6. Net financing costs

	2019 $m	Restated 2018 $m[1]
Finance income		
Interest income	**10**	10
	10	10
Finance costs		
Interest expense[2]	**127**	158
Lease interest expense	**10**	7
Unwinding of discounts on provisions and other liabilities	**35**	33
Unwinding of discount on deferred consideration	**23**	24
Other finance costs	**8**	8
	203	230
Net financing costs	**193**	220

1. Comparatives have been restated for the adoption of AASB 16 Leases. Refer to Note 38(c).
2. Interest expense for the year ended 30 June 2019 is presented net of capitalised interest of $21 million (2018: $11 million).

The weighted average capitalisation rate on funds borrowed for finance costs capitalised is 5.61% (2018: 5.64%).

ACCOUNTING POLICY

Net financing costs

Interest income is recognised in profit or loss as it accrues, using the effective interest method.

Finance costs directly attributable to the acquisition, construction or production of qualifying assets, are added to the cost of those assets.

All other finance costs are recognised in profit or loss in the period in which they are incurred. Finance costs comprise interest expense on borrowings calculated using the effective interest method, amortisation of borrowing costs relating to long-term financing facilities, unwinding of the discount on provisions and deferred consideration, and gains and losses on certain hedging instruments that are recognised in profit or loss.

7. Income tax

Income tax recognised in the Consolidated Statement of Profit or Loss

The major components of income tax expense are:

	2019 $m	Restated 2018 $m[1]
Current tax		
Current tax expense in respect of the current year	**265**	79
Deferred tax		
Relating to the origination and reversal of temporary differences	**109**	583
Total income tax expense	**374**	662

1. Comparatives have been restated for the adoption of AASB 9 Financial Instruments and AASB 16 Leases. Refer to Note 38(c).

7. Income tax (cont.)

Numerical reconciliation between tax expense and pre-tax accounting profit

The prima facie income tax expense on pre-tax accounting profit reconciles to the income tax expense in the financial statements as follows:

	2019 $m	Restated 2018 $m[1]
Profit before tax	**1,279**	2,244
Income tax expense calculated at the Australian tax rate of 30% (30 June 2018: 30%)	**384**	673
Non-deductible capital losses on disposal and impairment	**5**	8
Non-deductible expenses	**1**	6
Recognition of previously derecognised capital losses	**(2)**	(17)
Adjustments in relation to current tax of prior years	**(12)**	(2)
Other	**(2)**	(6)
Total income tax expense	**374**	662

1. Comparatives have been restated for the adoption of AASB 9 Financial Instruments and AASB 16 Leases. Refer to Note 38(c).

Income tax recognised in other comprehensive income

	2019 $m	2018 $m
Deferred tax		
Cash flow hedges	**30**	(48)
Remeasurement (loss)/gain on defined benefit plans	**(27)**	13
Fair value gain on the revaluation of equity instrument financial assets	**4**	-
Total income tax recognised in other comprehensive income	**7**	(35)

Deferred income tax recognised in the Consolidated Statement of Profit or Loss

	2019 $m	Restated 2018 $m[1]
Temporary differences		
Tax losses	**149**	234
Provisions, payables and accruals	**2**	(15)
Allowance for expected credit losses	**17**	(6)
Defined benefit superannuation plans	**(6)**	(4)
Borrowings	**(3)**	(2)
Derivative financial instruments	**(59)**	324
Property, plant and equipment and intangible assets	**7**	37
Other	**2**	15
Total deferred income tax recognised in profit or loss	**109**	583

1. Comparatives have been restated for the adoption of AASB 9 Financial Instruments and AASB 16 Leases. Refer to Note 38(c).

Current tax balances

	2019 $m	2018 $m
Current tax assets		
Income tax refund receivable	**89**	147
Current tax liabilities		
Income tax payable	**27**	81

7. Income tax (cont.)

Deferred tax balances

	2019 $m	Restated 2018 $m[1]
Deferred tax assets/(liabilities) arise from the following:		
Tax losses	**395**	544
Provisions, payables and accruals	**188**	190
Allowance for expected credit losses	**53**	70
Defined benefit superannuation plans	**43**	10
Borrowings	**40**	37
Derivative financial instruments	**31**	2
Property, plant and equipment and intangible assets	**(578)**	(571)
Other	**(8)**	(2)
Net deferred tax assets	**164**	280

Recognised in the Consolidated Statement of Financial Position as follows:		
Deferred tax assets	**261**	280
Deferred tax liabilities	**(97)**	-
Net deferred tax assets	**164**	280

1. Comparatives have been restated for the adoption of AASB 9 Financial Instruments and AASB 16 Leases. Refer to Note 38(c).

Deferred tax assets of $25 million (2018: $30 million) remain unrecognised.

AGL has adopted the voluntary Tax Transparency Code as endorsed by the Board of Taxation and the Australian Taxation Office.

ACCOUNTING POLICY

Income tax

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

Current tax payable is based on taxable profit for the year and any adjustments in respect of prior years. AGL's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax reflects the tax consequences that would follow from the manner in which AGL expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset only if AGL has a legally enforceable right to set off current tax assets against current tax liabilities and the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either:

- the same taxable entity; or
- different taxable entities that intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

7. Income tax (cont.)

ACCOUNTING POLICY

Current and deferred tax for the period

Current and deferred tax are recognised as an expense or income in profit or loss, except when they relate to items recognised outside profit or loss (whether in other comprehensive income or directly in equity) or a business combination.

Tax consolidation

AGL Energy Limited (the Parent Entity) and its wholly-owned Australian resident subsidiaries formed a tax-consolidated group pursuant to Australian taxation law with effect from 25 October 2006 and are therefore taxed as a single entity from that date. AGL Energy Limited is the head entity in the tax-consolidated group.

On 23 July 2012, AGL Generation Holdco Pty Ltd, a subsidiary 99.99% owned by AGL, and AGL Generation Pty Ltd elected to form a tax-consolidated group with Loy Yang Marketing Holdings Pty Limited and its wholly-owned subsidiary, in addition to the existing group. On 27 July 2012, Great Energy Alliance Corporation Pty Limited (GEAC) and its wholly-owned subsidiaries joined the new tax-consolidated group. AGL Generation Holdco Pty Ltd is the head entity in the new tax-consolidated group.

Tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using the 'standalone taxpayer' approach by reference to the carrying amounts in the separate financial statements of each entity and the tax values applying under tax consolidation. Current tax liabilities and assets and deferred tax assets arising from unused tax losses and tax credits of the tax-consolidated group are recognised by the head entity in each tax consolidated group.

The members of the tax-consolidated group have entered into a tax sharing and tax funding agreement. The tax funding agreement requires payments to/from the head entity equal to the current tax liability/asset assumed by the head entity and any tax loss deferred tax asset assumed by the head entity. The payments are recorded as intercompany receivables/payables.

CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

Deferred tax assets relating to tax losses

AGL recognises a deferred tax asset relating to tax losses incurred by a subsidiary. The recoverability of this deferred tax asset is dependent on the generation of sufficient taxable income, by the subsidiary, to utilise those tax losses. Management judgements and estimates are required in the assessment of this recoverability, including forecasting sufficient future taxable income.

8. Dividends

Recognised amounts

	2019 $m	2018 $m
Final dividend		
Final dividend for 2018 of 63.0 cents per share, franked to 80%, paid 21 September 2018 (2018: Final dividend for 2017 of 50.0 cents per share, franked to 80%, paid 22 September 2017)	**413**	328
Interim dividend		
Interim dividend for 2019 of 55.0 cents per share, franked to 80%, paid 22 March 2019 (2018: Interim dividend for 2018 of 54.0 cents per share, franked to 80%, paid 26 March 2018)	**361**	354
Dividends paid as per the Consolidated Statement of Cash Flows	**774**	682

Unrecognised amounts

Since the end of the financial year, the Directors have declared a final dividend for 2019 of 64.0 cents per share, franked to 80% (2018: 63.0 cents per share, franked to 80%), payable 20 September 2019.	**420**	413