38. Summary of other significant accounting policies

AGL Energy Limited (the Parent Entity) is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Securities Exchange (ASX). The address of its registered office is Level 24, 200 George Street, Sydney NSW 2000 Australia.

The consolidated financial statements comprise the Parent Entity and its controlled entities (together referred to as AGL). For the purposes of preparing the consolidated financial statements, the Parent Entity is a for-profit entity.

The principal activities of AGL are described in Note 1.

(a) Statement of compliance

These consolidated financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards and Interpretations as issued by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001.

The consolidated financial statements also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

The consolidated financial statements were authorised for issue by the Directors on 8 August 2019.

(b) Basis of preparation

The consolidated financial statements have been prepared on the basis of historical cost, except for derivative financial instruments and equity instruments financial assets, which are measured at fair value. Historical cost is generally based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, which is the functional and presentation currency of AGL, unless otherwise noted.

The Parent Entity is a company of the kind referred to in ASIC Corporations Instrument 2016/191, dated 24 March 2016, and in accordance with that Instrument, amounts in the financial statements are rounded off to the nearest million dollars, unless otherwise indicated.

The significant accounting policies that have been adopted in the preparation and presentation of the consolidated financial statements are set out below.

(c) Adoption of new and revised accounting standards and Interpretations

AGL has applied the required amendments to Standards and Interpretations that are relevant to its operations and effective for the current reporting period for the first time for the financial year commencing 1 July 2018.

- AASB 9 *Financial Instruments*
- AASB 15 *Revenue from Contracts with Customers*.

The following standards were early adopted:

- AASB 16 *Leases* (AGL has voluntarily elected to early adopt AASB 16 from 1 July 2018).

Disclosures with respect to the application of these new Standards and Interpretations are provided in this note. There were a range of other new or amended Standards and Interpretations applicable from 1 July 2018, however these did not have any material impact on the disclosures or on the amounts recognised in AGL's consolidated financial statements. With the exception of AASB 16 *Leases*, AGL has not early adopted any other accounting standards, interpretations or amendments that have been issued, but are not yet effective.

AASB 9 Financial Instruments (AASB 9)

AASB 9 *Financial Instruments* replaces AASB 139 *Financial Instruments: Recognition and Measurement* (AASB 139) bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting. With the exception of hedge accounting, which AGL applied prospectively, AGL has applied AASB 9 retrospectively, with the initial application date of 1 July 2018 and adjusting the comparative information for the period beginning 1 July 2017.

Classification and measurement of financial assets and liabilities

Financial assets and liabilities are classified and measured in accordance with one of the following categories pursuant to AASB 9:

- Amortised cost (AC);
- Fair value through other comprehensive income (that will not be reclassified subsequently to profit or loss) (FVOCI-NR);
- Fair value through other comprehensive income (FVOCI);
- Fair value through profit or loss (FVTPL).

The classification of financial assets is based on two criteria: AGL's business model for managing the assets and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' (SPPI) on the principal amount outstanding. On 1 July 2018, the date of initial application of AASB 9, AGL assessed which business models apply to the financial assets and liabilities held and classified its financial instruments into the appropriate AASB 9 categories. There was no change in the carrying value of AGL's financial instruments as a result of the adoption of this element of AASB 9.

38. Summary of other significant accounting policies (cont.)

	Measurement category	
	Original (AASB 139)	New (AASB 9)
Current financial assets		
Trade and other receivables	Amortised cost	Amortised cost
Derivatives	FVTPL	FVTPL
Unlisted equity securities and investment funds	Available-for-sale	FVOCI-NR
Non-current financial assets		
Derivatives	FVTPL	FVTPL
Current financial liabilities		
Trade and other payables	Amortised cost	Amortised cost
Borrowings	Amortised cost	Amortised cost
Derivatives	FVTPL	FVTPL
Deferred consideration	Amortised cost	Amortised cost
Non-current financial liabilities		
Borrowings	Amortised cost	Amortised cost
Derivatives	FVTPL	FVTPL
Deferred consideration	Amortised cost	Amortised cost

Equity investments previously classified as available-for-sale

AGL elected to present in other comprehensive income changes in the fair value of all its equity investments previously classified as available-for-sale, because these investments are held as long-term strategic investments that are not expected to be sold in the short to medium term.

Hedge accounting

AGL applied hedge accounting prospectively. At the date of the initial application, all of AGL's existing hedging relationships were eligible to be treated as continuing hedging relationships. The currency basis adjustment relating to the hedge instrument applied to AGL's US dollar denominated borrowings has been recognised in other comprehensive income and an associated cost of hedging reserve. The adoption of the hedge accounting requirements of AASB 9 had no significant impact on AGL's financial statements.

Impairment for financial assets

The adoption of AASB 9 has changed AGL's accounting for impairment losses by replacing AASB 139's incurred loss approach with a forward-looking expected credit loss approach. AASB 9 requires AGL to record an allowance for expected credit losses for all loans and other debt financial assets not held at fair value through profit or loss. Expected credit losses are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the AGL expects to receive. AGL has applied AASB 9's simplified approach to trade receivables and unbilled revenue and has calculated expected credit losses based on lifetime expected credit losses. AGL has refined the existing segmentation of debt and identified forwardlooking factors to apply to those profiles. Some of the key factors considered in the forward-looking information include wholesale electricity forward prices, commodity fuel forward prices, national GDP growth outlook and interest rate forward curves. The impact of applying an expected credit loss model was a restated cumulative retained earnings decrease of $77 million, a restated decrease in profit for the year ended 30 June 2018 of $4 million, a restated decrease in trade and other receivables of $116 million, and a restated increase in deferred tax assets of $35 million at 30 June 2018.

AASB 15 Revenue from Contracts with Customers (AASB 15)

AASB 15 and its associated amendments supersede AASB 111 *Construction Contracts*, AASB 118 *Revenue* and related Interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. AASB 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. AASB 15 requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires new disclosures. AGL adopted AASB 15 using the full retrospective method of adoption with the date of initial application of 1 July 2018. In accordance with this method, to the extent the impact is material, AGL is required to restate comparative information for the 2018 financial period. The effect of the transition on the current period has not been disclosed as the standard provides an optional practical expedient which AGL has applied. AGL did apply other available optional practical expedients as set out below. While the retrospective adoption of AASB 15 resulted in changes in accounting policies which are discussed below, it did not result in material adjustments to the current or preceding financial reporting years which is why there are no adjustments shown in the tables below relating to the impact of AASB 15 on comparative financial information.

Impact on adoption

AGL undertook a comprehensive analysis of the impact of the new revenue standard with the primary focus being to understand whether the timing, amount and nature of revenue recognised could differ pursuant to AASB 15. Based on this assessment, the application of AASB 15 did not have a material impact on the recognition, timing or measurement of AGL's revenue.

38. Summary of other significant accounting policies (cont.)

AASB 16 Leases (AASB 16)

AASB 16 *Leases* is effective for annual reporting periods commencing on or after 1 January 2019, with early application permitted for entities that also apply AASB 15. AGL elected to early adopt AASB 16 for the reporting period beginning 1 July 2018 using the full retrospective method of transition. Consequently, the impact of the new standard has been calculated as if the standard had always applied, subject to the practical expedients permitted on transition (outlined below). The cumulative retrospective impact has been recognised as at 1 July 2017, being the beginning of the earliest comparative period presented. The comparative information has been restated for the effects of the new accounting policy. Previously, AGL accounted for leases in accordance with AASB 117 *Leases* and AASB Interpretation 4 *Determining whether an arrangement contains a lease*. The new accounting policy for leases in accordance with AASB 16 is provided at note 18. Detailed disclosures of the impact of transition are provided below. AGL has elected to apply the grandfathering practical expedient on transition to AASB 16. This means that for arrangements entered into before 1 July 2018, AGL has not reassessed whether it is, or contains, a lease in accordance with the new AASB 16 lease definition. Consequently, existing contracts as at 1 July 2018 continued to be assessed per the previous accounting policy described below in accordance with AASB 117 and AASB Interpretation 4. Given this, the transition and new requirements of AASB 16 per the new accounting leases policy described at note 18, have only been applied to arrangements entered into, or modified after, 1 July 2018.

AGL as lessee

In accordance with previous lease standards, assets held pursuant to finance leases were initially recognised as assets of AGL at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor was included in the Consolidated Statement of Financial Position as a finance lease liability. Lease payments were apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges were recognised immediately in profit or loss. Assets held pursuant to finance leases were depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease. Operating leases were not recognised on the Consolidated Statement of Financial Position. Instead, operating lease payments were recognised as an expense on a straight-line basis over the lease term. Contingent rentals arising pursuant to operating leases were recognised as an expense in the period in which they were incurred. Lease incentives received to enter into operating leases were recognised as a liability.
The aggregate benefit of incentives was recognised as a reduction of rental expense on a straight-line basis. In accordance with AASB 16, there is no distinction between operating and finance leases. Instead, practically all leases are accounted for using a single on-balance sheet model similar to finance leases pursuant to AASB 117. At the inception date of a lease, a liability is recognised representing an obligation to make future lease payments (i.e. the lease liability) and an asset is recognised representing the right to use the underlying asset for the lease term (i.e. right-of-use (ROU) asset). Interest expense on the lease liability and depreciation expense on the ROU asset is recognised in the statement of profit or loss. The lease expense recognition pattern is generally accelerated as compared to the pattern under previous accounting standards. AASB 16 includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). Lease liabilities are remeasured upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The amount of the remeasurement of the lease liability is generally recognised as an adjustment to the ROU asset.

AGL as lessor

Lessor accounting in accordance with AASB 16 is substantially unchanged from the requirements pursuant the previous standard. Lessors continue to classify all leases using the same classification principles pursuant to the previous standards and distinguish between two types of leases: operating and finance leases.

In contracts where AGL is a lessor, AGL determines whether the lease is an operating lease or finance lease at the inception of the lease. The lease is a finance lease if it transfers substantially all of the risks and rewards incidental to ownership of the underlying asset to the lessee in the contract. If not, the lease is classified as an operating lease. AGL assesses the classification of a lease considering the following indications of finance leases:

- the lease transfers ownership of the underlying asset to the lessee by the end of the lease term;
- the lessee has the option to purchase the underlying asset at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception date, that the option will be exercised;
- the lease term is for the major part of the economic life of the underlying asset even if title is not transferred;
- at the inception date, the present value of the lease payments amounts to at least substantially all of the fair value of the underlying asset; and
- the underlying asset is of such a specialised nature that only the lessee can use it without major modifications.

The limited changes in accounting for lessors do not impact AGL.

Finance leases

Amounts due from lessees pursuant to finance leases are recognised as receivables at the amount of AGL's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on AGL's net investment outstanding in respect of the leases.

Operating leases

Amounts due from lessees pursuant to operating lease are recognised as lease income on a straight-line basis over the lease term.

38. Summary of other significant accounting policies (cont.)

Overall impact of adopting AASB 9, AASB 15 and AASB 16

The following tables summarise the adjustments recognised against each individual line item within the relevant primary statements for all standards. Line items that were not affected by the changes have not been included in the table below. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided. The specifics of the adjustments for each standard are explained in more detail below. AASB 15 did not have a material impact on adoption.

	30 Jun 2018 $m	AASB 9	AASB 16	Restated 30 Jun 2018 $m
Continuing operations				
Revenue	12,816	-	-	**12,816**
Other income	31	-	-	**31**
Expenses	(9,864)	(6)[1]	16[2]	**(9,854)**
Share of profits of associates and joint ventures	39	-	-	**39**
Profit before net financing costs, depreciation and amortisation	3,022	(6)	16	**3,032**
Depreciation and amortisation	(558)	-	(10)[3]	**(568)**
Profit before net financing costs	2,464	(6)	6	**2,464**
Finance income	10	-	-	**10**
Finance costs	(223)	-	(7)[4]	**(230)**
Net financing costs	(213)	-	(7)	**(220)**
Profit before tax	2,251	(6)	(1)	**2,244**
Income tax expense	(664)	2[5]	-	**(662)**
Profit for the period attributable to the shareholders of AGL Energy Limited	1,587	(4)	(1)	**1,582**

Earnings per share				
Basic earnings per share	242.0 cents	(0.6 cents)	(0.2 cents)	**241.2 cents**
Diluted earnings per share	241.7 cents	(0.6 cents)	(0.2 cents)	**240.9 cents**

1. The additional credit loss on trade receivables recognised pursuant the simplified expected credit loss model.
2. The reduction in rental expenses on the adoption of AASB 16 Leases.
3. The depreciation expense on the right-of-use asset recognised on the adoption of AASB 16 Leases.
4. The interest expense on the lease liability recognised on the adoption of AASB 16 Leases.
5. The tax effect of accounting standard adjustments.

38. Summary of other significant accounting policies (cont.)

	30 Jun 2018 $m	AASB 9	AASB 16	Restated 30 Jun 2018 $m
Profit for the period	1,587	(4)	(1)	**1,582**
Other comprehensive income				
Items that will not be reclassified subsequently to profit or loss				
Remeasurement gain on defined benefit plans	42	-	-	**42**
Income tax relating to items that will not be reclassified subsequently	(13)	-	-	**(13)**
	29	-	-	**29**
Items that may be reclassified subsequently to profit or loss				
Cash flow hedges				
Loss in fair value of cash flow hedges	(103)	-	-	**(103)**
Reclassification adjustments transferred to profit or loss	(56)	-	-	**(56)**
Reclassification adjustments transferred to the initial carrying amounts of hedged items				**-**
Available-for-sale financial assets				**-**
Loss on revaluation of available-for-sale financial assets	(3)			**(3)**
Income tax relating to items that may be reclassified subsequently	48	-	-	**48**
	(114)	-	-	**(114)**
Other comprehensive loss for the period, net of income tax	(85)	-	**-**	**(85)**
Total comprehensive income for the period attributable to the shareholders of AGL Energy Limited	1,502	(4)	(1)	**1,497**

38. Summary of other significant accounting policies (cont.)

	30 June 2018 $m	AASB 9	AASB 16	Restated 30 June 2018 $m
Current assets				
Cash and cash equivalents	463	-	-	**463**
Trade and other receivables	1,891	(116)[1]	-	**1,775**
Inventories	370	-	-	**370**
Current tax assets	147	-	-	**147**
Other financial assets	600	-	-	**600**
Other assets	261	-	-	**261**
	3,732	(116)	-	**3,616**
Assets classified as held for sale	74	-	-	**74**
Total current assets	3,806	(116)	-	**3,690**
Non-current assets				
Inventories	10	-	-	**10**
Other financial assets	448	-	-	**448**
Investments in associates and joint ventures	100	-	-	**100**
Property, plant and equipment	6,685	-	72[2]	**6,757**
Intangible assets	3,271	-	-	**3,271**
Deferred tax assets	242	35[3]	3[3]	**280**
Other assets	77	-	-	**77**
Total non-current assets	10,833	35	75	**10,943**
Total assets	14,639	(81)	75	**14,633**
Current liabilities				
Trade and other payables	1,579	-	-	**1,579**
Borrowings	19	-	15[4]	**34**
Provisions	233	-	-	**233**
Current tax liabilities	81	-	-	**81**
Other financial liabilities	394	-	-	**394**
Other liabilities	2	-	-	**2**
Total current liabilities	2,308	-	15	**2,323**
Non-current liabilities				
Borrowings	2,822	-	107[5]	**2,929**
Provisions	509	-	-	**509**
Other financial liabilities	432	-	-	**432**
Other liabilities	178	-	(39)[6]	**139**
Total non-current liabilities	3,941	-	68	**4,009**
Total liabilities	6,249	-	83	**6,332**
Net assets	8,390	(81)	(8)	**8,301**
Equity				
Issued capital	6,223	-	-	**6,223**
Reserves	(102)	-	-	**(102)**
Retained earnings	2,269	(81)	(8)	**2,180**
Total equity attributable to owners of AGL Energy Limited	8,390	(81)	(8)	**8,301**
Retained earnings at 1 July 2017	1,335	(77)	(7)	**1,251**

1. The remeasurement of the expected credit loss allowance recognised pursuant the simplified expected credit loss model.
2. The recognition of the right-of-use asset on the adoption of AASB 16 Leases .
3. The tax effect of the accounting standards adjustments.
4. The lease liability obligations due within a 12 month period from the balance date.
5. The non-current element of lease liabilities recognised on the adoption of AASB 16 Leases.
6. The derecognition of the straight line lease liability previously recognised pursuant to AASB 117 Leases.

38. Summary of other significant accounting policies (cont.)

(d) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Parent Entity and entities (including special purpose entities) controlled by the Parent Entity (its subsidiaries). Control is achieved when the Parent Entity 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 over the entity.

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

(e) Foreign currency transactions and balances

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

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

Foreign exchange differences arising on translation are recognised in profit or loss in the period in which they arise.

(f) Standards and Interpretations on issue not yet adopted

The following accounting standards, accounting standard amendments and interpretations are due for adoption for the year ending 30 June 2020:

- AASB Interpretation 23 *Uncertainty Over Income Tax Treatment;*
- AASB 2018-1 *Annual Improvements 2015-2017*
- AASB 2018-2 *Amendments to AASB 19 – plan amendments, curtailment or settlement*

The standards and interpretations listed above will not have a material impact on AGL's financial results or financial position on adoption.

39. Subsequent events

Share buy-back

On 8 August 2019, AGL announced its intention to undertake an on-market buy-back of up to 32,791,252 shares (being approximately 5% of AGL's issued ordinary shares). AGL reserves the right to vary, suspend or terminate the buy-back at any time.

Acquisition of Perth Energy Holdings Pty Ltd

On 8 August 2019, AGL announced it had agreed to purchase 100% of the outstanding share capital of Perth Energy Holdings Pty Ltd for consideration of up to $93 million, based on enterprise value. The transaction is on a cash and debt free basis and is subject to a number of conditions precedent, including regulatory approval, which were not satisfied at the date of this report.

There has not been any other matter or circumstance, other than that referred to in the financial statements or notes thereto, that has arisen since the end of the financial year, that has significantly affected, or may significantly affect, the operations of AGL, the results of those operations, or the state of affairs of AGL in future financial periods.