Attachment 3.2(a)

The financial statements for AGL Energy Limited for FY21 have been extracted from AGL Energy Limited's Annual Report for 2021. These financial statements show the consolidated financial performance of the AGL Energy Limited Group.

Consolidated Statement of Profit or Loss

For the year ended 30 June 2021

	Note	2021 $m	2020 $m Restated[1]
Continuing operations			
Revenue	2	**10,942**	12,160
Other income	3	**121**	-
Expenses	4	**(12,798)**	(9,864)
Share of profits of associates and joint ventures	14	**9**	17
(Loss)/Profit before net financing costs, depreciation and amortisation		**(1,726)**	2,313
Depreciation and amortisation	5	**(707)**	(720)
(Loss)/Profit before net financing costs		**(2,433)**	1,593
Finance income	6	**-**	4
Finance costs	6	**(224)**	(183)
Net financing costs		**(224)**	(179)
(Loss)/Profit before tax		**(2,657)**	1,414
Income tax benefit/(expense)	7	**598**	(407)
(Loss)/Profit for the year including non-controlling interests		**(2,059)**	1,007
Loss attributable to non-controlling interest		**1**	-
(Loss)/Profit for the year attributable to the shareholders of AGL Energy Limited		**(2,058)**	1,007
Earnings per share			
Basic earnings per share	23	**(330.3 cents)**	157.2 cents
Diluted earnings per share	23	**(330.3 cents)**	157.0 cents

1. The period ended 30 June 2020 has been restated as a result of a change in accounting policy detailed in Note 38

The Consolidated Statement of Profit or Loss should be read in conjunction with the notes to the financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 30 June 2021

	Note	2021 $m	2020 $m Restated[1]
(Loss)/profit for the year		**(2,058)**	1,007
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss			
Remeasurement gain on defined benefit plans	32	**97**	12
Fair value gain/(loss) on the revaluation of equity instrument financial assets		**66**	(1)
Income tax relating to items that will not be reclassified subsequently	7	**(49)**	(4)
		114	7
Items that may be reclassified subsequently to profit or loss			
Cash flow hedges			
Gain/(loss) in fair value of cash flow hedges		**17**	(99)
Reclassification adjustments transferred to profit or loss		**56**	33
Cost of hedging subject to basis adjustment		**(2)**	(3)
Income tax relating to items that may be reclassified subsequently	7	**(21)**	21
		50	(48)
Other comprehensive income/(loss) for the year, net of income tax		**164**	(41)
Total comprehensive (loss)/income for the year attributable to the shareholders of AGL Energy Limited		**(1,894)**	966

1. The period ended 30 June 2020 has been restated as a result of a change in accounting policy detailed in Note 38

The Consolidated Statement of Comprehensive Income should be read in conjunction with the notes to the financial statements.

Consolidated Statement of Financial Position

As at 30 June 2021

	Note	2021 $m	2020 $m Restated[1]
Current assets			
Cash and cash equivalents	35	**88**	141
Trade and other receivables	9	**1,889**	1,571
Inventories	10	**418**	400
Current tax assets	7	**165**	99
Other financial assets	11	**539**	640
Other assets	12	**353**	271
Assets classified as held for sale	13	**223**	-
Total current assets		**3,675**	**3,122**
Non-current assets			
Trade and other receivables	9	**81**	25
Inventories	10	**46**	59
Other financial assets	11	**950**	688
Investments in associates and joint ventures	14	**117**	135
Property, plant and equipment	15	**6,283**	6,640
Intangible assets	16	**3,302**	3,638
Deferred tax assets	7	**971**	297
Other assets	12	**25**	3
Total non-current assets		**11,775**	11,485
Total assets		**15,450**	14,607
Current liabilities			
Trade and other payables	17	**1,838**	1,351
Borrowings	18	**305**	38
Provisions	19	**413**	286
Current tax liabilities	7	**71**	25
Other financial liabilities	20	**327**	679
Other liabilities	21	**21**	9
Total current liabilities		**2,975**	2,388
Non-current liabilities			
Borrowings	18	**2,880**	3,070
Provisions	19	**3,301**	424
Deferred tax liabilities	7	**330**	273
Other financial liabilities	20	**253**	239
Other liabilities	21	**205**	241
Total non-current liabilities		**6,969**	4,247
Total liabilities		**9,944**	6,635
Net assets		**5,506**	7,972
Equity			
Issued capital	22	**5,601**	5,603
Reserves		**15**	(80)
Retained earnings		**(115)**	2,449
Non-controlling interest		**5**	-
Total equity attributable to owners of AGL Energy Limited		**5,506**	7,972

1. The period ended 30 June 2020 has been restated as a result of a change in accounting policy detailed in Note 38

The Consolidated Statement of Financial Position should be read in conjunction with the notes to the financial statements.

Consolidated Statement of Changes in Equity

For the year ended 30 June 2021

	Issued capital $m	Investment revaluation reserve $m	Employee equity benefits reserve $m	Hedge reserve $m	Other reserve $m	Retained earnings $m	Total $m	Non-controlling Interests $m	Total equity $m
Balance at 1 July 2020	**5,603**	**(6)**	**-**	**(75)**	**1**	**2,552**	**8,075**	**-**	**8,075**
Change in accounting policy	**-**	**-**	**-**	**-**	**-**	**(103)**	**(103)**	**-**	**(103)**
Restated balance at the beginning of the financial year	**5,603**	**(6)**	**-**	**(75)**	**1**	**2,449**	**7,972**	**-**	**7,972**
(Loss)/Profit for the period	**-**	**-**	**-**	**-**	**-**	**(2,059)**	**(2,059)**	**1**	**(2,058)**
Other comprehensive income for the year, net of income tax	**-**	**46**	**-**	**51**	**(1)**	**68**	**164**	**-**	**164**
Total comprehensive income/(loss) for the year	**-**	**46**	**-**	**51**	**(1)**	**(1,991)**	**(1,895)**	**1**	**(1,894)**
Transactions with owners in their capacity as owners:									
On-market share buy-back	**(2)**	**-**	**-**	**-**	**-**	**-**	**(2)**	**-**	**(2)**
Payment of dividends	**-**	**-**	**-**	**-**	**-**	**(573)**	**(573)**	**-**	**(573)**
Share-based payments	**-**	**-**	**(1)**	**-**	**-**	**-**	**(1)**	**-**	**(1)**
Capital contributed by non-controlling interests	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**4**	**4**
Balance at 30 June 2021	**5,601**	**40**	**(1)**	**(24)**	**-**	**(115)**	**5,501**	**5**	**5,506**
Balance at 1 July 2019	6,223	(5)	(2)	(29)	3	2,248	8,438	-	8,438
Change in accounting policy	-	-	-	-	-	(95)	(95)	-	(95)
Restated balance at the beginning of the financial year	6,223	(5)	(2)	(29)	3	2,153	8,343	-	8,343
Restated Profit for the period	-	-	-	-	-	1,007	1,007	-	1,007
Other comprehensive (loss)/income for the year, net of income tax	-	(1)	-	(46)	(2)	8	(41)		(41)
Total comprehensive (loss)/income for the year	-	(1)	-	(46)	(2)	1,015	966	-	966
Transactions with owners in their capacity as owners:									
On-market share buy-back	(620)	-	-	-	-	-	(620)	-	(620)
Payment of dividends		-	-	-	-	(719)	(719)	-	(719)
Share-based payments	-	-	2	-	-	-	2	-	2
Balance at 30 June 2020 (restated)[1]	5,603	(6)	-	(75)	1	2,449	7,972	-	7,972

1. The period ended 30 June 2020 has been restated as a result of a change in accounting policy detailed in Note 38

The Consolidated Statement of Changes in Equity should be read in conjunction with the notes to the financial statements.

Consolidated Statement of Cash Flows

For the year ended 30 June 2021

	Note	2021 $m	2020 $m Restated[1]
Cash flows from operating activities			
Receipts from customers		**11,542**	13,333
Payments to suppliers and employees		**(10,081)**	(10,880)
Dividends received		**23**	16
Finance income received		**-**	4
Finance costs paid		**(120)**	(128)
Income taxes paid		**(114)**	(233)
Net cash provided by operating activities	35(b)	**1,250**	2,112
Cash flows from investing activities			
Payments for property, plant and equipment and other assets		**(695)**	(714)
Payments for investments in associates and joint ventures		**(8)**	(11)
Payments for equity instrument financial assets		**(17)**	(29)
Payments for subsidiaries and businesses, net of cash acquired		**(183)**	(48)
Payments of deferred consideration		**(39)**	(33)
Proceeds from sale of investments in joint ventures		**5**	-
Net cash used in investing activities		**(937)**	(835)
Cash flows from financing activities			
Payments for buy-back of shares		**(2)**	(620)
Purchase of shares on-market for equity based remuneration		**(3)**	(7)
Proceeds from borrowings		**3,006**	1,637
Repayment of borrowings		**(2,794)**	(1,543)
Dividends paid	8	**(573)**	(719)
Net cash used in financing activities		**(366)**	(1,252)
Net (decrease)/increase in cash and cash equivalents		**(53)**	25
Cash and cash equivalents at the beginning of the financial period		**141**	115
Effect of exchange rate changes on the balance of cash held in foreign currencies		**-**	1
Cash and cash equivalents at the end of the financial period	35(a)	**88**	141

1. The period ended 30 June 2020 has been restated as a result of a change in accounting policy detailed in Note 38

The Consolidated Statement of Cash Flows should be read in conjunction with the notes to the financial statements.

1. Segment information

Operating Segments

AGL reports segment information on the same basis as the internal management reporting structure. The operating segments reflect the manner in which products are sold, whether retail or wholesale, and the nature of the services provided.

AGL views the business as three interrelated segments collectively servicing our customers' needs.

- **Customer Markets** comprises the Consumer and Large Business customer portfolios responsible for the retailing of electricity, gas, broadband/mobile/voice, solar and energy efficiency products and services to residential, small and large business customers. Customer Markets sources its energy from Integrated Energy at a transfer price based on methodologies that reflect the prevailing wholesale market conditions and other energy costs in each state. Customer Markets also includes sales, marketing, brand, and AGL's customer contact and call centre operations.
- **Integrated Energy** comprises of Trading and Origination - Electricity and Trading and Origination - Gas and is responsible for managing the price risk associated with procuring electricity and gas for AGL's customers and for managing AGL's obligations in relation to renewable energy schemes. Trading and Origination controls the dispatch of AGL's owned and contracted generation assets, third party gas agreements and associated portfolio of energy hedging products. The other components of Integrated Energy comprise AGL's power generation portfolio and other key sites and operating facilities across the Coal, Gas, Renewables, Natural Gas, and Other business units.
- **Investments** comprises AGL's interests in the ActewAGL Retail Partnership, Powering Australian Renewables (PowAR), Energy Impact Partners' Fund, Energy Impact Partners' Fund (Europe), Activate Capital Partners, Solar Analytics Pty Limited, Sunverge Energy Inc, Raygen Resources Pty Limited, Honey Insurance Pty Limited and Ecobee Inc.

In the segment financial results, the 'Other' category consists of various Corporate activities. These are not considered to be reportable segments.

Segment financial results

The measurement of segment results is in line with the basis of information presented to the Board of Directors for internal management reporting purposes. The performance of each segment is measured based on their Underlying earnings before interest and tax (Underlying EBIT) contribution to AGL. Certain items of income and expense are excluded from the segment results to show a measure of underlying performance. These items include changes in fair value of financial instruments and significant items.

AGL operates as an integrated business and uses a portfolio approach to manage the operations and assets to drive value and efficiency. AASB 8 *Operating Segments* requires AGL to report segment information on the same basis as the internal management structure. As a result, the Customer Markets segment reports the revenue and margin associated with satisfying the gas and electricity requirements of AGL's consumer and business customer portfolio, whilst the Integrated Energy segment reports the revenue, expenses and margin related to AGL's operating sites and AGL's wholesale energy portfolio.

For the purposes of reviewing the carrying values of AGL assets, the segments impute a revenue transfer between Customer Markets, and Integrated Energy. Revenues are derived to approximate prices similar to transactions with third parties.

1. Segment information (cont.)

2021	Customer Markets $m	Integrated Energy $m	Investments $m	Other $m	Total $m
Revenue					
Total segment revenue	7,614	6,367	-	-	13,981
Inter-segment revenue	(38)	(3,001)	-	-	(3,039)
External revenue	7,576	3,366	-	-	10,942
Underlying earnings before interest, tax, depreciation and amortisation (Underlying EBITDA)	337	1,630	9	(310)	1,666
Depreciation and amortisation	(134)	(511)	-	(62)	(707)
Underlying EBIT	203	1,119	9	(372)	959
Net financing costs					(224)
Underlying profit before tax					735
Underlying income tax expense					(199)
Underlying profit after tax					536
Non-controlling interests					1
Underlying profit after tax (attributable to AGL shareholders)					537
Segment assets	2,782	9,604	331	309	13,026
Segment liabilities	666	4,943	2	167	5,778
Other segment information					
Share of profits of associates and joint ventures	-	-	9	-	9
Investments in associates and joint ventures	-	-	117	-	117
Additions to non-current assets	86	558	-	66	710
Other non-cash expenses	(127)	-	-	(3)	(130)

1. Segment information (cont.)

2020 Restated	Customer Markets $m	Integrated Energy $m	Investments $m	Other $m	Total $m
Revenue					
Total segment revenue	7,717	7,958	-	-	15,675
Inter-segment revenue	(32)	(3,483)	-	-	(3,515)
External revenue	7,685	4,475	-	-	12,160
Underlying earnings before interest, tax, depreciation and amortisation (Underlying EBITDA)	291	2,076	18	(359)	2,026
Depreciation and amortisation	(117)	(547)	-	(56)	(720)
Underlying EBIT	174	1,529	18	(415)	1,306
Net financing costs					(179)
Underlying profit before tax					1,127
Underlying income tax expense					(319)
Underlying profit after tax					808
Segment assets	2,429	9,786	253	455	12,923
Segment liabilities	575	1,554	-	182	2,311
Other segment information					
Share of profits of associates and joint ventures	-	-	17	-	17
Investments in associates and joint ventures	-	4	131	-	135
Additions to non-current assets	78	584	-	59	721
Other non-cash expenses	(119)	-	-	(9)	(128)

Notes to the Consolidated Financial Statements

For the year ended 30 June 2021

1. Segment information (cont.)

Segment revenue reconciliation to the Consolidated Statement of Profit or Loss

Reconciliation of segment revenue to total revenue is as follows:

	2021 $m	2020 $m
Segment revenue for reportable segments	**13,981**	15,675
Elimination of inter-segment revenue	**(3,039)**	(3,515)
Revenue for reportable segments	**10,942**	12,160
Total revenue	**10,942**	12,160

Revenue from major products and services

The following is an analysis of AGL's revenue from its major products and services:

	2021 $m	2020 $m
Electricity	**5,920**	6,136
Generation sales to pool	**2,301**	3,276
Gas	**2,170**	2,247
Rendering of services	**290**	290
Other revenue	**261**	211
Total revenue	**10,942**	12,160

Segment Underlying EBIT reconciliation to the Consolidated Statement of Profit or Loss

Reconciliation of segment Underlying EBIT to profit before tax is as follows:

	2021 $m	2020 $m Restated
Underlying EBIT for reportable segments	**1,331**	1,721
Other	**(372)**	(415)
	959	1,306
Amounts excluded from underlying results:		
- gain in fair value of financial instruments[1]	**477**	308
- significant items	**(3,869)**	(21)
Finance income	**-**	4
Finance costs	**(224)**	(183)
Profit before tax	**(2,657)**	1,414

1. Includes ($27) million (2020: $20 million) of realised gains related to oil-linked gas financial instruments for which the physical delivery is yet to occur.

1. Segment information (cont.)

Segment assets reconciliation to the Consolidated Statement of Financial Position

Reconciliation of segment assets to total assets is as follows:

	2021 $m	2020 $m Restated
Segment assets for reportable segments	**12,717**	12,468
Other	**309**	455
	13,026	12,923
Cash and cash equivalents	**88**	141
Current tax assets	**165**	99
Deferred tax assets	**971**	297
Derivative financial instruments	**1,200**	1,147
Total assets	**15,450**	14,607

Segment liabilities reconciliation to the Consolidated Statement of Financial Position

Reconciliation of segment liabilities to total liabilities is as follows:

	2021 $m	2020 $m
Segment liabilities for reportable segments	**5,611**	2,129
Other	**167**	182
	5,778	2,311
Borrowings	**3,185**	3,108
Current tax liabilities	**71**	25
Deferred tax liabilities	**330**	273
Derivative financial instruments	**412**	731
Deferred consideration	**168**	187
Total liabilities	**9,944**	6,635

Geographical information

AGL principally operates in one geographical area being Australia. All non-current assets and total external revenue from customers is attributed to Australia.

Information about major customers

No single customer amounts to 10 percent or more of AGL's total external revenue (2020: none).

ACCOUNTING POLICY

Segment reporting

An operating segment is a component of AGL that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses relating to transactions with other components of AGL. Operating segments are identified on the basis of internal reports about components of AGL that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance. The chief operating decision maker has been identified as the Board of Directors.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2021

2. Revenue

2021	Consumer $m	Business $m	Wholesale $m	Other $m	Total $m
Electricity	**4,314**	**1,346**	**260**	**-**	**5,920**
Generation sales to pool	**-**	**-**	**2,301**	**-**	**2,301**
Gas	**1,538**	**118**	**490**	**24**	**2,170**
Rendering of services	**43**	**41**	**45**	**161**	**290**
Other revenue	**2**	**-**	**175**	**84**	**261**
Total revenue	**5,897**	**1,505**	**3,271**	**269**	**10,942**

2020	Consumer $m	Business $m	Wholesale $m	Other $m	Total $m
Electricity	4,214	1,626	296	-	6,136
Generation sales to pool	-	-	3,271	5	3,276
Gas	1,538	118	563	28	2,247
Rendering of services	37	45	111	97	290
Other revenue	-	-	129	82	211
Total revenue	5,789	1,789	4,370	212	12,160

ACCOUNTING POLICY

Revenue from contracts with customers

AGL's primary revenue streams relate to the retail sale of electricity and gas to residential (consumer) and business customers in Australia, the sale of electricity and gas to wholesale customers in Australia and the sale of generated electricity to the National Electricity Market in Australia. Revenue from contracts with customers is recognised when control of the goods or services is transferred to a customer at an amount that reflects the consideration to which AGL expects to be entitled to receive in exchange for those goods or services.

The majority of contractual energy supply arrangements with customers have no fixed duration, generally require no minimum consumption by the customer and are able to be terminated by either party at any time without incurring significant penalty. Given this, the enforceable contracts are considered short term (less than 12 months) in nature. There are some longer term contracts particularly those with business and wholesale customers.

AGL has generally concluded that it is the principal in its revenue arrangements because it controls the goods or services before transferring them to the customer.

AGL's primary performance obligations are the supply of energy (electricity or gas) over the contractual term. There are either individual contracts representing separate purchasing decisions of customers, or the units of supply of energy represent a series of distinct goods that are substantially the same and have the same pattern of transfer to the customer and hence is considered one performance obligation satisfied over time. For the shorter term contracts, the performance obligations are considered to be satisfied, and revenue is recognised, as and when the units of energy are delivered. Additionally, in relation to AGL's longer term contracts, AGL determines that the right-to-invoice approach to measure the progress towards completion of the performance obligation is most appropriate as it depicts AGL's performance. AGL uses the units of energy delivered to the customer as estimated as part of the unbilled process (and later verified by meter readings) or as indicated by the customer's energy meter (where these are known more frequently).

In most instances, the transaction price is determined by the unbilled process. For some wholesale contracts, AGL also considers the effects of variable consideration and for some business sales, there is non-cash consideration and consideration payable to the customer relating to renewable energy certificates (RECs).

Electricity and Gas revenue

Residential electricity and gas sales

Residential energy sales relate to the sale of energy (electricity and gas) to retail customers. Residential sales are classified as individual, short term, day-by-day contracts and are recognised as revenue on a day-by-day basis upon delivery of energy to customers.

Where the customers are eligible to receive additional discounts (e.g. pay on time discounts to encourage timely payment of energy invoices), AGL considers this to be variable consideration, which is estimated as part of the unbilled process.

Portfolio approach for residential electricity and gas sales

AGL recognises revenue from contracts with its residential customers at the electricity and gas portfolio levels. Furthermore, AGL has elected to apply the portfolio approach in accounting for the fair valuing of RECs, accounting for connection fees and sales commissions. Recognition at the portfolio level would not differ materially from applying the standard on a contract-by-contract basis.

2. Revenue (cont.)

ACCOUNTING POLICY

Business electricity and gas sales

Business sales represent the sale of energy to business customers. Revenue recognition is largely consistent with residential sales. These contracts are longer term in nature and represent a series of distinct goods that are substantially the same and have the same pattern of transfer to the customer and are treated as one performance obligation satisfied over time based on the output delivered to the customer. For a large majority of business sales customers, revenue is recognised when AGL has the 'right to invoice' the customer for consideration that has been determined to correspond directly with the value of units of energy delivered to that customer.

Some business sales arrangements also include the transfer of RECs to the customer, which can, in some instances, represent a separate performance obligation.

Material right applicable to residential and business sales

Where a fixed fee (e.g. connection fee, distribution fee, capacity reservation charge, etc.) received from a customer does not represent a transfer of a good or service to a customer, but the customer is charged an upfront amount, the customer contract contains a material right in that the customer is effectively able to buy additional units of energy at a lower cost per unit.

The material right is valued based on its relative standalone selling price. If standalone selling prices are not directly observable, the price is estimated by taking into consideration the discount the customer would receive in a standalone transaction and the likelihood that the customer would exercise the option.

Revenue from a material right is recognised as and when the right is exercised by the customer or the right expires, whichever is earlier.

Wholesale energy sales

Wholesale energy sales represent the sale of electricity and gas to wholesale customers. These involve a high volume of energy usually over an extended period of time. Supply of energy represents a series of distinct goods that are substantially the same and have the same pattern of transfer to the customer and is the major performance obligation. It is treated as one performance obligation which is satisfied over time. In some instances, there is an additional performance obligation in these contracts by way of a material right.

Revenue is recognised for these arrangements when AGL has the 'right to invoice' the customer for consideration that has been determined to correspond directly with the value of units of energy delivered to that customer.

Some wholesale electricity arrangements may involve the transfer of RECs to the customer, which may represent a separate performance obligation.

Renewable energy certificates (RECs) applicable to business and wholesale sales

There are two main instances where RECs pass between AGL and its customers. These include those transferred under a self-surrender arrangement as part of the consideration for energy and those that are sold to customers.

Received from customer (self-surrender)

As a retailer, AGL incurs costs in relation to its renewable energy obligations for which RECs must be surrendered to the government. For most customers, the costs associated with meeting these renewable energy obligations is factored into the cost of energy (i.e. there is a REC cost component built into the price paid). For some customers, instead of paying for the cost of the energy in cash, they have the option to elect to pay for their energy usage in the form of cash and by self-surrendering RECs.

The obligation to remit RECs to the regulator remains with AGL, but the customer is choosing to meet part of its payment by way of surrendering its own RECs rather than paying for the cost of the RECs as part of the overall cost of the energy.

The transfer of RECs as consideration in exchange for energy is a form of non-cash consideration. AGL measures non-cash consideration at its fair value at the date of surrender (i.e. the date of transfer by the customer).

Transferred to the customer

For some customer contracts, AGL sells both energy and RECs to the customer. A customer may purchase RECs to meet its own REC obligations and/or where it wants actual title to the RECs.

The RECs sold to a customer represent a separate performance obligation, i.e. a good, as the customer can benefit from the RECs on their own and the promise to transfer RECs to the customer is separately identifiable from the other promises in the contract (e.g. promise to deliver energy).

AGL determines the portion of the transaction price that it allocates to the RECs using the relative standalone selling price method.

The transaction price is allocated to each performance obligation based on the proportion of the stand-alone selling price of each performance obligation to the sum of the stand-alone selling prices of all of the performance obligations in the contract.

2. Revenue (cont.)

ACCOUNTING POLICY

Revenue is recognised as and when the control of the RECs are transferred to the customer, which occurs at a point in time. Where the customer is entitled to all the RECs generated at a specified power plant (e.g. in cases where power plants are located at the customer's site), transfer of control to the customer occurs as and when the RECs are generated. In other cases where the RECs are transferred to the customer from inventory, control of the RECs transfers upon receipt by the customer.

Pool Revenue

Pool generation sales

Pool generation sales and pool purchase costs relate to sales by AGL's generation assets to the grid and purchases of energy by AGL wholesale on behalf of AGL's retail business. AGL has assessed it is acting as the principal in relation to such sales and purchases of energy to the pool and therefore the transactions are recognised on a 'gross' basis. Revenue from these arrangements is recognised at the spot price achieved when control of the energy passes to the grid.

Variable consideration

If the consideration in a contract includes a variable amount, AGL estimates the amount of consideration to which it will be entitled in exchange for transferring the goods to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

Significant financing component

AGL applies the practical expedient in that it does not adjust the promised amount of consideration for the effects of a significant financing component if it expects, at contract inception, that the period between the transfer of the promised good or service to the customer and when the customer pays for that good or service will be one year or less.

Costs to obtain a contract

Costs that are incurred regardless of whether a contract is obtained are expensed as incurred, unless those costs are explicitly chargeable to the customer. Discretionary bonuses paid to sales staff based on meeting annual sales targets, overall profitability and individual performance evaluations are expensed as incurred as they are not directly attributable to identifiable contracts and do not meet the criteria for capitalisation. The direct costs of establishing customer contracts are recognised as an asset when they relate to a specific customer acquisition campaign. The direct costs are amortised over the minimum contract term. Direct costs include customer acquisition fees paid to channel partners and upfront account purchase payments.

Costs to fulfil

The costs incurred by AGL to fulfil a contract with a customer, which may qualify for capitalisation include connection fees paid/incurred by AGL (including those charged by distribution businesses to provide such network services, or those incurred directly by AGL in connecting a customer). These costs do not fall within the scope of any other standard (i.e. the cost is not part of inventory, an intangible asset or property, plant and equipment). Therefore, these costs are capitalised as a contract cost (cost to fulfil) asset and amortised over the life of the customer contract or customer relationship, where material.

Cost sharing arrangements

AGL enters into cost sharing arrangements whereby the costs to operate and maintain assets that are shared with parties outside the AGL Group are recharged to the parties in accordance with their beneficial interest. These recharged amounts are recognised as revenue when the associated costs to which they relate impact the statement of profit or loss. Revenue is measured with reference to the fair value of the consideration received.

Government grants

Government grants are recognised when there is reasonable assurance that AGL will comply with the conditions of the grant and the grant will be received.

Government grants that require AGL to construct an asset are recognised as deferred revenue in the Consolidated Statement of Financial Position and transferred to profit or loss on a systematic basis over the useful life of the related assets.

2. Revenue (cont.)

CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

Variable consideration and constraints

AGL includes variable consideration in the transaction price as estimated at the inception of a contract. However, if it is considered 'highly probable' that a significant reversal of revenue recognised will occur in the future, the variable consideration is constrained and not included in the transaction price.

AGL's contractual arrangements contain a number of variable pricing elements including pay-on-time discounts, payment plans, and escalations. Some of these variable elements are resolved during the reporting period. Where they are not, management estimates the likelihood of the variable pricing element eventuating and recognises the variable pricing element to the extent it is not highly probable that it will reverse.

Revenue recognition

AGL recognises revenue from gas and electricity services once the gas and/or electricity has been consumed by the customer. Management estimates customer consumption between the last invoice date and the end of the reporting period when determining gas and electricity revenue for the financial period. Various assumptions and financial models are used to determine the estimated unbilled consumption.

3. Other Income

	Note	2021 $m	2020 $m
Insurance proceeds		120	-
Gain on disposal of investment in joint ventures	14	1	-
Total other income		**121**	-

4. Expenses

	2021 $m	2020 $m Restated
Cost of sales[1]	7,760	8,512
Administrative expenses	229	282
Employee benefits expenses	646	635
Other expenses		
Onerous contracts recognised[2]	1,931	-
Impairment losses on property plant & equipment[3]	1,173	-
Impairment losses on intangible assets[4]	626	-
Impairment losses on inventories	18	-
Contract termination payments	55	-
Acquisition and integration costs	46	7
Restructuring and separation costs	20	-
Gain on fair value of financial instruments	(450)	(328)
Contracts and materials	297	288
Impairment loss on trade receivables (net of bad debts recovered)	127	119
Marketing expenses	45	45
Short term lease and outgoings expenses	26	22
Impairment loss on investment in a joint venture	-	14
Net loss on disposal of property, plant and equipment	1	9
Other	248	259
Total expenses	**12,798**	9,864

1. Includes $8 million of depreciation expense for wind assets (2020: $3 million).
2. Refer to Note 19
3. Refer to Note 15
4. Refer to Note 16

5. Depreciation and amortisation

	2021 $m	2020 $m Restated
Property, plant and equipment	**508**	550
Intangible assets	**199**	170
Total depreciation and amortisation	**707**	720

6. Net financing costs

	2021 $m	2020 $m
Finance income		
Interest income	-	4
	-	4
Finance costs		
Interest expense[1]	**103**	110
Lease interest expense	**9**	10
Unwinding of discounts on provisions and other liabilities	**85**	35
Unwinding of discount on deferred consideration	**20**	22
Other finance costs	**7**	6
	224	183
Net financing costs	**224**	179

1. Interest expense for the year ended 30 June 2021 is presented net of capitalised interest of $2 million (2020: $9 million).

The weighted average capitalisation rate on funds borrowed for finance costs capitalised is 4.14% (2020: 4.50%).

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:

	2021 $m	2020 $m Restated
Current tax		
Current tax expense in respect of the current year	**94**	219
Deferred tax		
Relating to the origination and reversal of temporary differences	**(692)**	188
Total income tax expense	**(598)**	407

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:

	2021 $m	2020 $m Restated
(Loss)/profit before tax	**(2,657)**	1,414
Income tax expense calculated at the Australian tax rate of 30% (2020: 30%)	**(797)**	425
Non-deductible capital losses on disposal and impairment	**31**	-
Non-deductible expenses	**191**	2
Adjustments in relation to current tax of prior years	**(16)**	(15)
Other	**(7)**	(5)
Total income tax (benefit)/expense	**(598)**	407

Income tax recognised in other comprehensive income

	2021 $m	2020 $m
Deferred tax		
Cash flow hedges	**21**	(21)
Remeasurement gain on defined benefit plans	**29**	4
Fair value gain on the revaluation of equity instrument financial assets	**20**	-
Total income tax recognised in other comprehensive income	**70**	(17)

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

	2021 $m	2020 $m Restated
Temporary differences		
Tax losses	**134**	94
Provisions, payables and accruals	**(903)**	(7)
Allowance for expected credit losses	**1**	(6)
Defined benefit superannuation plans	**(6)**	(7)
Borrowings	**5**	1
Derivative financial instruments	**134**	93
Property, plant and equipment and intangible assets	**(39)**	19
Other	**(18)**	1
Total deferred income tax recognised in profit or loss	**(692)**	188

Current tax balances

	2021 $m	2020 $m
Current tax assets		
Income tax refund receivable	**165**	99
Current tax liabilities		
Income tax payable	**71**	25

7. Income tax (cont.)

Deferred tax balances

	2021 $m	2020 $m Restated
Deferred tax assets/(liabilities) arise from the following:		
Tax losses	**171**	306
Provisions, payables and accruals	**1,103**	197
Allowance for expected credit losses	**62**	58
Defined benefit superannuation plans	**23**	46
Borrowings	**36**	40
Derivative financial instruments	**(197)**	(40)
Property, plant and equipment and intangible assets	**(536)**	(562)
Trade and other receivables	**-**	(12)
Other	**(21)**	(9)
Net deferred tax assets/(liabilities)[1]	**641**	24

	2021 $m	2020 $m Restated
Recognised in the Consolidated Statement of Financial Position as follows:		
Deferred tax assets	**971**	297
Deferred tax liabilities	**(330)**	(273)
Net deferred tax assets/(liabilities)	**641**	24

1. A net deferred tax liability of $4 million was recognised on acquisition of Click Energy Group Holdings Pty Limited, SEGH Pty Limited and Epho Holding Pty Limited

Deferred tax assets of $54 million (2020: $25 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

	2021 $m	2020 $m
Final dividend		
Final dividend for 2020 of 51.0 cents per share, franked to 80%, paid 25 September 2020 (2020: Final dividend for 2019 of 64.0 cents per share, franked to 80%, paid 20 September 2019).	**318**	420
Interim dividend		
Interim dividend for 2021 of 41.0 cents per share, unfranked, paid 26 March 2021 (2020: Interim dividend for 2020 of 47.0 cents per share, franked to 80%, paid 27 March 2020).	**255**	299
Dividends paid as per the Consolidated Statement of Cash Flows	**573**	719

Unrecognised amounts

Since the end of the financial year, the Directors have declared a final dividend for 2021 of 34.0 cents per share, unfranked, payable 29 September 2021 (2020: 51.0 cents per share, franked to 80%, paid 25 September 2020).	**212**	318

8. Dividends (cont.)

Dividend reinvestment plan

The AGL Dividend Reinvestment Plan (DRP) will operate in respect of the 2021 final dividend. AGL will issue shares and allot them to DRP participants at a 1.5% discount to the simple average of the daily weighted average price at which AGL's ordinary shares trade during each of the 20 trading days commencing 30 August 2021. The last date for shareholders to elect to participate in the DRP for the 2021 final dividend is 27 August 2021.

Dividend franking account

	2021 $m	2020 $m
Adjusted franking account balance	**(134)**	(114)
Impact on franking account balance of dividends proposed after the reporting date but not recognised as a liability	**-**	(109)

ACCOUNTING POLICY

Dividends

Dividends represent a distribution of profits that holders of ordinary shares receive from time to time. Dividends are not accrued as a liability until a dividend declaration is made by the Board of Directors. The liability is reduced when the dividend is paid. The Board of Directors takes into consideration factors including AGL's relative capital strength and the existing dividend payout ratio guidelines in determining the amount of dividends to be paid.

9. Trade and other receivables

	2021 $m	2020 $m
Current		
Trade receivables	**1,357**	816
Unbilled revenue	**726**	890
Allowance for expected credit loss	**(209)**	(196)
	1,874	1,510
Other receivables	**15**	61
Total current trade and other receivables	**1,889**	1,571
Non-current		
Other	**81**	**25**
Total non-current trade and other receivables	**81**	25
Allowance for expected credit loss		
Balance as at 1 July	**196**	175
Impairment losses recognised on receivables	**205**	177
Amounts written off as uncollectible	**(192)**	(156)
Balance at end of the financial year	**209**	196

9. Trade and other receivables (cont.)

The allowance for expected credit loss associated with unbilled revenue and the ageing of trade receivables at the reporting date is detailed below:

	2021		2020	
	Total $m	Allowance $m	Total $m	Allowance $m
Unbilled revenue	**726**	**(48)**	890	(47)
Not past due	**1,013**	**(21)**	439	(17)
Past due 0 – 30 days	**78**	**(12)**	96	(11)
Past due 31 – 60 days	**38**	**(9)**	45	(9)
Past due 61 – 90 days	**24**	**(7)**	23	(10)
Past 90 days	**204**	**(112)**	213	(102)
Total	**2,083**	**(209)**	1,706	(196)

ACCOUNTING POLICY

Trade and other receivables

Trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Trade and other receivables are recognised at amortised cost, less an allowance for expected credit loss. AGL's policy requires customers to pay in accordance within agreed payment terms. Depending on the customer segment, trade receivables are generally due for settlement within 30 days.

AGL assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost and fair value through other comprehensive income (FVOCI). The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, unbilled revenue, contract assets and lease receivables, AGL applies the simplified approach, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

Unbilled revenue

Unbilled revenue represents estimated gas and electricity services supplied to customers but unbilled at the end of the reporting period. Unbilled gas and electricity revenue is not collectible until such time as customers' meters are read and bills rendered.

9. Trade and other receivables (cont.)

CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

Expected credit loss on trade receivables and unbilled revenue

AGL uses an allowance matrix to measure expected credit losses of trade receivables and unbilled revenue from its customers. Trade receivable amounts are disaggregated into customer segments.

Loss rates are estimated in each age category and are based on the probability of a receivable progressing through to write-off. Factors to estimate the loss rate are based on risk assessment performed for each customer segment and economic factors such as wholesale electricity forward curves, commodity fuel forward curves and prevailing macro-economic information.

The methodology for calculating the allowance for expected credit loss has not changed as a result of COVID-19, however certain assumptions have been updated and further segmentation of the customer base has been introduced to reflect observed payment behaviours. The key assumptions impacted are external macro-economic trends such as unemployment and small business impacts.

Unbilled revenue

AGL recognises revenue from gas and electricity sales once the gas and/or electricity has been consumed by the customer. Management estimates customer consumption between the last invoice date and the end of the reporting period when determining gas and electricity revenue for the financial period. Various assumptions and financial models are used to determine the estimated unbilled consumption.

Some of the assumptions and estimates include:

- Volume and timing of energy consumed by the customers
- Various pricing plans prevalent and allocation of the estimated volume to such pricing plans
- Loss factors
- Behavioural discounts.

10. Inventories

	2021 $m	2020 $m
Current		
Raw materials and stores - at cost	**325**	321
Finished goods - at cost	**93**	79
Total current inventories	**418**	400
Non-current		
Finished goods - at cost	**46**	59
Total non-current inventories	**46**	59

ACCOUNTING POLICY

Inventories

Inventories are measured at the lower of cost and net realisable value. Costs of inventories are determined on a first-in-first-out or weighted average basis. Net realisable value represents the estimated selling price for inventories less the estimated costs necessary to sell the inventory.

11. Other financial assets

	2021 $m	2020 $m
Current		
Derivative financial instruments - at fair value		
Cross currency swap contracts - cash flow and fair value hedges	11	13
Interest rate swap contracts - cash flow hedges	3	-
Forward foreign exchange contracts - cash flow hedges	2	-
Energy derivatives - economic hedges	447	568
	463	581
Futures deposits and margin calls	76	59
Total current other financial assets	539	640

	2021 $m	2020 $m
Non-current		
Derivative financial instruments - at fair value		
Cross currency swap contracts - cash flow and fair value hedges	85	235
Interest rate swap contracts - cash flow hedges	10	-
Energy derivatives - economic hedges	637	331
Other	5	-
	737	566
Equity instrument financial assets - at fair value through other comprehensive income		
Unlisted equity securities	8	-
Unlisted investment funds	205	122
Total non-current other financial assets	950	688

Refer to Note 36 for AGL's financial assets accounting policy and critical accounting estimates and assumptions.

12. Other assets

	Note	2021 $m	2020 $m
Current			
Green commodities scheme certificates and instruments		282	216
Prepayments		71	55
Total current other assets		353	271

	Note	2021 $m	2020 $m
Non-current			
Defined benefit superannuation plan asset	32	25	3
Total non-current other assets		25	3

ACCOUNTING POLICY

Green commodity scheme certificates

AGL participates in a number of renewable energy and energy efficiency schemes administered by the Commonwealth and State governments. AGL holds green commodity scheme certificates in order to satisfy its surrender obligations under the various schemes.

Green commodity scheme certificates are initially recorded at cost, being the fair value of the consideration paid or the cost of generation of the certificate. Subsequent to initial recognition, green commodity scheme certificates are recorded at cost, being the fair value of the consideration paid or the cost of the generation of the certificate.

13. Assets classified as held for sale

	2021 $m	2020 $m
Assets or disposal groups held for sale	**223**	-

On 30 March 2021, AGL announced that it would be looking to sell up to $400 million of assets, including Newcastle Gas Storage Facility (NGSF). In the period ended 30 June 2021, AGL began to actively market NGSF for sale with a disposal expected to be complete within the year ending 30 June 2022. NGSF has been classified as held for sale as at 30 June 2021 and will no longer be depreciated, and all costs incurred will be treated as operating expenditure. An impairment loss has been recognised on the carrying value of the NGSF and is presented as an impairment loss on property, plant and equipment. NGSF sits within the Integrated Energy operating segment.

14. Investments in associates and joint ventures

	2021 $m	2020 $m
Investments in joint ventures - unlisted	**117**	135
Total investments in associates and joint ventures	**117**	135

Reconciliation of movements in investments in associates and joint ventures

	2021 $m	2020 $m
Balance at beginning of financial year	**135**	150
Additions	**-**	11
Disposal[1]	**(4)**	-
Impairment loss recognised in profit or loss[2]	**-**	(14)
Share of profits after income tax	**9**	17
Dividends received	**(23)**	(15)
Other	**-**	(14)
Balance at end of financial year	**117**	135

1. On 31 December 2020, AGL and Arrow (Northern Generation) Pty Ltd completed the sale of their shareholdings in Energy Infrastructure Management Pty Ltd (EIM) to Verbrec Limited (formerly known as LogiCamms Limited) for a sum of $10 million. AGL held a 50% share in EIM and have recognised a gain on sale of $1 million less transaction costs.
2. During FY20, AGL partially impaired the carrying value of its investment interest in Powering Australian Renewables, reflecting revised market pricing and generation output assumptions for operations sites. An impairment loss of $14 million ($10 million post-tax) was recognised as a Significant Item in the period.

		Ownership interest		Carrying value	
	Principal activities	2021 %	2020 %	2021 $m	2020 $m
Associates					
Solar Analytics Pty Ltd	Solar PV monitoring	**31.2**	31.2	**-**	-
Joint ventures					
ActewAGL Retail Partnership	Gas and electricity retailer	**50**	50	**40**	51
Energy Infrastructure Management Pty Ltd	Pipeline management services	**-**	50	**-**	4
Central Queensland Pipeline Pty Ltd	Gas pipeline development	**50**	50	**-**	-
Powering Australian Renewables (PowAR)	Development and owner of renewable energy generation projects	**20**	20	**77**	80
Total investments in associates and joint ventures				**117**	135

All the above entities are incorporated and operate in Australia.

14. Investments in associates and joint ventures (cont.)

Aggregate information of joint ventures that are not individually material

	2021 $m	2020 $m
Current assets	**480**	502
Non-current assets	**1,256**	1,297
Total assets	**1,736**	1,799
Current liabilities	**265**	242
Non-current liabilities	**988**	1,057
Total liabilities	**1,253**	1,299
Net assets	**483**	500
Revenue	**535**	734
Expenses	**(526)**	(696)
AGL's share of joint ventures' profit after income tax	**9**	17

Commitments and contingent liabilities

AGL's share of commitments and contingent liabilities of associates and joint ventures are disclosed in Notes 24(b) and 25 respectively.

ACCOUNTING POLICY

Investments in equity accounted investees

AGL's interests in equity accounted investees comprise interests in associates and joint ventures. Associates are those entities in which AGL has significant influence, but not control, over the financial and operating policies of the entity. A joint venture is an arrangement in which AGL has joint control and AGL has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

Investments in associates and joint ventures are accounted for using the equity method.

Under the equity method, investments in associates and joint ventures are initially recognised in the Consolidated Statement of Financial Position at cost and adjusted thereafter to recognise AGL's share of the profit or loss and other comprehensive income of the associates and joint ventures.

An impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount. An impairment loss is recognised in profit or loss and is reversed if there has been a favourable change in estimates used to determine the recoverable amount.

Unrealised gains on transactions between AGL and an associate or a joint venture are eliminated to the extent of AGL's interest in the associate or joint venture. Unrealised losses are also eliminated, but only to the extent that there is no evidence of an impairment.

15. Property, plant and equipment

2021	Plant and equipment $m	Right-of-use plant and equipment $m	Other $m	Right-of-use assets $m	Total $m
Balance at 1 July 2020, net of accumulated depreciation and impairment	**6,349**	**5**	**89**	**197**	**6,640**
Reclassified to intangible assets	**(96)**	**-**	**-**	**-**	**(96)**
Change in estimate related to provision for environmental rehabilitation	**1,112**	**-**	**-**	**-**	**1,112**
Additions	**545**	**-**	**-**	**3**	**548**
Disposals	**(9)**	**-**	**-**	**-**	**(9)**
Depreciation expense[1]	**(492)**	**-**	**(3)**	**(21)**	**(516)**
Reclassified as held for sale	**(223)**	**-**	**-**	**-**	**(223)**
Impairment loss recognised in profit or loss	**(1,173)**	**-**	**-**	**-**	**(1,173)**
Balance at 30 June 2021 net of accumulated depreciation and impairment	**6,013**	**5**	**86**	**179**	**6,283**

1. Includes $8 million of depreciation expense for wind assets.

Balance at 1 July 2020					
Cost (gross carrying amount)	**9,260**	**12**	**109**	**294**	**9,675**
Accumulated depreciation and impairment	**(2,911)**	**(7)**	**(20)**	**(97)**	**(3,035)**
Net carrying amount	**6,349**	**5**	**89**	**197**	**6,640**

Balance at 30 June 2021					
Cost (gross carrying amount)	**10,311**	**12**	**109**	**297**	**10,729**
Accumulated depreciation and impairment	**(4,298)**	**(7)**	**(23)**	**(118)**	**(4,446)**
Net carrying amount	**6,013**	**5**	**86**	**179**	**6,283**

2020	Plant and equipment $m	Right-of-use plant and equipment $m	Other $m	Right-of-use assets $m	Total $m
Balance at 1 July 2019, net of accumulated depreciation and impairment	6,295	5	92	196	6,588
Reclassified to intangible assets	(107)	-	-	-	(107)
Additions	704	1	-	16	721
Disposals	(9)	-	-	-	(9)
Depreciation expense[1]	(534)	(1)	(3)	(15)	(553)
Balance at 30 June 2020, net of accumulated depreciation and impairment	6,349	5	89	197	6,640

1. Includes $3 million of depreciation expense for wind assets.

Balance at 1 July 2019					
Cost (gross carrying amount)	8,672	11	109	278	9,070
Accumulated depreciation and impairment	(2,377)	(6)	(17)	(82)	(2,482)
Net carrying amount	6,295	5	92	196	6,588

Balance at 30 June 2020					
Cost (gross carrying amount)	9,260	12	109	294	9,675
Accumulated depreciation and impairment	(2,911)	(7)	(20)	(97)	(3,035)
Net carrying amount	6,349	5	89	197	6,640

Other

Includes land, buildings and leasehold improvements.

Property, plant and equipment under construction

The net carrying amount of property, plant and equipment disclosed above includes expenditure recognised in relation to plant and equipment which is in the course of construction of $353 million (2020: $422 million).

Software

During the year, $96 million (2020: $107 million) of software was reclassified to intangible assets.

15. Property, plant and equipment (cont.)

ACCOUNTING POLICY

Property, plant and equipment

Property, plant and equipment is measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition or construction of the asset. Finance costs related to the acquisition or construction of qualifying assets are capitalised. Cost may also include transfers from other comprehensive income of any gain or loss on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent costs are capitalised when it is probable that future economic benefits associated with the item will flow to AGL and the cost of the item can be measured reliably. Other costs are recognised in profit or loss as incurred.

The gain or loss arising on disposal or retirement is recognised in profit or loss.

Depreciation is calculated on a straight-line basis so as to write off the cost of each asset over its expected useful life to its estimated residual value. Leasehold improvements are amortised over the period of the relevant lease or estimated useful life, whichever is the shorter. Land is not depreciated.

The estimated useful lives, residual values and depreciation method are reviewed, and adjusted if appropriate at the end of each annual reporting period.

The following estimated useful lives are used in the calculation of depreciation:

- Leasehold improvements – lesser of lease period or up to 50 years
- Plant and equipment – Up to 50 years

Right-of-use assets (ROU assets)

A ROU asset is recognised in relation to each lease and is initially measured at cost comprising the initial measurement of the lease liability adjusted for any lease payments made before the commencement date (reduced by lease incentives received), plus initial direct costs incurred in obtaining the lease and an estimate of costs to be incurred in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories.

A ROU asset is subsequently measured using the cost model less any accumulated depreciation and any accumulated impairment losses, and adjusted for any remeasurement of the lease liability. AGL does not apply the revaluation model but instead carries all ROU assets at cost. The ROU asset is depreciated over its useful life. The useful life of a ROU asset for depreciation purposes is the shorter of the useful life of the asset and the lease term. Where the ROU asset is adjusted due to changes in the lease liability, the depreciation for the ROU asset is adjusted on a prospective basis.

The following estimated useful lives are used in the calculation of depreciation on ROU assets:

- Plant and equipment – ROU assets: lesser of lease period or up to 50 years
- Other – ROU assets: lesser of lease period or up to 50 years

Short-term and low value leases as lessee

AGL has elected to apply the practical expedients available for short-term leases (i.e. where the lease period is 12 months or less) and low-value asset leases. As a result of application of these practical expedients, the measurement requirements of accounting standards do not apply and the expense for these leases is recognised on a straight-line basis.

Impairment of non-financial assets excluding goodwill

At the end of each reporting period, AGL reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, AGL estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a post-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

An impairment loss is recognised in profit or loss if the carrying amount of an asset or cash-generating unit exceeds its recoverable amount.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

16. Intangible assets

2021	Goodwill $m	Software $m	Licences $m	Other $m	Total $m
Balance at 1 July 2020, net of accumulated amortisation and impairment	**2,879**	**392**	**296**	**71**	**3,638**
Reclassified from property, plant and equipment	**-**	**96**	**-**	**-**	**96**
Additions	**187**	**165**	**-**	**41**	**393**
Disposals	**-**	**-**	**-**	**-**	**-**
Amortisation expense	**-**	**(171)**	**(11)**	**(17)**	**(199)**
Impairment loss recognised in profit or loss	**(626)**	**-**	**-**	**-**	**(626)**
Balance at 30 June 2021, net of accumulated amortisation and impairment	**2,440**	**482**	**285**	**95**	**3,302**

Balance at 1 July 2020					
Cost (gross carrying amount)	**2,880**	**1,072**	**311**	**278**	**4,541**
Accumulated amortisation and impairment	**(1)**	**(680)**	**(15)**	**(207)**	**(903)**
Net carrying amount	**2,879**	**392**	**296**	**71**	**3,638**

Balance at 30 June 2021					
Cost (gross carrying amount)	**3,067**	**1,333**	**311**	**319**	**5,030**
Accumulated amortisation and impairment	**(627)**	**(851)**	**(26)**	**(224)**	**(1,728)**
Net carrying amount	**2,440**	**482**	**285**	**95**	**3,302**

2020 Restated	Goodwill $m	Software $m[1]	Licences $m	Other $m	Total $m
Balance at 1 July 2019, net of accumulated amortisation and impairment	2,866	366	304	67	3,603
Reclassified from property, plant and equipment	-	107	-	-	107
Additions	13	65	-	20	98
Disposals	-	-	-	-	-
Amortisation expense	-	(146)	(8)	(16)	(170)
Balance at 30 June 2020, net of accumulated amortisation and impairment	2,879	392	296	71	3,638

1. The period ended 30 June 2020 has been restated as a result of a change in accounting policy detailed in Note 38

Balance at 1 July 2019					
Cost (gross carrying amount)	2,867	900	311	258	4,336
Accumulated amortisation and impairment	(1)	(534)	(7)	(191)	(733)
Net carrying amount	2,866	366	304	67	3,603

Balance at 30 June 2020					
Cost (gross carrying amount)	2,880	1,072	311	278	4,541
Accumulated amortisation and impairment	(1)	(680)	(15)	(207)	(903)
Net carrying amount	2,879	392	296	71	3,638

16. Intangible assets (cont.)

Impairment testing for goodwill and intangibles with indefinite useful lives

Goodwill, that is significant in comparison to AGL's total carrying amount of intangible assets with indefinite lives, has been allocated to cash-generating units (CGUs) for the purpose of impairment testing as follows:

Year ended 30 June 2021	Goodwill $m
Customer Markets	**1,087**
Wholesale Gas	**1,353**
AGL Generation Fleet	**-**
Total goodwill and intangibles with indefinite useful lives	**2,440**

Year ended 30 June 2020	
Customer Markets	900
Wholesale Gas	1,353
AGL Generation Fleet	626
Total goodwill and intangibles with indefinite useful lives	2,879

ACCOUNTING POLICY

Intangible assets

Intangible assets acquired separately are initially measured at cost. The cost of an intangible asset acquired in a business combination is its fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

The useful lives of intangible assets are assessed to be either finite or indefinite. Indefinite lived intangible assets are assessed at least annually for impairment. Finite lived intangible assets are amortised over their estimated useful life and tested for impairment whenever there is an indication that the intangible asset may be impaired.

The estimated useful life and amortisation method are reviewed at the end of each annual reporting period.

The following estimated useful lives are used in the calculation of amortisation for intangible assets with finite lives:

- Customer relationships and contracts – 3 to 20 years
- Software – 3 to 7 years
- Licences – the lesser of licence term and asset useful life

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset are recognised in profit or loss when the asset is derecognised.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of the acquisition of the business less accumulated impairment losses, if any.

For the purpose of impairment testing, goodwill is allocated to each of AGL's CGUs or groups of CGUs expected to benefit from the synergies of the combination, and tested for impairment at least annually.

A CGU or group of CGUs to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the CGU or group of CGUs is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the CGU(s) and then to the other assets of the CGU(s) pro rata based on the carrying amount of each asset in the CGU(s). Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

Software

Software is measured at cost less accumulated amortisation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition or development of the software. During the year ended 30 June 2021, AGL adopted a change in accounting policy in relation to the treatment of configuration and customisation costs of cloud computing arrangements. Details of the change and related restatement are presented in Note 38.

Licences

Licences are carried at cost less any accumulated amortisation and impairment losses.

16. Intangible assets (cont.)

ACCOUNTING POLICY

Customer relationships and contracts

Customer relationships and contracts acquired in a business combination are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is recognised as an expense on a straight-line basis over the period during which economic benefits are expected to be received.

The direct costs of establishing customer contracts are recognised as an asset when they relate to a specific customer acquisition campaign. The direct costs are amortised over the minimum contract term. Direct costs include customer acquisition fees paid to channel partners and upfront account purchase payments. All other customer acquisition costs are expensed as incurred.

CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

Impairment recognised for period ended 31 December 2020

On 4 February 2021, AGL announced an impairment of property, plant and equipment of $1,006 million and goodwill of $626 million. The impairments followed an accelerated deterioration to long-term wholesale energy market forecasts during the year, reflecting policy measures to underwrite new build of electricity generation and lower technology costs, leading to expectations of increased supply. As a result, the long-term outlook for wholesale electricity and renewable energy certificates indicated a sustained and material reduction in prices.

Combined with sharp reductions in near-term wholesale energy prices as a result of challenging macro-economic conditions, and the outcomes of AGL's three-yearly review of environmental rehabilitation provisions, this reduced the recoverable amount of certain cash generating units.

AGL Generation Fleet

As a result of the material reduction in the outlook for wholesale prices in the long term, the carrying value of the AGL Generation Fleet CGU was estimated to exceed its recoverable amount at 31 December 2020. The cash flows of the CGU include certain legacy power purchase agreements that contain purchase prices above the forward price for electricity and/or renewable energy certificates. These contracts have no assets associated with them. The cash flows associated with these contracts were therefore separately assessed and recognised as an onerous contract. Refer to Note 19.

The carrying value of the AGL Generation Fleet CGU was estimated to exceed the recoverable amount at 31 December 2020 by $1,413 million. This amount has been recognised as an impairment expense in the statement of profit or loss.

Natural Gas Assets

The carrying value of the natural gas assets was estimated to exceed the recoverable amount at 31 December 2020 by $231 million. This amount has been recognised as an impairment expense in the statement of profit or loss.

The impairment charges above are recognised within the Integrated Energy segment.

Impairment testing for year ended 30 June 2021

The recoverable amounts for the Customer Markets, Wholesale Gas and AGL Generation Fleet CGUs have been determined using value-in-use models including an appropriate terminal value. The key assumptions in the calculation of value in use include:

- Long run electricity prices;
- Corporate tax rates;
- Discount rate;
- Terminal growth rate;
- Customer numbers and churn;
- Energy procurement costs and volumes and generation volumes; and
- Gross margin including assumptions around regulatory outcomes, pricing in unregulated markets and customer discounts.

Corporate tax rates reflect the Australian company tax rate. The estimate of regulatory outcomes is based on actual regulatory decisions for the current price reset period, which are publicly available, together with AGL's expectations of regulatory decisions beyond the current reset period and market prices in unregulated markets. The assumed future gross margin in unregulated markets is determined with reference to historic achieved rates along with AGL's expectations of future price changes and their correlation with the long run marginal cost of electricity in the NEM (LRMC), together with the impact of expected customer discounts. Customer numbers and consumption volumes are estimated based on historical experience in various segments, together with marketing strategies for the retention and winning of customers. Energy procurement costs are estimated based on the actual hedge portfolio, together with an estimate of future hedging prices and volumes beyond the period of the actual hedge portfolio.

Cash flow forecasts are based on Board approved budgets and the most recent four-year plan. The terminal value is based on final year free cash flow, except for known site closures, with

CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

normalised operating and capital expenditure and aligned with long term energy price forecasts, extrapolated into prepetuity with a growth rate of 2.0% (2020: 2.5%). Discount rates used are the pre-tax equivalent of a post-tax weighted average cost of capital of 6.7% (2020: 7.1%). The WACC was reduced following AGL's annual cost of capital review process as a result of sustained low interest rates.

If the recoverable amount of a cash generating unit is estimated to be less than its carrying amount, the carrying amount of the cash generating unit is reduced to its recoverable amount with any impairment recognised immediately in the statement of financial performance.

Impact of possible changes in key assumptions

AGL Generation Fleet

Following a detailed impairment review of future cash flow projections, the asset values are considered recoverable at 30 June 2021.

Reasonably possible changes in circumstances will affect assumptions and the estimated recoverable amount of the AGL Generation Fleet CGU. These reasonably possible changes include:

- an increase of discount rate of 50 basis points in isolation will reduce the recoverable amount by $821 million; and
- a decrease in terminal growth rate of 50 basis points in isolation will reduce the recoverable amount by $736 million.

The recoverable amount is also sensitive to reasonably possible changes in long run electricity prices. When viewed in connection with the current low market prices, it is reasonably possible that a change in long run electricity price assumptions could lead to a further reduction in recoverable amount. The interrelationship of changes in this and other assumptions is very complex. Changes in the external operating environment, such as closure of aluminium smelters that consume significant volumes of electricity from the market; changes to the scheduled closure date of other power stations; or changes to government policies could result in the decrease in long run electricity prices which could give rise to a further impairment.

No other reasonably possible changes in key assumptions have been identified which may cause the carrying amount to exceed its recoverable amount.

Wholesale Gas CGU

Following a detailed impairment review of future cash flow projections, the assets are considered recoverable at 30 June 2021.

The Wholesale Gas CGU is sensitive to changes in the consumer gas margin assumptions. The recoverable amount of the CGU would equal its carrying amount if the consumer gas margin assumptions reduced by $0.19/GJ. No other reasonable possible changes in key assumptions have been identified which may cause the carrying amount to exceed its recoverable amount.

Customer Markets CGU and Natural Gas Assets

Management do not believe that any reasonably possible change in the key assumptions would result in an impairment.

Crib Point LNG Import Terminal

An impairment charge of $47 million was recognised against Property Plant and Equipment in association with the cessation of the Crib Point LNG import terminal project.

Impact of climate change related risk

The recoverable amount estimates used in the impairment of assets analysis considers climate change risk through the adjustment of cash inflows associated with the planned closure of AGL's Liddell Power Station.

Management recognises that there is an increased pace of change in the energy industry and associated political landscape and will continue to work towards incorporating quantification of the financial impact of climate change and related policies within our annual financial filings in accordance with Australian Securities and Investments Commission (ASIC), Australian Prudential Regulation Authority (APRA), and Australian Accounting Standards Board (AASB) recommendations.

Notwithstanding the above, any change to the planned closure dates of AGL's coal-fired / thermal generation plants as a result of climate change may have a material impact on the National Electricity Market and may result in a material change to AGL's estimated cash inflows. Similarly, any change to policy in relation to climate change may have a material impact on the National Electricity Market and may result in a material change to AGL's estimated cash inflows.

Impairment of goodwill and other intangibles with indefinite useful lives

AGL determines whether goodwill and other intangibles with indefinite useful lives are impaired at least on a semi-annual basis. This requires an assessment of impairment indications, and an estimation of the recoverable amount of the cash-generating units, using a value in use discounted methodology, to which the goodwill and intangibles with indefinite useful lives are allocated.

17. Trade and other payables

	2021 $m	2020 $m
Current		
Trade payables and accrued expenses	**1,261**	708
Accrued distribution costs	**359**	404
Green commodity scheme obligations	**204**	211
Other	**14**	28
Total trade and other payables	**1,838**	1,351

Trade payables are unsecured and are generally settled within 32 days from end of month of the date of recognition.

ACCOUNTING POLICY

Trade and other payables

Trade and other payables represent liabilities for goods and services provided to AGL prior to the end of the reporting period that are unpaid and arise when AGL becomes obliged to make future payments in respect of the purchase of these goods and services.

Green commodity scheme obligations

Green commodity scheme obligations represent liabilities to satisfy surrender obligations under the various renewable energy and energy efficiency schemes administered by the Commonwealth and State governments. Given the schemes are surrendered on a calendar year basis, the liability is calculated based on the best estimated unit cost at the time of expected surrender.

CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

Accrued distribution costs

AGL recognises distribution costs once the gas and electricity has been delivered to the customer and is measured through a regular review of usage meters. Management estimates customer consumption between the last invoice date and the end of the reporting period when determining distribution costs for the financial period. Various assumptions and financial models are used to determine the estimated unbilled consumption.

18. Borrowings

	2021 $m	2020 $m
Current		
Bank loans - unsecured	**275**	-
CPI bonds - unsecured	**10**	9
Other loans - unsecured	**-**	11
Lease liabilities	**20**	18
Total current borrowings	**305**	38
Non-current		
USD senior notes - unsecured	**1,019**	1,164
Medium term notes - unsecured	**-**	599
Bank loans - unsecured	**1,675**	985
CPI bonds - unsecured	**57**	66
Other loans - unsecured	**-**	111
Lease liabilities	**139**	156
Deferred transaction costs	**(10)**	(11)
Total non-current borrowings	**2,880**	3,070

Financing facilities

AGL has access to the following committed bank facilities:

	Total facilities		Amounts used	
	2021 $m	2020 $m	2021 $m	2020 $m
USD senior notes - unsecured (after effect of cross currency swaps)	**910**	910	**910**	910
Medium term notes - unsecured	**-**	599	**-**	599
Bank loans - unsecured	**2,475**	1,909	**1,950**	985
CPI bonds - unsecured	**67**	75	**67**	75
Other loans - unsecured	**-**	122	**-**	122
Bank guarantees - unsecured	**405**	541	**335**	383
Total financing facilities	**3,857**	4,156	**3,262**	3,074

USD senior notes

On 8 December 2016, AGL issued US$395 million of fixed rate unsecured senior notes in the US private placement market, comprising three tranches of 12 year, 13 year and 15 year maturities for US$150 million, US$70 million and US$175 million, respectively. To manage the foreign exchange risk arising from the future principal and interest payments required on the US$395 million, the notes were converted back to approximately A$522 million through cross currency interest rate swaps. On 8 December 2016, AGL further issued A$50 million of fixed rate unsecured senior notes in the US private placement market with a 10 year maturity.

On 8 September 2010, AGL issued US$300 million of fixed rate unsecured senior notes in the US private placement market, comprising two tranches of 12 year and 15 year maturities for US$165 million and US$135 million, respectively. To manage the foreign exchange risk arising from the future principal and interest payments required on the US$300 million, the notes were converted back to approximately A$338 million through cross currency interest rate swaps.

Medium term notes

On 5 November 2014, AGL issued $600 million of senior unsecured, seven year fixed rate medium term notes. The notes were issued at a spread of swap plus 170 basis points, equating to a 5% coupon. The $600 million of medium term notes were redeemed in May 2021, 6 months before maturity (November 2021). This early redemption was funded by additional bank debt added in April 2021 through new bilateral facilities totalling $520 million.

18. Borrowings (cont.)

Bank loans

In June 2018, AGL extended its existing $410 million 6.5-year club term loan facility for another four years to mature in June 2025. As at 30 June 2021, this facility was fully utilised.

In September 2019 AGL executed a A$600 million 5-year syndicated Sustainability Linked Loan. At the end of FY21, this facility was fully utilised.

During the FY17 financial year, AGL executed $375 million of new bank bilateral debt facilities for tenors between 1.5 to 5 years. Out of the $375 million, $100 million matured in FY19 and $200 million was further extended to mature in FY21. In December 2019, AGL extended its existing $150 million bilateral facility for 3 years with a reduced limit of $100 million, and transferred the bilateral facility on to the same sustainability-linked terms.

During FY21, AGL prepaid its $122 million amortising Export Credit Agency facility. Further refinancing in June 2021 added an additional $430 million bank debt from new and upsized bilateral facilities to support AGL's overall liquidity requirements and the finalisation of the Tilt acquisition in FY22. As at 30 June 2021, AGL's total debt facilities were $3,857 million, of which drawn debt was $3,262 million.

CPI bonds

CPI bonds rank pari passu with other unsecured debt and will mature in May 2027.

ACCOUNTING POLICY

Borrowings

Interest bearing liabilities

All loans and borrowings are initially recognised at fair value, being the amount received less attributable transaction costs. After initial recognition, interest bearing liabilities are stated at amortised cost with any difference between cost and redemption value being recognised in profit or loss over the period of the borrowings on an effective interest basis.

Leases

At inception of a contract, AGL assesses whether a contract is, or contains a lease. A contract is, or contains a lease, if the contract conveys to the customer a right to control the use of an identified asset for a period of time in exchange for consideration.

18. Borrowings (cont.)

ACCOUNTING POLICY

AGL assesses whether:

- The contract involves the use of an identified asset – the asset may be explicitly or implicitly specified in the contract. Capacity portions of larger assets would be considered an identified asset if the portion is physically distinct or if the portion represents substantially all of the capacity of the asset. An asset is not considered an identified asset if the supplier has the substantive right to substitute the asset throughout the period of use.
- The customer in the contract has the right to obtain substantially all of the economic benefits from the use of the asset throughout the period of use.
- The customer in the contract has the right to direct the use of the asset throughout the period of use – the customer is considered to have the right to direct the use of the asset only if either:
  - The customer has the right to direct how and for what purpose the identified asset is used throughout the period of use; or
  - The relevant decisions about how and for what purposes the asset is used are predetermined and the customer has the right to operate the asset, or the customer designed the asset in a way that predetermines how and for what purpose the asset will be used throughout the period of use.

AGL has applied the above approach in identifying leases in contracts entered into, or modified, on or after 1 July 2018. For contracts entered into before 1 July 2018, AGL has elected to apply the grandfathering practical expedient on transition. Consequently, the transition and measurement requirements only apply to arrangements that were identified as leases pursuant to the previous leases standards as at and subsequent to 1 July 2018.

AGL as lessee

In contracts where AGL is a lessee, AGL recognises a right-of-use asset and a lease liability at the commencement date of the lease for all leases other than short-term or low-value asset leases.

Lease Liabilities

A lease liability is recognised in relation to each lease and is initially measured at the present value of future lease payments at the commencement date. To calculate the present value, the future lease payments are discounted using the interest rate implicit in the lease (IRIL), if the rate is readily determinable. If the IRIL cannot be readily determined, the incremental borrowing rate at the commencement date is used. Lease payments included in the measurement of the lease liability comprise the following:

- Fixed payments, including in-substance fixed payments;
- Variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date (e.g. payments that vary due to changes in CPI, or commodity prices); and
- Amounts expected to be payable by the lessee under residual value guarantees, purchase options and termination penalties (where relevant).

Variable payments other than those included in the measurement of the lease liability above (i.e. those not based on an index or rate) are recognised in profit or loss in the period in which the event or condition that triggers those payments occur.

For contracts containing lease and non-lease components, AGL accounts for each lease component separately from the non-lease components of the contract, where material. The consideration in the contract is allocated to the components based on their relative stand-alone prices.

Subsequently, the lease liability is measured in a manner similar to other financial liabilities, i.e., at amortised cost using the effective interest rate method. This means the liability is:

- Increased to reflect interest on the lease liability;
- Decreased to reflect lease payments made; and
- Remeasured to reflect any reassessment of lease payments or lease modifications, or to reflect revised in-substance fixed lease payments.

After commencement date, the following amounts are recognised in profit or loss with respect to the payments pursuant to the lease:

- interest expense: recognised as finance cost; and
- variable lease payments not based on an index or a rate: recognised in profit or loss in the period in which the event or condition that triggers those payments occurs.

Short-term and low value leases

AGL has elected to apply the practical expedients available for short-term leases (i.e. where the lease term is less than 12 months) and low-value asset leases. As a result of application of these practical expedients, the measurement requirements above do not apply and the expense for these leases is recognised on a straight-line basis.

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

	2021 $m	2020 $m
Current		
Employee benefits	**212**	213
Environmental rehabilitation	**52**	45
Onerous contracts	**147**	27
Restructuring	**2**	1
Total current provisions	**413**	**286**

	2021 $m	2020 $m
Non-current		
Employee benefits	**14**	14
Environmental rehabilitation	**1,400**	299
Onerous contracts	**1,887**	111
Total non-current provisions	**3,301**	424

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

	Environmental rehabilitation $m	Restructuring $m	Onerous contracts $m	Total $m
Balance at 1 July 2020	**344**	**1**	**138**	**483**
Additional provisions recognised	**1,112**	**6**	**1,930**	**3,048**
Provisions utilised and derecognised	**(43)**	**(5)**	**(80)**	**(128)**
Unwinding of discount	**39**	**-**	**46**	**85**
Balance at 30 June 2021	**1,452**	**2**	**2,034**	**3,488**

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 rehabilitation

The provision for future rehabilitation costs is the best estimate of the present value of the expenditure required to settle the rehabilitation obligation at the end of the reporting period, based on current legal requirements and current technology. Future rehabilitation 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 rehabilitation 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 rehabilitation 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 rehabilitation

AGL estimates the future removal and rehabilitation 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 rehabilitation activities required and available technologies.

The provisions for environmental rehabilitation represents the best estimate of the present value of the expenditure required to settle the obligation. In line with AGL's accounting policy, the Provisions for Environmental Rehabilitation are reviewed on a regular basis. The increase in environmental rehabilitation provisions of $1,112 million comprises $799 million from a reduction in the discount rate used to derive the present value of future estimated rehabilitation cash flows from 10 percent to 3 percent, and $313 million from an increase in estimated future expenditure following the completion of the three-yearly review of long-term rehabilitation requirements.

Provision for onerous contracts

As discussed in Note 16, recent changes to market forecasts for wholesale electricity and renewable energy certificates, now reflect a sustained and material reduction in the outlook for wholesale prices in the long term. The cash flows of the AGL Generation Fleet CGU include certain legacy power purchase agreements that contain purchase prices above the forward price for electricity and renewable energy certificates. These contracts have no assets associated with them. The cash flows associated with these contracts were therefore separately assessed and recognised as an onerous contract.

CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* defines an onerous contract as a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it. 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.

Under these legacy power purchase agreements, AGL makes periodic payments for the electricity and green certificates generated by these assets. The agreements were primarily entered between 2006 and 2012 to support the development of the renewables sector at that time. These offtake agreements were entered at prices significantly higher than current and forecast prices for electricity and renewable energy certificates today. As a result, a provision of $1,930 million was recognised for these agreements during the year.

20. Other financial liabilities

	2021 $m	2020 $m
Current		
Derivative financial instruments - at fair value		
Interest rate swap contracts - cash flow hedges	**24**	29
Forward foreign exchange contracts - cash flow hedges	**2**	-
Energy derivatives - cash flow hedges	**-**	31
Energy derivatives - economic hedges	**264**	580
	290	640
Deferred consideration	**37**	39
Total current other financial liabilities	**327**	679

	2021 $m	2020 $m
Non-current		
Derivative financial instruments - at fair value		
Interest rate swap contracts - cash flow hedges	**13**	42
Energy derivatives - economic hedges	**109**	49
	122	91
Deferred consideration	**131**	148
Total non-current other financial liabilities	**253**	239

ACCOUNTING POLICY

Financial Instruments

Refer to Note 36.

Deferred consideration

To the extent that deferred consideration is payable after one year from the acquisition date, the deferred consideration is discounted at an appropriate interest rate and, accordingly, carried at net present value in the Consolidated Statement of Financial Position. The discount component is then unwound as an interest charge in profit or loss over the life of the obligation.

21. Other liabilities

	Note	2021 $m	2020 $m
Current			
Deferred revenue		**21**	8
Other		**-**	1
Total current other liabilities		**21**	9
Non-current			
Deferred revenue		**14**	14
Defined benefit superannuation plan liability	32	**91**	158
Other		**100**	69
Total non-current other liabilities		**205**	241

22. Issued capital

	2021 Total $m	2021 Number of shares	2020 Total $m	2020 Number of shares
Balance at beginning of reporting period	**5,603**	**623,138,096**	6,223	655,825,043
On-market share buy-back[1]	**(2)**	**(104,305)**	(620)	(32,686,947)
Balance at reporting date	**5,601**	**623,033,791**	5,603	623,138,096

1. During the period, AGL completed the buy-back of 104,305 shares. This is part of AGL's on-market share buy-back program for up to 5% of its issued share capital, or 32,791,252 shares from 23 August 2019 to 22 August 2020. As at 30 June 2021, the total consideration paid for shares bought back on market was $622 million at an average price of $18.97 per share.

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding-up of the Parent Entity in proportion to the number of shares held. Every ordinary Shareholder present at a general meeting of the Parent Entity, in person or by proxy is entitled to one vote per share.

ACCOUNTING POLICY

Issued capital

Ordinary shares are classified as equity. Ordinary shares issued by AGL are recorded at the proceeds received, less transaction costs directly attributable to the issue of new shares, net of any tax effects.

23. Earnings per share

	2021	2020 Restated
Statutory earnings per share		
Basic earnings per share	**(330.3 cents)**	157.2 cents
Diluted earnings per share	**(330.3 cents)**	157.0 cents
Underlying earnings per share		
Basic earnings per share	**86.2 cents**	126.1 cents
Diluted earnings per share	**86.1 cents**	126.0 cents

Earnings used in calculating basic and diluted earnings per share

	2021 $m	2020 $m Restated
Statutory earnings used to calculate basic and diluted earnings per share attributable to owners of AGL	**(2,058)**	1,007
Significant expense items after income tax	**2,929**	17
Gain in fair value of financial instruments after income tax	**(334)**	(216)
Underlying earnings used to calculate basic and diluted earnings per share	**537**	808

Weighted average number of ordinary shares

	30 June 2021 Number	30 June 2020 Number
Number of ordinary shares used in the calculation of basic earnings per share	**623,047,222**	640,653,780
Effect of dilution - LTIP share performance rights	**608,119**	808,529
Number of ordinary shares used in the calculation of diluted earnings per share	**623,655,341**	641,462,309

24. Commitments

(a) Capital expenditure commitments

Property, plant and equipment and intangible assets

	2021 $m	2020 $m
Not later than one year	**70**	69
Later than one year and not later than five years	**2**	-
	72	69

There are nil (2020: nil) joint operations capital commitments and AGL's share of associates' commitments is nil (2020: nil).

(b) Joint venture commitments

AGL's share of commitments made jointly with other investors relating to its joint ventures is $358 million (2020: nil). AGL has committed to contribute $358 million to fund its portion of PowAR's acquisition of Tilt Renewables' Australian business.

25. Contingent liabilities

Certain entities in AGL are party to various legal actions and claims which have arisen in the ordinary course of business. Any liabilities arising from such legal actions and claims are not expected to have a material adverse effect on AGL.

Provisions are not required in respect of these matters, as it is either not probable that a future sacrifice of economic benefits will be required or the amount is not capable of reliable measurement.

26. Remuneration of auditors

Auditor of the Parent Entity

	2021 $000	2020 $000
Deloitte Touche Tohmatsu Australia		
Audit and review of financial reports		
Group	**1,599**	1,466
Controlled entities	**151**	156
	1,750	1,622
Other regulatory audit services	**167**	187
Other assurance services	**173**	161
Other accounting advice and services	**-**	95
	2,090	2,065
Deloitte Touche Tohmatsu related practices		
Audit of subsidiary financial reports	**29**	28
Total remuneration of auditors	**2,119**	2,093

The auditor of AGL Energy Limited is Deloitte Touche Tohmatsu Australia.

27. Subsidiaries

Name of subsidiary	Note	Country of incorporation	Ownership interest and voting power held 2021 %	2020 %
AGL Limited		New Zealand	**100**	100
AGL ACT Retail Investments Pty Limited	(a)	Australia	**100**	100
AGL Australia Limited	(e)	Australia	**100**	-
AGL Barker Inlet Pty Limited	(a)	Australia	**100**	100
AGL Community Legacy Program Pty Limited	(a)	Australia	**100**	100
AGL Corporate Services Pty Limited	(a)	Australia	**100**	100
AGL Electricity (VIC) Pty Limited	(a)	Australia	**100**	100
OVO Energy Pty Limited	(c)	Australia	**51**	-
Victorian Energy Pty Limited	(a)	Australia	**100**	100
AGL Sales Pty Limited	(a)	Australia	**100**	100
AGL Sales (Queensland) Pty Limited	(a)	Australia	**100**	100
AGL Sales (Queensland Electricity) Pty Limited	(a)	Australia	**100**	100
AGL Torrens Island Holdings Pty Limited	(a)	Australia	**100**	100
AGL SA Generation Pty Limited	(a)	Australia	**100**	100
AGL Torrens Island Pty Limited	(a)	Australia	**100**	100
AGL South Australia Pty Limited	(a)	Australia	**100**	100
AGL APG Holdings Pty Limited	(a)	Australia	**100**	100
Australian Power and Gas Company Limited	(a)	Australia	**100**	100
Australian Power and Gas Pty Limited	(a)	Australia	**100**	100
APG Operations Pty Ltd	(a)	Australia	**100**	100
Australian Power and Gas (NSW) Pty Ltd	(a)	Australia	**100**	100
Ignition Energy Pty Ltd	(a)	Australia	**100**	100
Greentricity Pty Limited	(a)	Australia	**100**	100
IQ Energy Services Pty Ltd	(a)	Australia	**100**	100
Epho Holding Pty Limited	(a)(c)	Australia	**100**	-
Epho Services Pty Limited	(a)(c)	Australia	**100**	-
Epho Pty Limited	(a)(c)	Australia	**100**	-
Epho Asset Management Pty Limited	(a)(c)	Australia	**100**	-
BTPS 1 Pty Limited	(a)(c)	Australia	**100**	-
SEGH Pty Limited	(a)(c)	Australia	**100**	-
Solgen Energy Pty Limited	(a)(c)	Australia	**100**	-
Sol Install Pty Limited	(a)(c)	Australia	**100**	-
Sol Distribution Pty Limited	(a)(c)	Australia	**100**	-
Sunlease Pty Limited	(a)(c)	Australia	**100**	-
SolarServe Pty Limited	(a)(c)	Australia	**100**	-
AGL Energy Limited		New Zealand	**100**	100
AGL Energy Sales & Marketing Limited	(a)	Australia	**100**	100
AGL Energy Services Pty Limited	(a)	Australia	**100**	100
AGL Financial Energy Solutions Pty Limited	(a)	Australia	**100**	100
AGL Gas Developments (Hunter) Pty Limited	(a)	Australia	**100**	100
AGL Gas Developments (PNG) Pty Limited	(a)	Australia	**100**	100
AGL Gas Developments (Sydney) Pty Limited	(a)	Australia	**100**	100
AGL Generation Holdco Pty Ltd		Australia	**99.99**	99.99
AGL Loy Yang Pty Ltd	(a)	Australia	**75**	75
AGL Loy Yang Partnership	(a)	Australia	**75**	75
AGL Loy Yang Projects Pty Ltd	(a)	Australia	**75**	75
AGL Generation Proprietary Limited	(b)	Australia	**100**	100
AGL Loy Yang Pty Ltd	(b)	Australia	**25**	25
AGL Loy Yang Partnership	(b)	Australia	**25**	25
AGL Loy Yang Projects Pty Ltd	(b)	Australia	**25**	25

27. Subsidiaries (cont.)

Name of subsidiary	Note	Country of incorporation	Ownership interest and voting power held 2021 %	2020 %
Loy Yang Marketing Holdings Pty Limited	(b)	Australia	**100**	100
AGL Loy Yang Marketing Pty Ltd	(b)	Australia	**100**	100
Great Energy Alliance Corporation Pty Limited	(b)	Australia	**100**	100
GEAC Operations Pty Limited	(b)	Australia	**100**	100
AGL LYP 1 Pty Ltd	(b)	Australia	**100**	100
AGL LYP 2 Pty Ltd	(b)	Australia	**100**	100
AGL LYP 3 Pty Ltd	(b)	Australia	**100**	100
AGL Gloucester MG Pty Ltd	(a)	Australia	**100**	100
AGL HP1 Pty Limited	(a)	Australia	**100**	100
AGL Hydro Partnership		Australia	**49.5**	49.5
AGL Southern Hydro (NSW) Pty Limited	(a)	Australia	**100**	100
AGL HP2 Pty Limited	(a)	Australia	**100**	100
AGL Hydro Partnership		Australia	**20.0**	20.0
AGL HP3 Pty Limited	(a)	Australia	**100**	100
AGL Hydro Partnership		Australia	**30.5**	30.5
AGL LNG Pty Ltd	(a)	Australia	**100**	100
AGL Macquarie Pty Limited	(a)	Australia	**100**	100
AGL New Energy Pty Limited	(a)	Australia	**100**	100
AGL New Energy ACP Pty Limited	(a)	Australia	**100**	100
AGL New Energy EIF Pty Limited	(a)	Australia	**100**	100
AGL New Energy Investments Pty Limited	(a)	Australia	**100**	100
AGL PARF NSW Pty Limited	(a)	Australia	**100**	100
AGL PARF QLD Pty Limited	(a)	Australia	**100**	100
AGL Power Generation Pty Limited	(a)	Australia	**100**	100
AGL Power Generation (Wind) Pty Limited	(a)	Australia	**100**	100
Australia Plains Wind Farm Pty Ltd	(a)	Australia	**100**	100
Ben Lomond Wind Farm Pty Ltd	(a)	Australia	**100**	100
Box Hill Wind Farm Pty Limited	(a)	Australia	**100**	100
Crows Nest Wind Farm Pty Ltd	(a)	Australia	**100**	100
Highfields Wind Farm Pty Limited	(a)	Australia	**100**	100
Worlds End Wind Farm Pty Ltd	(a)	Australia	**100**	100
AGL PV Solar Holdings Pty Limited	(a)	Australia	**100**	100
AGL PV Solar Developments Pty Limited	(a)	Australia	**100**	100
AGL Retail Energy Limited	(a)	Australia	**100**	100
AGL Share Plan Pty Limited	(a)	Australia	**100**	100
AGL (SG) (Camden) Operations Pty Limited	(a)	Australia	**100**	100
AGL (SG) (Hunter) Operations Pty Limited	(a)	Australia	**100**	100
AGL (SG) Operations Pty Limited	(a)	Australia	**100**	100
AGL Shipping Pty Ltd	(a)	Australia	**100**	100
AGL Upstream Gas (Mos) Pty Limited	(a)	Australia	**100**	100
AGL Cooper Basin Pty Ltd	(a)	Australia	**100**	100
AGL Gas Storage Pty Ltd	(a)	Australia	**100**	100
AGL Upstream Infrastructure Investments Pty Limited	(a)	Australia	**100**	100
AGL Upstream Investments Pty Limited	(a)	Australia	**100**	100
AGL Wholesale Gas Limited	(a)	Australia	**100**	100
AGL Wholesale Gas (SA) Pty Limited	(a)	Australia	**100**	100
Barker Inlet Trust	(a)	Australia	**100**	100
Barn Hill Wind Farm Pty Ltd	(a)	Australia	**100**	100

27. Subsidiaries (cont.)

Name of subsidiary	Note	Country of incorporation	Ownership interest and voting power held 2021 %	2020 %
Click Energy Group Holdings Pty Limited	(a)(c)	Australia	**100**	-
Click Energy Pty Limited	(a)(c)	Australia	**100**	-
On the Move Pty Limited	(a)(c)	Australia	**100**	-
A.C.N 133 799 149 Pty Limited	(a)(c)	Australia	**100**	-
M2C Services Pty Limited	(a)(c)	Australia	**100**	-
Connect Now Pty Ltd	(a)	Australia	**100**	100
Coopers Gap Wind Farm Pty Ltd	(a)	Australia	**100**	100
Digital Energy Exchange Australia Pty Limited	(a)	Australia	**100**	100
Geogen Victoria Pty Ltd	(a)	Australia	**100**	100
GRCI Australia Pte Ltd		Singapore	**100**	100
H C Extractions Pty Limited	(a)	Australia	**100**	100
NGSF Asset Pty Limited	(a)	Australia	**100**	100
NGSF Assets Trust		Australia	**100**	100
NGSF Finance Pty Limited	(a)	Australia	**100**	100
NGSF Operations Pty Limited	(a)	Australia	**100**	100
NGSF Operations Trust		Australia	**100**	100
Perth Energy Holdings Pty Limited	(a)	Australia	**100**	100
Perth Energy Pty Limited	(a)	Australia	**100**	100
WA Power Exchange Pty Limited	(a)	Australia	**100**	100
Western Energy Holdings Pty Limited	(a)	Australia	**100**	100
Western Energy Pty Limited	(a)	Australia	**100**	100
Powerdirect Pty Ltd	(a)	Australia	**100**	100
Silverton Wind Farm Holdings Pty Limited	(a)	Australia	**100**	100
Silverton Wind Farm Developments Pty Limited	(a)	Australia	**100**	100
Silverton Wind Farm Transmission Pty Limited	(a)	Australia	**100**	100
Southern Phone Company Limited	(a)	Australia	**100**	100
The Australian Gas Light Company	(a)	Australia	**100**	100
Wellington North Solar Farm Pty Limited	(d)	Australia	-	100

Names inset indicate that shares are held by the company immediately above the inset.

(a) Parties to a Deed of Cross Guarantee with AGL Energy Limited as detailed in Note 31.

(b) Parties to a Deed of Cross Guarantee with AGL Generation Proprietary Limited as detailed in Note 31.

(c) Acquired during the financial year as detailed in Note 28.

(d) Sold on 13 July 2020.

(e) Incorporated on 17 June 2021.

28. Acquisition of subsidiaries and businesses

2021

Acquisition of Click Energy Group Holdings Pty Limited

On 30 September 2020, AGL completed the purchase of 100% of the outstanding share capital of Click Energy Group Holdings Pty Ltd, a wholly owned subsidiary of ASX-listed amaysim Australia Limited, for $109 million. The acquisition includes approximately 215,000 energy services to customers, increasing AGL's total services provided to almost 4.2 million services to homes and businesses across Australia.

Acquisition of SEGH Pty Limited

On 31 March 2021, AGL completed the purchase of 100% of the outstanding share capital of SEGH Pty Limited. Solgen operates a large solar wholesale distribution, engineering, procurement and construction (EPC) business, delivering more than 15,000 projects in the past decade.

Acquisition of Epho Holding Pty Limited

On 31 March 2021, AGL completed the purchase of 100% of the outstanding share capital of Epho Holding Pty Limited. Epho specialises in the construction and maintenance of large-scale solar systems and has delivered more than 400 projects nationwide.

Acquisition of OVO Energy Pty Limited

On 29 March 2021, AGL completed the purchase of 51% of the outstanding share capital of OVO Energy Pty Ltd. As part of the agreement, OVO Energy Australia will work to adapt Kaluza, an AI-enabled platform, for Australia and serve a growing customer base with innovative products and services.

2020

Acquisition of Perth Energy Holdings Pty Limited

On 2 September 2019, AGL completed the purchase of 100% of the outstanding share capital of Perth Energy Holdings Pty Ltd based on an enterprise value of $93 million. Perth Energy was Western Australia's leading independent energy retailer, marketing electricity and gas to small and medium size enterprises and commercial and industrial users. The business also owns and operates the 120 MW Kwinana Swift dual fuel peaking power station.

Acquisition of Southern Phone Company Limited

On 18 December 2019, AGL completed the purchase of 100% of the outstanding share capital of Southern Phone Company Limited for consideration of $28 million. Southern Phone Company is a provider of fixed line, mobile and internet communications services in regional Australia with 167,000 broadband and mobile accounts nationwide.

29. Disposal of subsidiaries and businesses

2021

On 13 July 2020, AGL completed the divestment of Wellington North Solar Farm Pty Limited.

2020

There were no disposals of subsidiaries and businesses made during the year ended 30 June 2020.

30. Joint operations

Joint operation	Principal activities	Interest 2021 %	Interest 2020 %
Bowen Basin - Queensland			
Moranbah Gas Project - PL 191, PL 196, PL 222, PL 223 & PL 224	Gas production and exploration	**50**	50
Spring Gully Project - ATP 592P, PL 195, PL 203 & PL 417	Gas production and exploration	**0.75**	0.75
Spring Gully Project - ATP 701, PL 204	Gas production	**0.0375**	0.0375
Surat Basin - Queensland			
ATP 1190 (Bainbilla Block)	Oil and gas exploration	**75.252**	75.252
ATP 1190 (Spring Grove #2 sole risk)	Oil and gas exploration	**52.752**	52.752
ATP 1190 (Weribone)	Oil and gas exploration	**28.71**	28.71
PL 1 (Cabawin)	Oil production	**16.67**	16.67
PL 15	Gas production	**75**	75
PL 30 (Riverslea)	Oil production	**10**	10
PL 74 (Major)	Oil production	**16**	16
Others			
North Queensland Energy Joint Venture	Sale of gas and electricity	**50**	50

AGL's interest in assets employed in the above joint operations is detailed below. The amounts are included in the consolidated financial statements under their respective asset categories.

	2021 $m	2020 $m
Current assets		
Cash and cash equivalents	**1**	4
Trade and other receivables	**1**	3
Total current assets	**2**	7
Non-current assets		
Property, plant and equipment	**-**	1
Total non-current assets	**-**	1
Total assets	**2**	8

AGL's share of capital expenditure commitments and contingent liabilities of joint operations are disclosed in Notes 24 and 25 respectively.

ACCOUNTING POLICY

Joint operations

AGL has joint operations where the entity has joint control and direct rights to the assets, liabilities, revenues and expenses. This share has been recognised in accordance with the accounting standards applicable to the particular assets, liabilities, revenues and expenses.

31. Deeds of cross guarantee

The wholly-owned Australian subsidiaries identified in Note 27 have entered into a Deed of Cross Guarantee with AGL in accordance with ASIC Corporations (Wholly-owned Companies) Instrument 2016/785 and are relieved from the *Corporations Act 2001* requirement to prepare and lodge an audited financial report and directors' report. The effect of the deed is that each party guarantees the debts of the others.

The following wholly-owned subsidiaries became a party to the Deed of Cross Guarantee during FY21:

- Click Energy Group Holdings Pty Limited, Click Energy Pty Limited, On the Move Pty Limited, A.C.N 133 799 149 Pty Limited and M2C Services Pty Limited pursuant to an Assumption Deed dated 2 October 2020;
- Epho Holding Pty Limited, Epho Services Pty Limited, Epho Pty Limited, Epho Asset Management Pty Limited and BTPS 1 Pty Limited pursuant to an Assumption Deed dated 10 May 2021;
- SEGH Pty Limited, Solgen Energy Pty Limited, Sol Install Pty Limited, Sol Distribution Pty Limited, Sunlease Pty Limited and SolarServe Pty Limited pursuant to an Assumption Deed dated 10 May 2021.

Set out below is the statement of profit or loss, statement of comprehensive income, statement of financial position and a summary of movements in retained earnings of the entities party to a Deed of Cross Guarantee.

Statement of profit or loss

	AGL Energy Limited		AGL Generation Pty Ltd	
	2021 $m	2020 $m Restated	2021 $m	2020 $m
Revenue	**8,769**	10,164	**-**	-
Other income	**330**	200	**-**	-
Expenses	**(10,971)**	(9,905)	**-**	-
Share of profits of associates and joint ventures	**9**	17	**136**	53
Profit before net financing costs, depreciation and amortisation	**(1,863)**	476	**136**	53
Depreciation and amortisation	**(490)**	(504)	**-**	-
(Loss)/profit before net financing costs	**(2,353)**	(28)	**136**	53
Finance income	**60**	64	**1**	1
Finance costs	**(267)**	(190)	**(1)**	(1)
Net financing costs	**(207)**	(126)	**-**	-
(Loss)/profit before tax	**(2,560)**	(154)	**136**	53
Income tax benefit/(expense)	**797**	203	**(41)**	(154)
(Loss)/profit for the year	**(1,763)**	49	**95**	(101)

Statement of comprehensive income

(Loss)/profit for the period	**(1,763)**	49	**95**	(101)
Other comprehensive income				
Items that will not be reclassified subsequently to profit or loss				
Remeasurement loss on defined benefit plans	**68**	(3)	**14**	(5)
Fair value gain on the revaluation of equity instrument financial assets	**66**	3	**-**	-
Income tax relating to items that will not be reclassified subsequently	**(40)**	(4)	**(4)**	1
	94	(4)	**10**	(4)
Items that may be reclassified subsequently to profit or loss				
Cash flow hedges	**73**	(35)	**-**	-
Cost of hedging subject to basis adjustment	**(2)**	(3)	**-**	-
Income tax relating to items that may be reclassified subsequently	**(21)**	21	**-**	-
	50	(17)	**-**	-
Other comprehensive (loss)/income for the year, net of income tax	**144**	(21)	**10**	(4)
Total comprehensive income for the year	**(1,619)**	28	**105**	(105)

31. Deeds of cross guarantee (cont.)

Statement of financial position

	AGL Energy Limited		AGL Generation Pty Ltd	
	2021 $m	2020 $m Restated	2021 $m	2020 $m
Current assets				
Cash and cash equivalents	68	113	-	-
Trade and other receivables	1,626	1,366	-	-
Inventories	342	320	-	-
Current tax assets	245	103	-	-
Other financial assets	125	64	-	-
Other assets	79	69	-	-
Assets classified as held for sale	223	-	-	-
Total current assets	2,708	2,035	-	-
Non-current assets				
Trade and other receivables	81	25	-	-
Inventories	46	59	-	-
Other financial assets	2,789	2,723	3,810	3,650
Investments in associates and joint ventures	117	135	-	-
Property, plant and equipment	2,741	3,218	-	-
Intangible assets	2,280	2,724	-	-
Deferred tax assets	1,053	392	-	-
Other assets	16	3	-	-
Total non-current assets	9,123	9,279	3,810	3,650
Total assets	11,831	11,314	3,810	3,650
Current liabilities				
Trade and other payables	1,570	1,081	-	-
Borrowings	295	29	-	-
Provisions	224	238	-	-
Current tax liabilities	71	-	217	143
Other financial liabilities	957	979	-	-
Other liabilities	10	9	-	-
Total current liabilities	3,127	2,336	217	143
Non-current liabilities				
Borrowings	2,779	2,962	-	-
Provisions	1,090	337	-	-
Deferred tax liabilities	-	-	234	256
Other financial liabilities	1,507	106	69	66
Other liabilities	123	143	-	-
Total non-current liabilities	5,499	3,548	303	322
Total liabilities	8,626	5,884	520	465
Net assets	3,205	5,430	3,290	3,185
Equity				
Issued capital	5,601	5,603	2,878	2,878
Reserves	15	(50)	-	-
(Accumulated losses)/retained earnings	(2,411)	(123)	412	307
Total equity	3,205	5,430	3,290	3,185

31. Deeds of cross guarantee (cont.)

Summary of movements in (accumulated losses)/retained earnings

	AGL Energy Limited		AGL Generation Pty Ltd	
	2021 $m	2020 $m Restated	2021 $m	2020 $m
(Accumulated losses)/retained earnings at beginning of financial year	**(123)**	554	**307**	412
Profit for the year	**(1,763)**	49	**95**	(101)
Dividends paid	**(573)**	(719)	**-**	-
Remeasurement gain/(loss) on defined benefit plans, net of tax	**48**	(7)	**10**	(4)
(Accumulated losses)/retained earnings at end of financial year	**(2,411)**	(123)	**412**	307

32. Defined benefit superannuation plans

AGL contributes to superannuation plans that provide defined benefit members a lump sum on retirement, death, disablement and withdrawal. Some defined benefit members are eligible for pension benefits in some cases. Lump sum benefits are calculated based on years of service and final average salary. The defined benefit plans are closed to new members.

The plans are the Equipsuper Fund (EF), Electricity Industry Superannuation Scheme (EISS), State Superannuation Scheme (SSS), State Authorities Superannuation Scheme (SASS) and the State Authorities Non-contributory Superannuation Scheme (SANCS).

The Superannuation Industry Supervision (SIS) legislation governs the superannuation industry and provides the framework within which superannuation plans operate. The SIS Regulations require an actuarial valuation to be performed for each defined benefit plan every three years, or every year if the plan pays defined benefit pensions.

The plans' trustees are responsible for the governance of the plans. The trustees have a legal obligation to act solely in the best interests of plan beneficiaries. The trustees have the following roles: administration of the plans and payment to the beneficiaries from plan assets when required in accordance with the plan rules; management and investment of the plan assets; and compliance with other applicable regulations.

There are a number of risks to which the plans expose AGL. The most significant risks are investment risk, salary growth risk, inflation risk, interest rate risk, legislative risk and changes in the life expectancy for members.

AGL also contributes to defined contribution superannuation plans for employees, which are also provided by these plans. Contributions made to these defined contribution plans are expensed as incurred.

Amounts recognised in profit or loss

	2021 $m	2020 $m
Current service cost	**17**	19
Net interest expense	**4**	5
Expense recognised in profit or loss as part of employee benefits expenses	**21**	24

Amounts recognised in other comprehensive income

Remeasurements		
Return on plan assets (excluding amounts included in net interest expense)	**(65)**	4
Actuarial gain/(loss) arising from changes in demographic assumptions	**5**	(1)
Actuarial (gain) arising from changes in financial assumptions	**(34)**	(4)
Actuarial (gain) arising from experience	**(3)**	(11)
Remeasurement (gain) on defined benefit plans recognised in other comprehensive income	**(97)**	(12)

32. Defined benefit superannuation plans (cont.)

Amounts included in the Consolidated Statement of Financial Position

	Note	2021 $m	2020 $m
Present value of funded defined benefit obligations		**757**	769
Fair value of plan assets		**(691)**	(614)
Net defined benefit liability		**66**	155
Recognised in the Consolidated Statement of Financial Position as follows:			
Defined benefit superannuation plan asset	12	**(25)**	(3)
Defined benefit superannuation plan liability	21	**91**	158
Net defined benefit liability		**66**	155
Net liability at beginning of financial year		**155**	145
Transfer to defined contribution superannuation plans		**3**	6
Expense recognised in profit or loss		**21**	24
Amounts recognised in other comprehensive income		**(97)**	(12)
Employer contributions		**(16)**	(8)
Net liability at end of financial year		**66**	155

Movements in the present value of defined benefit obligations

	2021 $m	2020 $m
Opening defined benefit obligations	**769**	796
Current service cost	**20**	26
Interest expense	**20**	22
Contributions by plan participants	**6**	6
Actuarial gain/(loss) arising from changes in demographic assumptions	**5**	(1)
Actuarial gain arising from changes in financial assumptions	**(34)**	(4)
Actuarial gain arising from experience	**(3)**	(11)
Benefits paid	**(20)**	(56)
Taxes, premiums and expenses paid	**(3)**	(3)
Contributions to accumulation section	**(3)**	(6)
Closing defined benefit obligations	**757**	769

Movements in the fair value of plan assets

	2021 $m	2020 $m
Opening fair value of plan assets	**614**	651
Interest income	**16**	18
Return/(loss) on plan assets (excluding amounts included in net interest expense)	**65**	(4)
Employer contributions	**16**	8
Contributions by plan participants	**6**	6
Benefits paid	**(20)**	(56)
Taxes, premiums and expenses paid	**(3)**	(3)
Transfer to defined contribution superannuation plans	**(3)**	(6)
Closing fair value of plan assets	**691**	614

32. Defined benefit superannuation plans (cont.)

Categories of plan assets

The major categories of plan assets as a percentage of the fair value of total plan assets at the end of the reporting period are as follows:

2021	EF %	EISS %	SSS, SASS, and SANCS %
Australian equities	**18**	**24**	**20**
International equities	**20**	**22**	**33**
Fixed interest securities	**16**	**17**	**6.0**
Property	**8**	**13**	**8.0**
Cash	**11**	**7**	**12**
Alternatives/other	**27**	**17**	**21**
2020			
Australian equities	15	22	18
International equities	20	25	30
Fixed interest securities	16	18	8
Property	7	13	8
Cash	13	6	10
Alternatives/other	29	16	26

All plan assets are held within investment funds which do not have a quoted market price in an active market.

The fair value of plan assets include no amounts relating to any of AGL's own financial instruments, or any property occupied by, or other assets used by AGL.

Principal actuarial assumptions

The principal actuarial assumptions at the end of the reporting period (expressed as weighted averages) were as follows:

2021	EF %	EISS %	SSS, SASS, & SANCS %
Discount rate active members	**2.9**	**2.9**	**3.2**
Discount rate pensioners	**2.9**	**2.9**	**-**
Expected salary increase rate	**2.5**	**3.5**	**2.4**
Expected pension increase rate	**2.0**	**2.0**	**-**
2020			
Discount rate active members	2.6	2.6	3.1
Discount rate pensioners	2.6	2.6	-
Expected salary increase rate	2.5 - 3.5	2.5	3.2
Expected pension increase rate	2.3	2.3	-

32. Defined benefit superannuation plans (cont.)

Sensitivity analysis

The sensitivity analyses below have been determined based on reasonably possible changes of the respective assumptions occurring at the end of the reporting period, while holding all other assumptions constant.

	Defined benefit obligation			
	Increase 2021 $m	Decrease 2021 $m	Increase 2020 $m	Decrease 2020 $m
Discount rate (0.5 percentage point movement)	**(43)**	**47**	(46)	50
Expected salary increase rate (0.5 percentage point movement)	**15**	**(15)**	17	(16)
Expected pension increase rate (0.5 percentage point movement)	**14**	**(13)**	11	(10)

The sensitivity analyses presented above may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

There was no change in the methods and assumptions used in preparing the sensitivity analyses from prior years.

Funding arrangements and employer contributions

Employer contributions are determined based on actuarial advice and are set to target the assets of the plans exceeding the total of members' vested benefits. Funding levels are reviewed regularly. Where assets are less than vested benefits, a management plan must be established to restore the coverage to at least 100%.

AGL expects to contribute $14 million to the defined benefit plans during the year ending 30 June 2022.

The weighted average duration of the defined benefit obligation as at 30 June 2021 was EF 11 years; EISS 11 years; and SSS, SASS and SANCS 13 years.

Defined contribution superannuation plans

AGL makes contributions to a number of defined contribution superannuation plans. The amount recognised as an expense for the year ended 30 June 2021 was $44 million (2020: $43 million).

ACCOUNTING POLICY

Defined benefit superannuation plans

For defined benefit superannuation plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each reporting period. Actuarial gains and losses are recognised directly in other comprehensive income, in the period in which they occur.

Changes in the net defined benefit liability, including all actuarial gains and losses that arise in calculating AGL's obligation in respect of the plan are recognised in other comprehensive income when they occur. All other expenses relating to the defined benefit plans are recognised as an expense in the profit or loss. Any defined benefit superannuation plan asset resulting from this calculation is limited to the present value of available refunds and reductions in future contributions to the plan.

Defined contribution superannuation plans

Contributions to defined contribution superannuation plans are recognised as an expense when employees have rendered service entitling them to the contributions.

CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

Defined benefit superannuation plans

Various actuarial assumptions are utilised in the determination of AGL's defined benefit obligations. AGL uses external actuarial experts to determine these assumptions.

33. Share-based payment plans

AGL operates the following share-based payment plans:

- The Share Reward Plan; and
- The Long-Term Incentive plan.

AGL has the following other equity arrangements:

- The share purchase plan; and
- The restricted equity plan.

Share Reward Plan (SRP)

The SRP is AGL's complying broad-based employee share plan that enables eligible employees to be granted up to $1,000 of ordinary shares in AGL for no consideration each financial year. The SRP is governed by the AGL General Employee Share Plan Rules. The grant of shares is subject to the achievement of performance metrics and can therefore be scaled down in years where all objectives are not met. Shares granted pursuant to the SRP are subject to a trading restriction of the earlier of three years or the participant's cessation of employment.

Eligible participants include all AGL employees with at least 12 months service at the eligibility date (generally 1 September following the financial year end). Participants in the long-term incentive plan are excluded from any SRP grant.

Details of share movements in the SRP during the year are set out below:

Grant date	Balance at 1 July Number	Granted during the year Number	Fair Value per share $	Released during the year Number	Balance at 30 June Number
2021					
28 September 2020	**-**	**233,496**	**$14.39**	**(6,486)**	**227,010**
28 September 2019	**137,475**	**-**	**-**	**(11,799)**	**125,676**
28 September 2018	**128,076**	**-**	**-**	**(22,784)**	**105,292**
29 September 2017	**76,836**	**-**	**-**	**(26,129)**	**50,707**
Total Share Reward Plan shares	**342,387**	**233,496**		**(67,198)**	**508,685**
2020					
28 September 2019	-	145,277	$19.08	(7,802)	137,475
28 September 2018	138,424	-	-	(10,348)	128,076
29 September 2017	81,586	-	-	(4,750)	76,836
30 September 2016	95,452	-	-	(95,452)	-
Total Share Reward Plan shares	315,462	145,277		(118,352)	342,387

The expense recognised in profit or loss, as part of employee benefits expense during the year in relation to the SRP, was $3 million (2020: $3 million).

Long-Term Incentive (LTI) Plan

The LTI plan provides for a grant of performance rights to eligible participants subject to AGL's performance against pre-determined metrics over a four-year performance period (prior to FY20, a three-year performance period applied). The LTI is governed by the AGL Employee Share Plan Rules. Participation is determined annually at the discretion of the Board.

Generally, performance rights are forfeited on cessation of employment. The Board has discretion with reference to the relevant facts and circumstances of the cessation to vest all or part of the balance, or to authorise a portion of the award to be retained and assessed post-employment.

In FY20, the LTI performance period was extended from three years to four years to better reflect the business planning cycle. To ensure executives a smooth transition to the extension of the performance period, a Bridging Grant was made at the same quantum as the FY20 LTI to supplement the new four-year grant by providing an opportunity for LTI vesting every year. The Bridging Grant will be tested after three years. The Bridging Grant is a one-off grant; in FY21, no further bridging arrangements were made. The Bridging Grant is not applicable for new/incoming executives.

33. Share-based payment plans (cont.)

Current LTI Plans

For the FY20 and FY19 plans, the performance rights are subject to two performance hurdles, weighted equally, based on:

- Relative Total Shareholder Return (Relative TSR); and
- Return on Equity (ROE)

For the FY21 plan, the performance rights are subject to three performance hurdles, weighted equally, based on:

- Relative Total Shareholder Return (Relative TSR);
- Return on Equity (ROE); and
- Carbon Transition metrics

Relative TSR is calculated by ranking AGL's TSR on a relative basis against the peer group, being S&P/ASX100 companies.

ROE measures the amount of Underlying Profit returned as a percentage of average monthly shareholders equity.

Carbon Transition is calculated through three transition metrics. These metrics are based off emissions intensity, controlled renewable capacity and green and carbon neutral revenue.

The performance period for the outstanding LTI plans as at 30 June 2021 are as follows:

- FY21: Four years from 1 July 2020 to 30 June 2024
- FY20: Four years from 1 July 2019 to 30 June 2023
- FY20: Bridging Grant: Three years from 1 July 2019 to 30 June 2022
- FY19: Three years from 1 July 2018 to 30 June 2021

The number of shares vested are determined by the vesting schedules detailed in the tables below.

Relative TSR vesting schedule

AGL's TSR ranking against comparator group	Percentage of performance rights which vest			
LTI Plan	FY21	FY20	FY20 Bridging Grant	FY19
Below 50th percentile	Nil	Nil	Nil	Nil
50th – 75th percentile	50 – 100%	50 – 100%	50 – 100%	50 – 100%
At or above 75th percentile	100%	100%	100%	100%

ROE vesting schedule

Percentage of performance rights which vest	AGL's average ROE per LTI plan			
LTI plan	FY21	FY20	FY20 Bridging Grant	FY19
Nil	Below 5.0%	Below 8.5%	Below 8.5%	Below 10%
50 – 90%	5.0% - 6.5%	8.5% – 10.5%	8.5% – 10.5%	10% – 12%
90 – 100%	6.5% - 8.0%	10.5% – 12.5%	10.5% – 12.5%	12% – 14%
100%	At or above 8.0%	At or above 12.5%	At or above 12.5%	At or above 14%

Carbon Transition vesting schedule

Percentage of performance rights which vest FY21	Controlled intensity in FY24	% Controlled renewable & storage capacity at 30 June 2024	Green & carbon neutral products & services in FY24
0%	above 0.895	below 28%	below 15.5%
50 - 100%	0.895 - 0.845	28% - 34%	15.5% - 20%
100%	below 0.845	above 34%	above 20%

Details of performance rights movements in the FY21 LTI Plan during the year are set out below:

Grant date	Performance hurdle	Balance at 1 July Number	Granted during the year Number	Fair value per SPR at grant date $	Vested during the year Number	Forfeited during the year Number	Balance at 30 June Number
2021							
FY21 LTI – 28 Oct 2020	**Relative TSR**	-	**258,299**	**$3.86**	-	**(9,915)**	**248,384**
FY21 LTI – 28 Oct 2020	**ROE**	-	**258,299**	**$10.64**	-	**(9,915)**	**248,384**
FY21 LTI – 28 Oct 2020	**Carbon Transition**	-	**258,299**	**$10.64**	-	**(9,915)**	**248,384**
Total share rights		-	**774,897**	**$8.38**	-	**(29,745)**	**745,152**

33. Share-based payment plans (cont.)

Details of performance rights movements in the FY20 Bridging Grant LTI Plan and the FY20 LTI Plan during the year are set out below:

Grant date	Performance hurdle	Balance at 1 July Number	Granted during the year Number	Fair value per SPR at grant date $	Vested during the year Number	Forfeited during the year Number	Balance at 30 June Number
2021							
FY20 LTI – 18 Oct 2019	**Relative TSR**	**297,945**	**-**	**$8.76**	**-**	**(58,727)**	**239,218**
FY20 LTI – 18 Oct 2019	**ROE**	**297,917**	**-**	**$16.02**	**-**	**(58,728)**	**239,189**
FY20 Bridging Grant – 18 Oct 2019	**Relative TSR**	**223,048**	**-**	**$8.63**	**-**	**(37,631)**	**185,417**
FY20 Bridging Grant – 18 Oct 2019	**ROE**	**223,030**	**-**	**$16.81**	**-**	**(37,632)**	**185,398**
Total share rights		**1,041,940**	**-**	**$12.53**	**-**	**(192,718)**	**849,222**
2020							
FY20 LTI – 18 Oct 2019	Relative TSR	-	301,573	$8.76	-	(3,628)	297,945
FY20 LTI – 18 Oct 2019	ROE	-	301,544	$16.02	-	(3,627)	297,917
FY20 Bridging Grant – 18 Oct 2019	Relative TSR	-	227,408	$8.63	-	(4,360)	223,048
FY20 Bridging Grant – 18 Oct 2019	ROE	-	227,389	$16.81	-	(4,359)	223,030
Total share rights		-	1,057,914	$12.53	-	(15,974)	1,041,940

Details of performance rights movements in the FY19 LTI Plan during the year are set out below:

Grant date	Performance hurdle	Balance at 1 July Number	Granted during the year Number	Fair value per SPR at grant date $	Vested during the year Number	Forfeited during the year Number	Balance at 30 June Number
2021							
FY19 LTI – 24 Oct 2018	**Relative TSR**	**146,545**	**-**	**$7.18**	**-**	**(19,278)**	**127,267**
FY19 LTI – 24 Oct 2018	**ROE**	**146,520**	**-**	**$16.12**	**-**	**(19,278)**	**127,242**
FY19 LTI – 14 December 2018	**Relative TSR**	**1,392**	**-**	**$9.78**	**-**	**-**	**1,392**
FY19 LTI – 14 December 2018	**ROE**	**1,392**	**-**	**$17.13**	**-**	**-**	**1,392**
Total share rights		**295,849**	**-**	**$11.68**	**-**	**(38,556)**	**257,293**
2020							
FY19 LTI – 24 Oct 2018	Relative TSR	164,230	-	$7.18	-	(17,685)	146,545
FY19 LTI – 24 Oct 2018	ROE	164,205	-	$16.12	-	(17,685)	146,520
FY19 LTI – 14 December 2018	Relative TSR	2,779	-	$9.78	-	(1,387)	1,392
FY19 LTI – 14 December 2018	ROE	2,779	-	$17.13	-	(1,387)	1,392
Total share rights		333,993	-	$11.68	-	(38,144)	295,849

33. Share-based payment plans (cont.)

Performance rights grant

The fair value of performance rights granted are measured by reference to the fair value. The estimate of the fair value is measured based on the Monte Carlo simulation method. The contractual life of the performance rights is used as an input into this model. Expected volatility is based on the historical share price volatility over the past three years.

	2021	2020	
	FY21 LTI	FY20 LTI	FY20 Bridging Grant
Grant date	**28 Oct 2020**	18 Oct 2019	18 Oct 2019
Weighted average fair value at grant date	**$8.38**	$12.72	$12.39
Share price at grant date	**$12.93**	$19.13	$19.13
Expected volatility	**23.0%**	21.0%	21.0%
Expected dividend yield	**5.3%**	4.8%	4.8%
Risk free interest rate (based on government bonds)	**0.2%**	0.8%	0.8%

The expense recognised in profit or loss as part of employee benefits expense during the year in relation to performance rights granted to executives under the LTI Plan was nil (2020: $6 million).

Shares purchased on-market

During the financial year ended 30 June 2021, 308,720 (2020: 345,413) AGL shares were purchased on-market at an average of $14.66 (2020: $19.06) per share, for a total consideration of $4,525,545 (2020: $6,584,566), to satisfy employee entitlements pursuant to the SRP and the LTI Plan.

Other equity arrangements

Share Purchase Plan (SPP)

The SPP is AGL's salary sacrifice plan that enables eligible employees to contribute up to $5,000 per financial year from their ongoing fixed remuneration and/or short-term incentive (STI) award into acquiring ordinary shares in AGL. The SPP is governed under the AGL General Employee Share Plan Rules. Shares granted pursuant to the SPP are subject to a trading restriction of the earlier of four years (from the start of the financial year in which they are acquired) or the participant's cessation of employment. The holding lock is in place to provide for a deferral of income tax for participants.

Eligible participants include all permanent AGL employees. Non-Executive Directors, the Managing Director and Chief Executive Officer, and members of the executive team are excluded from SPP participation.

Details of share movements in the SPP during the year are set out below:

Share movements	Balance at 1 July Number	Granted during the year Number	Fair Value per share $	Released during the year Number	Balance at 30 June Number
2021					
Employees	**331,984**	**293,063**	**$11.06**	**(71,438)**	**553,609**
Total share purchase plan shares	**331,984**	**293,063**		**(71,438)**	**553,609**
2020					
Employees	220,272	141,479	$19.14	(29,767)	331,984
Total share purchase plan shares	220,272	141,479		(29,767)	331,984

33. Share-based payment plans (cont.)

Restricted Equity Plan (REP)

The REP provides for a grant of restricted shares, either as the deferral component of STI awards for executives, or for other purposes (for example, sign-on or retention awards).

Generally, restricted shares are forfeited on cessation of employment. The Board has discretion with reference to the relevant facts and circumstances of the cessation to vest all or part of the balance, or to authorise a portion of the award to be retained and vest post-employment.

Details of share movements in the REP during the year are set out below:

Share movements	Balance at 1 July Number	Granted during the year Number	Weighted average fair value per share $	Released during the year Number	Balance at 30 June Number
2021					
Former Managing Director and Chief Executive Officer	**21,378**	**-**	**-**	**-**	**21,378**
Employees	**28,065**	**19,964**	**$14.27**	**(35,492)**	**12,537**
Total restricted equity plan shares	**49,443**	**19,964**		**(35,492)**	**33,915**
2020					
Former Managing Director and Chief Executive Officer	3,476	21,378	$19.03	(3,476)	21,378
Employees	33,945	14,588	$18.41	(20,468)	28,065
Total restricted equity plan shares	37,421	35,966		(23,944)	49,443

Shares purchased on-market

During the financial year ended 30 June 2021, 313,027 (2020: 177,445) AGL shares were purchased on-market at an average price of $11.26 (2020: $19.06) per share, for a total consideration of $3,526,583 (2020: $3,381,877), to satisfy employee entitlements pursuant to the SPP and REP.

ACCOUNTING POLICY

Share-based payments

The fair value of performance rights granted to eligible employees pursuant to the AGL Long-Term Incentive Plan is recognised as an employee benefits expense, with a corresponding increase in the employee equity benefits reserve. The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the performance rights. The fair value at grant date is determined by an independent valuer.

At the end of each reporting period, AGL revises its estimate of the number of performance rights expected to vest. The amount previously recognised as an expense is only adjusted when the performance rights do not vest due to non-market related conditions.

Pursuant to the AGL Share Reward Plan, shares are issued to eligible employees for no consideration and vest immediately on grant date. On this date, the market value of the shares issued is recognised as an employee benefits expense, with a corresponding increase in the employee equity benefits reserve.

34. Related party disclosures

Key management personnel remuneration

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of AGL, directly or indirectly, including the Directors of the Parent Entity.

The aggregate remuneration made to key management personnel is set out below:

	2021 $000	2020 $000
Short-term employee benefits	**6,100**	8,666
Post-employment benefits	**227**	234
Termination benefits	-	1,023
Share-based payments	**686**	2,644
Total remuneration to key management personnel	**7,013**	12,567

Further details are contained in the Remuneration Report attached to and forming part of the Directors' Report.

Amounts owing by joint ventures and joint operations

	2021 $000	2020 $000
ActewAGL Retail Partnership	**45,189**	48,653
North Queensland Energy Joint Venture	**188**	188

The amount owing is unsecured, interest free and will be settled in cash. No expense has been recognised in the current or the prior period for bad or doubtful debts in respect of the amounts owed by joint ventures.

Amounts owing to joint ventures and joint operations

	2021 $000	2020 $000
Powering Australian Renewables (PowAR)	**17,842**	16,318

The amount owing is unsecured, interest free and will be net settled in cash.

34. Related party disclosures (cont.)

Trading transactions with joint ventures and joint operations

	2021 $000	2020 $000
ActewAGL Retail Partnership		
AGL sold gas and electricity to the ActewAGL Retail Partnership on normal commercial terms and conditions.		
Net amounts received	**324,895**	373,149
Powering Australian Renewables (PowAR)		
AGL has purchased electricity and environmental products from PowAR on normal commercial terms and conditions.		
Net amounts (paid)	**(35,951)**	(18,516)
AGL received management fees from PowAR for overseeing the operation and construction of its generation assets.		
Net amounts received	**3,522**	1,762
North Queensland Energy Joint Venture		
North Queensland Energy Joint Venture (NQE) pays management fees to AGL as the operator of NQE.		
Net amounts received	**750**	750

35. Cash and cash equivalents

(a) Reconciliation to cash flow statement

Cash and cash equivalents at the end of the reporting period as shown in the Consolidated Statement of Cash Flows can be reconciled to the related items in the Consolidated Statement of Financial Position as follows:

	2021 $m	2020 $m
Cash at bank and on hand	**88**	100
Short-term deposits	**-**	41
Total cash and cash equivalents	**88**	141

35. Cash and cash equivalents (cont.)

(b) Reconciliation of profit for the year to net cash flows from operating activities

	2021 $m	2020 $m Restated
(Loss)/profit for the year	(2,058)	1,007
Share of profits of associates and joint ventures	(9)	(17)
Dividends received from joint ventures	23	15
Depreciation and amortisation	707	720
Share-based payment expense	-	9
(Gain) in fair value of financial instruments	(393)	(308)
Net gain on disposal of property, plant and equipment	1	9
Non-cash finance costs	113	64
Capitalised finance costs	(2)	(9)
Impairment and onerous contract expenses	3,737	-
Impairment of investments in associates	-	14
Other non-cash expenses	-	6
Changes in assets and liabilities		
(Increase)/decrease in trade and other receivables	(324)	137
(Increase) in inventories	(1)	(14)
(Increase) in derivative financial instruments	(85)	(3)
(Increase)/decrease in other financial assets	(17)	471
(Increase)/decrease in other assets	(103)	39
Increase/(decrease) in trade and other payables	391	(196)
(Decrease) in provisions	(80)	(31)
Increase in other liabilities	54	25
(Increase)/decrease in tax assets and liabilities	(704)	174
Net cash provided by operating activities	1,250	2,112

(c) Reconciliation of changes in liabilities arising from financing activities

Year ended 30 June 2021	Balance at beginning of financial year $m	Net proceeds/ (repayments) $m	Non-cash movements $m	Balance at end of financial year $m
Liabilities arising from financing activities				
USD senior notes	1,164	-	(145)	1,019
Medium term notes	599	(599)	-	-
Bank loans	985	965	-	1,950
CPI bonds	75	(8)	-	67
Other loans	122	(122)	-	-
Lease liabilities	174	(26)	11	159
Deferred transaction costs	(11)	(4)	5	(10)
	3,108	206	(129)	3,185

35. Cash and cash equivalents (cont.)

Year ended 30 June 2020	Balance at beginning of financial year $m	Net proceeds/ (repayments) $m	Non-cash movements $m	Balance at end of financial year $m
Liabilities arising from financing activities				
USD senior notes	1,054	-	110	1,164
Medium term notes	599	-	-	599
Bank loans	820	165	-	985
CPI bonds	81	(6)	-	75
Other loans	133	(11)	-	122
Lease liabilities	172	(17)	19	174
Deferred transaction costs	(9)	(5)	3	(11)
	2,850	126	132	3,108

ACCOUNTING POLICY

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand and short-term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash. The carrying amount represents fair value.

For the purposes of the Consolidated Statement of Cash Flows, cash and cash equivalents consist of cash and cash equivalents as defined above net of outstanding bank overdrafts and accounts relating to dividend payments held in escrow.

36. Financial instruments

(a) Classes and categories of financial instruments and their fair values

The following table combines information about:

- Classes of financial instruments based on their nature and characteristics;
  - Amortised cost
  - Fair value through profit or loss ('FVTPL')
  - Fair value through other comprehensive income ('FVOCI')
- The carrying amounts of financial instruments;
- Fair values of financial instruments (except financial instruments when carrying amount approximates their fair value); and
- Fair value hierarchy levels of financial assets and financial liabilities for which fair value was disclosed.

36. Financial instruments (cont.)

	Carrying value						
	Financial assets			Financial liabilities			
2021 $m	FVTPL	FVOCI	Amortised cost	FVTPL	FVOCI	Amortised cost	Total
Cash and cash equivalents	-	-	88	-	-	-	88
Other financial assets	-	213	-	-	-	-	213
Trade and other receivables	-	-	1,889	-	-	-	1,889
Future deposits and margin calls	-	-	76	-	-	-	76
Derivative financial instruments	1,195	5	-	(412)	-	-	788
Borrowings	-	-	-	(969)	-	(2,057)	(3,026)
Finance lease liabilities	-	-	-	-	-	(159)	(159)
Trade and other payables	-	-	-	-	-	(1,838)	(1,838)
Deferred consideration	-	-	-	-	-	(168)	(168)
Total	1,195	218	2,053	(1,381)	-	(4,222)	(2,137)

	Carrying value						
	Financial assets			Financial liabilities			
2020 $m	FVTPL	FVOCI	Amortised cost	FVTPL	FVOCI	Amortised cost	Total
Cash and cash equivalents	-	-	141	-	-	-	141
Other financial assets	-	122	-	-	-	-	122
Trade and other receivables	-	-	1,571	-	-	-	1,571
Future deposits and margin calls	-	-	59	-	-	-	59
Derivative financial instruments	1,147	-	-	(731)	-	-	416
Borrowings	-	-	-	(1,114)	-	(1,820)	(2,934)
Finance lease liabilities	-	-	-	-	-	(174)	(174)
Trade and other payables	-	-	-	-	-	(1,351)	(1,351)
Deferred consideration	-	-	-	-	-	(187)	(187)
Total	1,147	122	1,771	(1,845)	-	(3,532)	(2,337)

(b) Fair value measurements

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from 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 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

There were no material transfers between Level 1 and Level 2 during the year.

36. Financial instruments (cont.)

2021	Carrying Amount $m	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Financial assets					
Equity instruments at FVOCI					
Unlisted equity securities	8	-	-	8	8
Unlisted investment funds	205	-	-	205	205
Derivative financial instruments					
Cross currency swap contracts - cash flow and fair value hedges	96	-	96	-	96
Interest rate swap contracts - cash flow hedges	13	-	13	-	13
Forward foreign exchange contracts - cash flow hedges	2	-	2	-	2
Energy derivatives - economic hedges	1,084	210	214	660	1,084
Other	5	-	-	5	5
Total financial assets	**1,413**	**210**	**325**	**878**	**1,413**
Financial liabilities					
Derivative financial instruments					
Interest rate swap contracts - cash flow hedges	(37)	-	(37)	-	(37)
Forward foreign exchange contracts - cash flow hedges	(2)	-	(2)	-	(2)
Energy derivatives - economic hedges	(373)	(135)	(101)	(137)	(373)
Total financial liabilities	**(412)**	**(135)**	**(140)**	**(137)**	**(412)**

2020	Carrying Amount $m	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Financial assets					
Equity instruments at FVOCI					
Unlisted investment funds	122	-	-	122	122
Derivative financial instruments					
Cross currency swap contracts - cash flow and fair value hedges	248	-	248	-	248
Forward foreign exchange contracts - cash flow hedges	-	-	-	-	-
Energy derivatives - cash flow hedges	-	-	-	-	-
Energy derivatives - economic hedges	899	354	156	389	899
Total financial assets	1,269	354	404	511	1,269
Financial liabilities					
Derivative financial instruments					
Interest rate swap contracts - cash flow hedges	(71)	-	(71)	-	(71)
Energy derivatives - cash flow hedges	(31)	-	(31)	-	(31)
Energy derivatives - economic hedges	(629)	(227)	(347)	(55)	(629)
Total financial liabilities	(731)	(227)	(449)	(55)	(731)

Management has assessed that the carrying value of financial assets (excluding derivative financial assets) and financial liabilities (excluding derivative financial liabilities) to be comparable to fair value.

36. Financial instruments (cont.)

Estimation of fair values

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments:

- Receivables/payables with a remaining life of less than six months, the notional amount is deemed to reflect the fair value. All other receivables/payables are discounted to determine the fair value if the effect of discounting is material.
- The fair value of forward foreign exchange contracts is calculated as the present value of expected future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates that reflect the credit risk of various counterparties. Interest rate and cross currency swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates that reflect the credit risk of various counterparties.
- The fair value of borrowings is determined as the present value of future contracted cash flows and credit adjustments. Cash flows are discounted using standard valuation techniques at applicable market yield having regard to timing of cash flows.
- The fair value of energy derivatives is determined as the present value of future contracted cash flows and credit adjustments. Cash flows are discounted using standard valuation techniques at applicable market yield having regard to timing of cash flows.
- The fair value of lease liabilities is estimated as the present value of future cash flows discounted where the effect of discounting is material.
- The fair value of deferred consideration is determined as the present value of future contracted cash flows and credit adjustments. Cash flows are discounted using standard valuation techniques at applicable market yield having regard to timing of cash flows.

The following table provides a reconciliation of fair value movements in Level 3 financial instruments.

	2021 $m	2020 $m
Opening balance	**456**	255
Total gains or losses recognised in profit or loss		
Settlements during the year	**33**	(132)
Changes in fair value	**229**	277
Acquisition	**(7)**	-
Transfer from Level 3 to Level 2[1]	**-**	50
Premiums	**5**	(23)
Purchases	**25**	29
Closing balance	**741**	456

1. Contract fell into observable market curve during the financial year.

The total gains or losses for the year included a gain of $189 million relating to energy derivative Level 3 contracts held at the end of the reporting period (2020: a gain of $172 million). Fair value gains or losses on energy derivatives are included in other expenses in the line item '(Gain)/loss on fair value of financial instruments' in Note 4.

The sensitivity of Level 3 contracts with significant unobservable inputs, where the inputs are higher by 10 percent is $(166) million and lower by 10 percent is $166 million (profit after tax increase/(decrease)). Input changes were applied to forward prices with references to electricity market and emissions schemes, cost-based indexes, contract volumes and management's assumptions on long-term commodity curves.

(c) Capital risk management

AGL'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 benefits for other stakeholders and to maintain an appropriate capital structure of debt and equity.

In order to maintain or adjust the capital structure, AGL may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. AGL's overall capital management strategy remains unchanged from 2020.

The capital structure of AGL consists of net debt (borrowings offset by cash and cash equivalents) and total equity (comprising issued capital, reserves and retained earnings).

AGL monitors capital on the basis of the gearing ratio and funds from operations (FFO) to interest expense cover.

36. Financial instruments (cont.)

The gearing ratio is calculated as net debt divided by adjusted total capital. Net debt is calculated as total borrowings, adjusted for cross currency swap hedges and deferred borrowing costs, less cash and cash equivalents. Adjusted total capital is calculated as total equity less the hedge reserve plus net debt. The gearing ratio at the end of the reporting period was as follows:

	2021 $m	2020 Restated $m
Current borrowings	**305**	38
Non-current borrowings	**2,880**	3,070
Total borrowings	**3,185**	3,108
Adjustment for cross currency swap hedges and deferred borrowing costs	**(100)**	(244)
Adjusted total borrowings	**3,085**	2,864
Cash and cash equivalents	**(88)**	(141)
Net debt	**2,997**	2,723
Total equity	**5,506**	7,972
Hedge reserve	**25**	74
Adjusted equity	**5,531**	8,046
Net debt	**2,997**	2,723
Adjusted total capital	**8,528**	10,769
Gearing ratio	**35.1%**	25.3%

(d) Financial risk management

AGL's activities expose it to a variety of financial risks, including market risk (interest rate risk, foreign currency risk and energy price risk), credit risk and liquidity risk. AGL's overall risk management program focuses on the unpredictability of markets and seeks to manage the impact of these risks on its financial performance. AGL uses a range of derivative financial instruments to hedge these risk exposures.

The Board of Directors has overall responsibility for the establishment and oversight of the risk management policy and framework. The Board has established the Audit & Risk Management Committee (the Committee), which is responsible for approving AGL's risk management policy and framework for identifying, assessing and managing risk. The Committee is also responsible for reviewing and updating the risk profile, monitoring the effectiveness of the risk management framework and reviewing at least annually the implementation of the risk management policy and framework. The Committee reports regularly to the Board of Directors on its activities.

AGL has written policies covering specific areas, such as interest rate risk, foreign currency risk, energy price risk, credit risk, liquidity risk, and the use of derivative and non-derivative financial instruments. Compliance with policies and exposure limits is reviewed on a continuous basis.

(e) Interest rate risk management

AGL is exposed to interest rate risk as it borrows funds at both fixed and floating interest rates. The risk is managed by maintaining an appropriate mix between fixed and floating rate borrowings, and by the use of interest rate swap contracts or other hedging instruments.

AGL regularly analyses its interest rate exposure, by taking into consideration forecast debt positions, refinancing, renewals of existing positions, alternative financing, hedging positions and the mix of fixed and floating interest rates.

At the end of the reporting period, AGL had the following financial assets and liabilities exposed to floating interest rate risk:

Floating rate instruments	2021 $m	2020 $m
Financial assets		
Cash and cash equivalents	**88**	141
Total financial assets	**88**	141
Financial liabilities		
USD senior notes (after effect of cross currency swaps)	**860**	860
Bank loans	**1,950**	985
Other loans	**-**	122
Interest rate swap contracts	**(1,600)**	(1,555)
Total financial liabilities	**1,210**	412

36. Financial instruments (cont.)

Interest rate swap contracts - cash flow hedges

The following table details the notional principal amounts and remaining terms of interest rate swap contracts outstanding at the end of the reporting period:

Outstanding hedging instruments cash flow hedge - receive floating, pay fixed contracts	Average contracted fixed interest rate		Notional principal amount		Carrying value of outstanding hedging instruments	
	2021 %	2020 %	2021 $m	2020 $m	2021 $m	2020 $m
Less than 1 year	**2.65**	3.47	**255**	345	**(5)**	(7)
1 to 2 years	**1.60**	2.85	**470**	405	**(8)**	(17)
2 to 3 years	**1.63**	2.66	**400**	270	**(10)**	(15)
3 to 4 years	**0.65**	2.92	**50**	200	**-**	(12)
4 to 5 years	**1.24**	0.65	**50**	50	**(1)**	(1)
5 years or more	**1.34**	1.16	**875**	625	**-**	(19)
Total			**2,100**	1,895	**(24)**	(71)

	Financial year	2021 $m	2020 $m
Aggregate notional amount of variable rate borrowings		**2,100**	1,895
Aggregate notional principal of the outstanding interest rate swaps		**2,100**	1,895
Included in this amount:			
Forward interest rate swap contracts		**500**	340
Of which:			
Commences in	**2021**	**-**	40
Commences in	**2022**	**150**	150
Commences in	**2023**	**100**	100
Commences in	**2024**	**200**	-
Commences in	**2025**	**50**	50

The interest rate swaps settle on a quarterly basis. The floating rate on the interest rate swaps is the Australian Bank Bill Swap (BBSW) reference rate. AGL will settle the difference between the fixed and floating interest rate on a net basis. During the year, some hedges have been de-designated due to forecast change. All underlying forecast transactions remain highly probable.

36. Financial instruments (cont.)

Interest rate sensitivity

The following sensitivity analysis has been determined based on the exposure to interest rates for both derivative and non-derivative instruments at the end of the reporting period and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period.

At the end of the reporting period, if interest rates had been 50 basis points higher or lower and all other variables were held constant, AGL's profit after tax and other comprehensive income would have been affected as follows:

	Profit/(loss) after tax increase/(decrease)		Other comprehensive income increase/(decrease)	
	2021 $m	2020 $m	2021 $m	2020 $m
Interest rates +0.5% (50 basis points)	(4)	-	4	(5)
Interest rates -0.5% (50 basis points)	4	-	(4)	5

(f) Foreign currency risk management

AGL undertakes certain transactions denominated in foreign currencies; consequently, exposures to exchange rate fluctuations arise. Foreign currency risk arises primarily from overseas term borrowings and firm commitments for the purchase of plant and equipment which are denominated in foreign currencies. Exchange rate exposures are managed within approved policy parameters utilising forward foreign exchange contracts and cross currency swap contracts.

Forward foreign exchange contracts - cash flow hedges

AGL's Corporate Treasury policy requires the hedging of foreign currency risk using forward foreign exchange contracts. The Corporate Treasury's policy is to hedge currency exposures of anticipated cash flows in excess of $2 million and to not enter into forward foreign exchange contracts until a firm commitment is in place.

AGL enters into contracts to purchase plant and equipment denominated in foreign currencies. AGL enters into forward foreign exchange contracts to hedge the exchange rate risk arising from these anticipated future purchases, which are designated as cash flow hedges. During the year, no hedges were de-designated and all underlying forecast transactions remain highly probable to occur as per original forecast.

There were $139 million of forward foreign exchange contracts outstanding at the end of the reporting period (2020: $27 million). The fair value of those contracts is not material.

	Average exchange rate		Contract value (foreign currency)		Contract value (local currency)		Carrying value of outstanding hedging instruments	
Cash Flow Hedge - Outstanding contracts	2021	2020	2021 $m	2020 $m	2021 $m	2020 $m	2021 $m	2020 $m
Buy JPY								
0 to 6 months	72.41	-	1,002	-	14	-	(2)	-
6 - 12 months	72.08	72.82	300	1,903	4	26	(1)	-
1 - 2 years	71.24	71.53	100	100	1	1	-	-
Buy US dollars								
0 to 6 months	0.76	-	90	-	117	-	2	-
Buy Euro								
0 to 6 months	0.63	-	2	-	3	-	-	-
Sell US dollars								
0 to 6 months	-	0.686	-	1	-	2	-	-

36. Financial instruments (cont.)

Cross currency swap contracts

Under cross currency swap contracts, AGL has agreed to exchange specified foreign currency loan principal and interest amounts at agreed future dates at fixed exchange rates. Such contracts enable AGL to eliminate the risk of movements in foreign exchange rates related to foreign currency denominated borrowings.

The fair value of cross currency swaps at 30 June 2021 was an asset of $96 million (2020: asset of $248 million), of which $54 million (2020: $141 million) is in a cash flow hedge relationship, $43 million (2020: $106 million) is in a fair value hedge relationship and $(1) million (2020: $1 million) relates to the currency basis of the cross currency swaps.

The following tables detail the cross currency swap contracts in hedges outstanding at the end of the reporting period:

	Average interest rate		Average exchange rate		Contract value (foreign currency)		Contract value (local currency)		Fair value/ carrying amount	
Outstanding contracts	2021 %	2020 %	2021	2020	2021 $m	2020 $m	2021 $m	2020 $m	2021 $m	2020 $m
Buy US dollars										
1 to 5 years	**2.72**	3.33	**0.888**	0.888	**300**	165	**338**	186	**86**	68
5 years or more	**2.73**	3.31	**0.757**	0.787	**395**	530	**522**	674	**10**	180

Foreign currency exchange rate sensitivity

The following sensitivity analysis has been determined based on the exposure to foreign currency exchange rates for both derivative and non-derivative instruments at the end of the reporting period and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period.

At the end of the reporting period, if the Australian dollar had weakened or strengthened by 10% against the respective foreign currencies where all other variables remain constant, AGL's profit after tax and other comprehensive income would have been affected as follows:

	Profit/(loss) after tax increase/(decrease)		Other comprehensive income increase/(decrease)	
	2021 $m	2020 $m	2021 $m	2020 $m
AUD exchange rates +10.0%	**-**	-	**(16)**	(11)
AUD exchange rates -10.0%	**-**	-	**20**	14

(g) Energy price risk management

AGL is exposed to energy price risk associated with the purchase and/or sale of electricity, gas, oil and environmental products. AGL manages energy risk through an established risk management framework consisting of policies to place appropriate risk limits on overall energy market exposures and transaction limits for approved energy commodities, requirements for delegations of authority on trading, regular reporting of exposures and segregation of duties.

It is AGL's policy to actively manage the energy price exposure arising from both forecast energy supply and customer energy load. AGL's risk management policy for energy price risk is to hedge forecast future positions for up to five years into the future.

Exposures to fluctuations in the wholesale market energy prices are managed through the use of various types of hedge contracts including derivative financial instruments.

36. Financial instruments (cont.)

The following table details the fair value of energy derivatives outstanding at the end of the reporting period:

	2021 $m	2020 $m
Energy derivative financial assets - current		
Energy derivatives - economic hedges	**447**	568
	447	568
Energy derivative financial assets - non-current		
Energy derivatives - economic hedges	**637**	331
	637	331
Energy derivative financial liabilities - current		
Energy derivatives - cash flow hedges	**-**	31
Energy derivatives - economic hedges	**264**	580
	264	611
Energy derivative financial liabilities - non-current		
Energy derivatives - economic hedges	**109**	49
	109	49

Energy derivatives – cash flow hedges

Derivative financial instruments are used by AGL in the normal course of business in order to hedge exposure to fluctuations in energy prices. The aggregate notional volumes of the outstanding energy derivatives at 30 June 2021 were nil MWh (2020: 1 million MWh). Energy derivatives are either designated in cash flow hedge relationships or remain non-designated. AGL will only apply hedge accounting to existing energy hedge relationships and will not apply hedge accounting to any new energy derivative arrangements.

	Average purchase price		Quantity		Carrying value of outstanding hedging instruments	
Hedging instruments - outstanding contracts	2021 $	2020 $	2021 m MWh	2020 m MWh	2021 $m	2020 $m
Buy electricity	-	76.18	-	1	-	(59)

Energy derivatives – economic hedges

AGL has entered into certain derivative instruments for economic hedging purposes under the Board-approved risk management policies, which do not satisfy the requirements for hedge accounting under AASB 9 *Financial Instruments*. These derivatives are therefore required to be categorised as held for trading and are classified in the Consolidated Statement of Financial Position as economic hedges. Changes in the fair value of derivative instruments that do not qualify for hedge accounting are recognised immediately in profit or loss as part of (loss)/gain on fair value of financial instruments.

36. Financial instruments (cont.)

Energy price sensitivity

The following table details the sensitivity to a 10 percent increase or decrease in the energy contract market forward prices. A sensitivity of 10 percent has been used as this is considered reasonably possible, based on historical data relating to the level of volatility in market prices.

At the end of the reporting period, if the forward prices had been 10 percent higher or lower and all other variables were held constant, AGL's profit after tax and other comprehensive income would have been affected as follows:

	Profit/(loss) after tax increase/(decrease)		Other comprehensive income increase/(decrease)	
	2021 $m	2020 $m	2021 $m	2020 $m
Energy forward price +10%	**(127)**	(126)	**-**	2
Energy forward price -10%	**130**	124	**-**	(2)

The movement in profit after tax is mainly attributable to an increase/decrease in the fair value of certain energy derivative instruments which are not hedge accounted by AGL. The movement in other comprehensive income is due to the reclassification and/or amortisation of historical hedge accounted derivatives.

(h) Hedge effectiveness

The following table details the effectiveness of the hedging relationships and the amounts reclassified from hedging reserve to profit or loss:

	Cash flow hedges				Fair Value Hedges
2021	USD CCIRS $m	IRS $m	FX $m	Energy $m	USD CCIRS $m
Carrying amount of the hedging instrument					
- Assets	**54**	**13**	**2**	**-**	**43**
- Liabilities	**-**	**(37)**	**(3)**	**-**	**-**
Total carrying amount of the hedging instrument	**54**	**(24)**	**(1)**	**-**	**43**
Change in value of hedging instrument	**(87)**	**47**	**(1)**	**31**	**(63)**
Change in value of hedged item	**87**	**(47)**	**1**	**(31)**	**66**
Change in value of the hedging instrument recognised in reserve	**(16)**	**18**	**-**	**-**	**n/a**
Amount recognised in profit or loss on discontinued hedge relationships	**-**	**2**	**-**	**-**	**-**
Hedge ineffectiveness recognised in profit or loss[1]	**-**	**-**	**-**	**-**	**(3)**
Amount reclassified from hedge reserve to profit or loss[2]	**(71)**	**29**	**-**	**31**	**n/a**
Balance in cash flow hedge reserve for continuing hedges	**(15)**	**(20)**	**-**	**-**	**n/a**

1. Included in the line item 'Gain on fair value of financial instruments' within other expenses in the Consolidated Statement of Profit or Loss.
2. The profit or loss from foreign exchange movement of hedging instrument largely offsets by the profit or loss from the foreign exchange movement of the borrowings in an effective hedge relationship.

36. Financial Instruments (cont.)

2020	Cash flow hedges USD CCIRS $m	IRS $m	FX $m	Energy $m	Fair Value Hedges USD CCIRS $m
Carrying amount of the hedging instrument					
- Assets	141	-	-	-	106
- Liabilities	-	(70)	-	(31)	-
Total carrying amount of the hedging instrument	141	(70)	-	(31)	106
Change in value of hedging instrument	24	(13)	(1)	(59)	90
Change in value of hedged item	(24)	13	1	59	(93)
Change in value of the hedging instrument recognised in reserve	15	(33)	(1)	(27)	n/a
Amount recognised in profit or loss on discontinued hedge relationships	-	-	-	-	-
Hedge ineffectiveness recognised in profit or loss[1]	-	(1)	-	-	3
Amount reclassified from hedge reserve to profit or loss[2]	9	20	-	(32)	n/a
Balance in cash flow hedge reserve for continuing hedges	(7)	(70)	-	(31)	n/a

1. Included in the line item 'Gain on fair value of financial instruments' within other expenses in the Consolidated Statement of Profit or Loss.
2. The profit or loss from foreign exchange movement of hedging instrument largely offsets by the profit or loss from the foreign exchange movement of the borrowings in an effective hedge relationship.

(i) Credit risk management

AGL manages its exposure to credit risk using credit risk management policies which provide credit exposure limits and contract maturity limits based on the credit worthiness of counterparties. AGL's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread among approved counterparties.

Trade and other receivables consist of approximately 3.95 million residential, small business and large commercial and industrial services to customers, in New South Wales, Victoria, South Australia, Queensland and Western Australia. Ongoing credit evaluation is performed on the financial condition of customers and, where appropriate, an allowance for expected credit loss is raised. AGL does not have any significant credit risk exposure to any single customer or any group of customers.

AGL limits its exposure to credit risk by investing surplus funds and entering into derivative financial instruments only with approved financial institutions that have a credit rating of at least A from Standard & Poor's and within credit limits assigned to each financial institution. Derivative counterparties are limited to high creditworthy financial institutions and other organisations in the energy industry. AGL also utilises International Swaps and Derivative Association (ISDA) agreements with derivative counterparties in order to limit exposure to credit risk through the netting of amounts receivable from and amounts payable to individual counterparties.

At the end of the reporting period, there was a significant concentration of credit risk with certain counterparties in relation to energy derivatives undertaken in accordance with the AGL's hedging and risk management activities. The carrying amount of the financial assets recognised in the financial statements, which is net of impairment losses, represents the maximum exposure to credit risk.

AGL does not hold any collateral or other credit enhancements to cover this credit risk.

(j) Liquidity risk management

Liquidity risk is the risk that AGL will not be able to meet its financial obligations as they fall due. Ultimate responsibility for liquidity risk management rests with the Board of Directors, who have established an appropriate liquidity risk management framework for the management of AGL's short, medium and long-term funding and liquidity management requirements.

AGL manages liquidity risk by maintaining adequate cash reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The following table details AGL's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The amounts are based on the undiscounted cash flows of financial liabilities on the earliest date on which AGL can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are at floating rate, the undiscounted amount is derived from interest rate curves at the end of the reporting period.

36. Financial instruments (cont.)

2021	Less than 6 months $m	6 - 12 months $m	1 - 2 years $m	2 - 5 years $m	More than 5 years $m	Total $m
Non-derivative financial liabilities						
Trade and other payables	1,838	-	-	-	-	1,838
USD senior notes	22	22	257	272	678	1,251
Bank loans	12	287	201	1,549	-	2,049
CPI bonds	6	6	13	40	14	79
Lease liabilities	14	14	27	57	230	342
Deferred consideration	-	37	38	121	42	238
	1,892	366	536	2,039	964	5,797

2020	Less than 6 months $m	6 - 12 months $m	1 - 2 years $m	2 - 5 years $m	More than 5 years $m	Total $m
Non-derivative financial liabilities						
Trade and other payables	1,351	-	-	-	-	1,351
USD senior notes	23	23	47	349	962	1,404
Medium term notes	15	15	615	-	-	645
Bank loans	7	7	90	953	-	1,057
CPI bonds	6	6	12	39	28	91
Other loans	7	7	14	40	74	142
Lease liabilities	10	10	22	67	234	343
Deferred consideration	2	37	37	118	84	278
	1,421	105	837	1,566	1,382	5,311

36. Financial instruments (cont.)

The following table details AGL's liquidity analysis for its derivative financial instruments. The amounts are based on the undiscounted net cash inflows and outflows on those derivatives instruments that settle on a net basis, and the undiscounted gross inflows and outflows on those derivatives that require gross settlement. For interest rate swaps, the amount disclosed has been determined by reference to the projected interest rates as illustrated by the yield curves at the end of the reporting period.

2021	Less than 6 months $m	6 - 12 months $m	1 - 2 years $m	2 - 5 years $m	More than 5 years $m	Total $m
Derivative financial instruments						
Gross settled						
Cross currency swap contracts - pay leg	**(12)**	**(12)**	**(208)**	**(228)**	**(626)**	**(1,086)**
Cross currency swap contracts - receive leg	**20**	**20**	**255**	**265**	**626**	**1,186**
Net receive/(pay)	**8**	**8**	**47**	**37**	**-**	**100**
Net settled						
Interest rate swap contracts	**(14)**	**(12)**	**(11)**	**(7)**	**-**	**(44)**
Forward foreign exchange contracts	**(2)**	**(1)**	**-**	**-**	**-**	**(3)**
Energy derivatives	**(147)**	**(164)**	**(157)**	**(172)**	**(124)**	**(764)**
	(155)	**(169)**	**(121)**	**(142)**	**(124)**	**(711)**

2020	Less than 6 months $m	6 - 12 months $m	1 - 2 years $m	2 - 5 years $m	More than 5 years $m	Total $m
Derivative financial instruments						
Gross settled						
Cross currency swap contracts - pay leg	(12)	(12)	(25)	(252)	(781)	(1,082)
Cross currency swap contracts - receive leg	22	22	44	342	908	1,338
Net receive/(pay)	10	10	19	90	127	256
Net settled						
Interest rate swap contracts	(17)	(14)	(22)	(20)	(2)	(75)
Energy derivatives	(198)	(161)	(195)	(121)	(49)	(724)
	(205)	(165)	(198)	(51)	76	(543)

36. Financial instruments (cont.)

ACCOUNTING POLICY

Financial assets

Non-derivative financial assets

Classification

AGL classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income, or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on AGL's business model for managing financial assets and the contractual terms of the cash flows. For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in debt instruments, this will depend on the business model in which the investment is held. For investments in equity instruments that are not held for trading, this will depend on whether AGL has made an irrevocable election at the time of initial recognition to account for the equity instrument at fair value through other comprehensive income. AGL reclassifies debt investments when and only when its business model for managing those assets changes.

Measurement

At initial recognition, AGL measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Debt instruments

Subsequent measurement of debt instruments depends on AGL's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which AGL classifies its debt instruments:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. A gain or loss on a debt instrument that is subsequently measured at amortised cost and is not part of a hedging relationship is recognised in profit or loss when the asset is derecognised or impaired. Interest income from these financial assets is included in finance income using the effective interest rate method.
- Fair value through other comprehensive income (FVOCI): Assets that are held for collecting contractual cash flows and through sale on specified dates. A gain or loss on a debt investment that is subsequently measured at FVOCI is recognised in other comprehensive income.
- Fair value through profit or loss (FVTPL): Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognised in profit or loss and presented net in the statement of profit or loss within other gains/(losses) in the period in which it arises.

Equity instruments

On initial recognition, AGL elects to classify each equity instrument as FVTPL or FVOCI. AGL subsequently measures all equity investments at fair value. Where AGL has elected to present fair value gains or losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains or losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when AGL's right to receive payments is established. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value. Changes in the fair value of equity instrument financial assets classified as FVTPL are recognised in expenses in the statement of profit or loss as applicable.

Derivative financial instruments

Derivative financial instruments are stated at fair value, with changes in fair value recognised in the statement of profit or loss. Where derivative financial instruments qualify for hedge accounting, recognition of changes in fair value depends on the nature of the item being hedged. Hedge accounting is discontinued when the hedging relationship is revoked, the hedging instrument expires, is sold, terminated, exercised, or no longer qualifies for hedge accounting.

AGL documents at the inception of the hedging transaction the economic relationship between hedging instruments and hedged items including whether the instrument is expected to offset changes in cash flows of hedged items. AGL documents its risk management objective and strategy for undertaking various hedge transactions at the inception of each hedge relationship.

Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognised in profit or loss immediately, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognised in profit or loss in the line item relating to the hedged item.

36. Financial instruments (cont.)

ACCOUNTING POLICY

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. The fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to profit or loss from that date.

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in the cash flow hedge reserve within equity, 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 profit or loss, within other expenses.

When option contracts are used to hedge forecast transactions, AGL may elect to designate only the intrinsic value of the option contract as the hedging instrument. Gains or losses relating to the effective portion of the change in intrinsic value of the option contracts are recognised in the cash flow hedge reserve in equity. Gains or losses related to the time value element of the option are recognised in a cost of hedging reserve.

When cross-currency contracts are used to hedge forecast transactions, AGL may elect to designate only the change in fair value of the cross-currency contract related to the spot component as the hedging instrument. Gains or losses relating to the effective portion of the change in the spot component of the cross-currency contracts are recognised in the cash flow hedge reserve in equity. The change in the currency basis spread element of the contract that relates to the hedged item is recognised within other comprehensive income in the costs of hedging reserve within equity. In some cases, AGL may designate the full change in fair value of the cross-currency contract (including currency basis spread) as the hedging instrument. In such cases, the gains or losses relating to the effective portion of the change in fair value of the entire cross-currency contract are recognised in the cash flow hedge reserve within equity.

Amounts accumulated in equity are reclassified in the periods when the hedged item affects profit or loss, as follows:

- The gain or loss relating to the effective portion of hedge contracts are ultimately recognised in profit or loss as the hedged item affects profit or loss within expenses.
- 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 deferred gain or loss and deferred costs of hedging in equity at that time remains in equity until the forecast transaction occurs. When the forecast transaction is no longer expected to occur, the cumulative gain or loss and deferred costs of hedging that were reported in equity are immediately reclassified to profit or loss. Hedge ineffectiveness is recognised in profit or loss within other expenses.

CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

Fair value of financial instruments

Management uses their judgement in selecting an appropriate valuation technique for financial instruments not quoted in an active market. For derivative financial instruments, assumptions are made based on quoted market rates adjusted for specific features of the instrument. Other financial instruments are valued using a discounted cash flow analysis based on assumptions supported, where possible, by observable market prices and rates.

37. Parent entity information

The accounting policies of the Parent Entity, which have been applied in determining the financial information shown below, are the same as those applied in the consolidated financial statements.

Financial position

	2021 $m	2020 $m Restated
Assets		
Current assets	**301**	278
Non-current assets	**13,902**	12,947
Total assets	**14,203**	13,225
Liabilities		
Current liabilities	**544**	297
Non-current liabilities	**9,245**	6,924
Total liabilities	**9,789**	7,221
Equity		
Issued capital	**5,601**	5,603
Reserves		
Employee equity benefits reserve	**(1)**	-
Hedge reserve	**(25)**	(53)
Retained earnings	**(1,161)**	454
Total equity	**4,414**	6,004

Financial performance

Profit for the year	**(1,047)**	740
Other comprehensive Income/(loss)	**2**	(8)
Total comprehensive income for the year	**(1,045)**	732

Guarantees entered into by the parent entity in relation to the debts of its subsidiaries

The Parent Entity has entered into a Deed of Cross Guarantee with the effect that it guarantees the debts in respect of its wholly owned Australian subsidiaries. Further details of the Deed of Cross Guarantee and the subsidiaries subject to the deed, are disclosed in Notes 27 and 31 respectively.

Contingent liabilities

The Parent Entity is a party to various legal actions and claims which have arisen in the ordinary course of business. The Parent Entity has provided warranties and indemnities to certain third parties in relation to the performance of contracts by various wholly owned subsidiaries.

The Directors are of the opinion that provisions are not required in respect of these matters, as it is either not probable that a future sacrifice of economic benefits will be required or the amount is not capable of reliable measurement.

Capital expenditure commitments

As at 30 June 2021, the Parent Entity had commitments for the acquisition of property, plant and equipment of $4 million (2020: $3 million) and its share of joint operations capital commitments was nil (2020: nil).

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 12 August 2021.

(b) Basis of preparation

The consolidated financial statements have been prepared on the basis of historical cost, except for derivative financial instruments and equity instrument 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 2020. These did not have any material impact on the disclosures or on the amounts recognised in AGL's consolidated financial statements.

(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 2023:

- AASB 2014-10 *Amendments to Australian Accounting Standards: Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture (AASB 10 and AASB 128)*
- AASB 2020-3 *Amendments to Australian Accounting Standards – Annual Improvements 2018–2020 and Other Amendments (AASB 1, AASB 3, AASB 9, AASB 116, AASB 137and AASB 141)*

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

(g) Change in accounting policy

Following clarifying guidance from the International Financial Reporting Interpretations Committee (IFRIC), AGL adopted a change in accounting policy in relation to the treatment of configuration and customisation costs related to cloud computing arrangements, commonly referred to as Software as a Service (SaaS). Under the revised accounting policy, costs that would have been previously capitalised are treated as operating expenditure where the entity cannot demonstrate the ability to control the relevant software. In accordance with Australian Accounting Standards the change in accounting policy has been adopted retrospectively and prior comparative periods have been restated. The tables below show the impact of the change in accounting policy on previously reported financial results:

Impact on Consolidated Statement of Financial Position

	30 June 2020 $m	SaaS Restatement $m	**Restated 30 June 2020 $m**	30 June 2019 $m	SaaS Restatement $m	**Restated 30 June 2019 $m**
Assets						
Intangible assets software at cost	1,288	(216)	**1,072**	1,072	(172)	**900**
Accumulated amortisation	(748)	68	**(680)**	(569)	35	**(534)**
Deferred tax asset	252	45	**297**	261	42	**303**
Net Assets	8,075	(103)	**7,972**	8,438	(95)	**8,343**
Equity						
Retained earnings	2,552	(103)	**2,449**	2,248	(95)	**2,153**
Total equity	8,075	(103)	**7,972**	8,438	(95)	**8,343**

Impact on Consolidated Statement of Comprehensive Income

	30 June 2020 $m	SaaS Restatement $m	**Restated 30 June 2020 $m**	30 June 2019 $m	SaaS Restatement $m	**Restated 30 June 2019 $m**
Expenses	(9,820)	(44)	**(9,864)**	(11,236)	(75)	**(11,311)**
Depreciation and amortisation	(753)	33	**(720)**	(625)	15	**(610)**
Profit before tax	1,425	(11)	**1,414**	1,279	(60)	**1,219**
Income tax expense	(410)	3	**(407)**	(374)	18	**(356)**
Profit attributable to the shareholders of AGL Energy Limited	1,015	(8)	**1,007**	905	(42)	**863**

Impact on Consolidated Statement of Cash Flows

	30 June 2020 $m	SaaS Restatement $m	**Restated 30 June 2020 $m**	30 June 2019 $m	SaaS Restatement $m	**Restated 30 June 2019 $m**
Payments to suppliers and employees	(10,836)	(44)	**(10,880)**	(12,440)	(75)	**(12,515)**
Net cash generated from operating activities	2,156	(44)	**2,112**	1,599	(75)	**1,524**
Payments for property, plant and equipment and other assets	(758)	44	**(714)**	(915)	75	**(840)**
Net cash used in investing activities	(879)	44	**(835)**	(904)	75	**(829)**

Impact on Basic and Diluted Earnings per share

Statutory earnings per share	30 June 2020	SaaS Restatement	**Restated 30 June 2020**	30 June 2019	SaaS Restatement	**Restated 30 June 2019**
Basic EPS	158.4 cents	(1.2 cents)	**157.2 cents**	138.0 cents	(6.4 cents)	**131.6 cents**
Diluted EPS	158.2 cents	(1.2 cents)	**157.0 cents**	137.8 cents	(6.4 cents)	**131.4 cents**

39. Subsequent events

Powering Australian Renewables Contribution

On 3 August 2021 AGL completed a $358 million capital contribution into Powering Australian Renewables (PowAR) to fund its 20% interest in PowAR's acquisition of Tilt Renewables Limited's Australian business.

Updated Segment Reporting

On 30 June 2021 AGL confirmed its intent to execute a demerger of its retail business and form two listed energy businesses, Accel Energy and AGL Australia. Subsequent to year end, the internal reporting structure of AGL has been updated, effective 1 July 2021, to align to the two new businesses. The new reporting structure will lead to new segments to be disclosed in the financial reports of AGL for the half year ended 31 December 2021 and later reports.

New Segments

The new segments are:

- Accel - Operations: comprises the power generation portfolio and other assets of Accel Energy. The segment will include the costs associated with the operation and maintenance of Accel's generation fleet and other assets.
- Accel - Trading and Origination: comprises the wholesale electricity and C&I customer portfolio of Accel. This segment includes the revenues for the sale of energy to the AGL Australia Customer segment and wholesale and C&I customers, along with costs of generation, and the outcomes of the trading and hedging strategies employed.
- AGL Australia - Customer: comprises the consumer and large business customer portfolios responsible for the retailing of electricity, gas, solar and energy efficiency products and services to residential, small and large business customers and the retailing of telecommunications. This segment includes revenue from the sale of energy, telecommunications and other products to customers, the cost of supply and operating costs to support AGL Australia's 4.2 million customer services.
- AGL Australia - Supply and Trading: comprises the wholesale electricity, gas and eco markets trading and operating activities of AGL Australia. This segment sources the electricity and gas required to serve AGL Australia's customers. It also operates and maintains the flexible generation assets owned by AGL Australia. This segment earns inter-segment revenues through sales to the AGL Australia Customer segment.
- AGL Australia - Investments: comprises AGL Australia's interests in the ActewAGL Retail Partnership, Powering Australian Renewables, Energy Impact Partners, Activate Capital Partners, and other investments.

Segment Methodology

Revenue and costs previously reported as Integrated Energy have been allocated between the segments Accel Energy Operations; Accel Energy Trading & Origination; and AGL Australia Trading & Supply. The allocation methodology mirrors the asset distribution that is expected in the demerger. Where a direct allocation of revenue or costs could not be achieved, AGL has applied the following methodology:

- an allocation was determined using AGL's existing transfer pricing, adjusted for market-based estimates of the transfer of value relating to the new allocation of generation and gas assets, as if these segments had been in place previously and is consistent with the methodology used for reporting to the existing CODM effective 1 July 2021; or
- an allocation was determined using management's best estimate of the underlying cost structure for each segment under the new segment structure.

For those Large Business customers remaining with Accel Energy, the revenue and costs which are based on the existing transfer price associated with these customers historically recorded within Customer Markets have been included within Accel Energy Trading & Origination.

Whilst the allocation of revenue or costs does not result in any change in the underlying performance of the AGL Group, the identification of new segments has resulted in an increase in inter-segment revenue. This relates to some intra-segment transactions primarily within the existing Integrated Energy segment which were previously eliminated and are now recognised as inter-segment transactions between the newly created segments.

The tables below include the financial results for the years ended 30 June 2021, 2020 and 2019 presented on a basis consistent with the new segment structure. Other segment disclosures not included below are consistent with those in Note 1.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2021

2021	Accel Energy Operations $m	Accel Energy Trading and Origination $m	AGL Australia Customer $m	AGL Australia Supply and Trading $m	Investments $m	Other $m	**Total $m**
Revenue							
Total segment revenue	139	4,614	7,423	2,058	-	-	14,234
Inter-segment revenue	(33)	(1,874)	(38)	(1,347)	-	-	(3,292)
External revenue	106	2,740	7,385	711	-	-	10,942
Underlying earnings before interest, tax, depreciation and amortisation (Underlying EBITDA)	(529)	1,788	336	372	9	(310)	1,666
Depreciation and amortisation	(440)	(1)	(134)	(70)	-	(62)	(707)
Underlying EBIT	(969)	1,787	202	302	9	(372)	959
Net financing costs							(224)
Underlying profit before tax							735
Underlying income tax expense							(199)
Underlying profit after tax							536
Non-controlling interests							1
Underlying profit after tax (attributable to AGL shareholders)							537
Segment assets	5,350	820	2,766	3,455	326	309	13,026
Segment liabilities	1,882	2,271	656	800	2	167	5,778
Other segment information							
Share of profits of associates and joint ventures	-	-	-	-	9	-	9
Investments in associates and joint ventures	-	-	-	-	117	-	117
Additions to non-current assets	461	-	86	97	-	66	710
Other non-cash expenses	-	-	(127)	-	-	(3)	(130)

Notes to the Consolidated Financial Statements

For the year ended 30 June 2021

2020	Accel Energy Operations $m	Accel Energy Trading and Origination $m	AGL Australia Customer $m	AGL Australia Supply and Trading $m	Investments $m	Other $m	Total $m
Revenue							
Total segment revenue	140	5,851	7,542	2,373	-	-	15,906
Inter-segment revenue	(39)	(2,142)	(32)	(1,533)	-	-	(3,746)
External revenue	101	3,709	7,510	840	-	-	12,160
Underlying earnings before interest, tax, depreciation and amortisation (Underlying EBITDA)	(511)	2,022	288	568	18	(359)	2,026
Depreciation and amortisation	(478)	(4)	(117)	(65)	-	(56)	(720)
Underlying EBIT	(989)	2,018	171	503	18	(415)	1,306
Net financing costs							(179)
Underlying profit before tax							1,127
Underlying income tax expense							(319)
Underlying profit after tax							808
Segment assets	5,313	629	2,416	3,861	249	455	12,923
Segment liabilities	793	440	566	330	-	182	2,311
Other segment information							
Share of profits of associates and joint ventures	-	-	-	-	17	-	17
Investments in associates and joint ventures	4	-	-	-	131	-	135
Additions to non-current assets	451	10	78	123	-	59	721
Other non-cash expenses	-	-	(119)	-	-	(9)	(128)

2019	Accel Energy Operations $m	Accel Energy Trading and Origination $m	AGL Australia Customer $m	AGL Australia Supply and Trading $m	Investments $m	Other $m	Total $m
Revenue							
Total segment revenue	141	6,823	7,408	2,580	1	-	16,953
Inter-segment revenue	(30)	(2,037)	(14)	(1,626)	-	-	(3,707)
External revenue	111	4,786	7,394	954	1	-	13,246
Underlying earnings before interest, tax, depreciation and amortisation (Underlying EBITDA)	(465)	2,111	256	609	33	(334)	2,210
Depreciation and amortisation	(434)	(2)	(93)	(63)	-	(18)	(610)
Underlying EBIT	(899)	2,109	163	546	33	(352)	1,600
Net financing costs							(193)
Underlying profit before tax							1,407
Underlying income tax expense							(409)
Underlying profit after tax							998
Segment assets	5,353	1,215	2,507	3,820	235	326	13,456
Segment liabilities	778	663	533	333	-	188	2,495
Other segment information							
Share of profits of associates and joint ventures	1	-	-	-	32	-	33
Investments in associates and joint ventures	4	-	-	-	146	-	150
Additions to non-current assets	460	24	116	260	60	86	1,006
Other non-cash expenses	-	-	(120)	-	-	(6)	(126)