

## Notes to the Consolidated Financial Statements

For the year ended 30 June 2019

### 18. Borrowings (cont.)

#### CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

##### Leases

###### Lease term

Where lease arrangements contain options to extend the term or terminate the contract, AGL assesses whether it is 'reasonably certain' that the option to extend or terminate the contract will be made. Consideration is given to the prevalence of other contractual arrangements and or the economic circumstances relevant to the lease contract, that may indicate the likelihood of the option being exercised. Lease liabilities and ROU assets are measured using the reasonably certain contract term.

###### Lease discount rates

The discount rate applicable to a lease arrangement is determined at the inception of the contract or when certain modifications are made to the contract. The discount rate applied is the rate implicit in the arrangement, or if unknown, AGL's incremental borrowing rate. The incremental borrowing rate is determined with reference to AGL's borrowing portfolio at the inception of the arrangement or the time of the modification and the amount and nature of the lease arrangement. If the arrangement relates to a specialised asset, incremental project financing assumptions are considered.

### 19. Provisions

	2019 \$m	2018 \$m
<b>Current</b>		
Employee benefits	184	189
Environmental restoration	12	18
Onerous contracts	25	25
Restructuring	4	1
<b>Total current provisions</b>	<b>225</b>	<b>233</b>
<b>Non-current</b>		
Employee benefits	13	38
Environmental restoration	330	308
Onerous contracts	138	163
<b>Total non-current provisions</b>	<b>481</b>	<b>509</b>

Movements in each class of provision, except employee benefits, are set out below:

	Environmental restoration \$m	Restructuring \$m	Onerous contracts \$m	Total \$m
Balance at 1 July 2018	326	1	188	515
Additional provisions recognised	3	8	-	11
Provisions utilised and derecognised	(16)	(5)	(31)	(52)
Unwinding of discount	29	-	6	35
Balance at 30 June 2019	342	4	163	509

## Notes to the Consolidated Financial Statements

For the year ended 30 June 2019

### 19. Provisions (cont.)

#### ACCOUNTING POLICY

##### Provisions

Provisions are recognised when AGL has a present obligation (legal or constructive) as a result of a past event, it is probable that AGL will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. The unwinding of the discount is recognised in profit or loss as part of finance costs.

##### Onerous contracts

A provision for onerous contracts is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract.

##### Environmental restoration

The provision for future restoration costs is the best estimate of the present value of the expenditure required to settle the restoration obligation at the end of the reporting period, based on current legal requirements and current technology. Future restoration costs are reviewed periodically and any changes are reflected in the provision at the end of each reporting period.

The initial estimate of the environmental restoration provision relating to exploration, development and production facilities is

capitalised into the cost of the related asset and depreciated/amortised on the same basis as the related asset. Changes in the estimate of the provision for environmental restoration are treated in the same manner, except that the unwinding of the effect of discounting on the provision is recognised as a finance cost rather than being capitalised into the cost of the related asset.

##### Restructuring

A restructuring provision is recognised when AGL has developed a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it. Future operating losses are not provided for.

##### Employee benefits

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave, long service leave and sick leave when it is probable that settlement will be required and they are capable of being measured reliably.

Liabilities recognised in respect of short-term employee benefits are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Liabilities recognised in respect of long-term employee benefits are measured as the present value of the estimated future cash outflows to be made by AGL in respect of services provided by employees up to the end of the reporting period.

#### CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

##### Provision for environmental restoration

AGL estimates the future removal and restoration costs of electricity generation assets, oil and gas production facilities, wells, pipelines and related assets at the time of installation of the assets. In most instances, removal of these assets will occur many years into the future. The calculation of this provision requires management to make assumptions regarding the removal date, application of environmental legislation, the extent of restoration activities required and available technologies.