements	0.3	0.2
Other services		
Preparation of the tax return and other tax compliance services	-	0.1
Audit/review of regulatory financial information	0.4	0.4
	0.4	0.5
	0.7	0.7

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.

31. Events after the reporting period

No matter or circumstance has arisen since 31 December 2021 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.