

SGSP (Australia) Assets Pty Ltd

ABN 60 126 327 624



Financial Report

For the year ended 31 December 2018

Principal activities

SGSP (Australia) Assets Pty Ltd
ABN 60 126 327 624

For the year ended 31 December 2018



Gas

- 1 Jemena Gas Network
- 2 Eastern Gas Pipeline
- 3 Queensland Gas Pipeline
- 4 Northern Gas Pipeline
- 5 Darling Downs Pipelines
- 6 Colongra Gas Transmission and Storage Pipeline
- 7 VicHub
- 8 ActewAGL Distribution Partnership (50%)

Electricity

- 8 ActewAGL Distribution Partnership (50%)
- 9 Jemena Electricity Network
- 10 United Energy Distribution (34%)

Other businesses

- 11 Rosehill Recycled Water
- 12 Ovida

Service business

- 13 Zinfra

Gas distribution

1. Jemena Gas Network was established in 1837 and is the principal gas distribution business in New South Wales ("NSW"). It typically delivers 90-95 petajoules of natural gas each year to more than 1.3 million homes and businesses throughout NSW.

High pressure gas transmission

2. Eastern Gas Pipeline ("EGP"). Delivers natural gas from the Gippsland Basin to customers in Sydney and regional NSW. Statistics: 18 inch diameter, 797 kilometres in length, approximate capacity of 350 terajoules ("TJ") per day.

3. Queensland Gas Pipeline. Delivers natural gas from the Surat Basin, Denison Trough and Bowen Basin to large industrial users in Gladstone and Rockhampton. Statistics: 12 inch diameter, 627 kilometres in length, approximate capacity of 140 TJ per day.

4. Northern Gas Pipeline. Delivers natural gas from Tennant Creek to Mt Isa. Construction was completed and first gas flowed in January 2019. Statistics: 12 inch diameter, 623 kilometres in length, approximate capacity of 90 TJ per day.

5. Darling Downs Pipeline Network was acquired in June 2017 and consists of three

integrated pipelines connecting the Darling Downs Power Station, via Wallumbilla, to Spring Gully. Collectively, it is 292 kilometres in length and provides capacity ranging from 145 TJ per day to 440 TJ per day. An additional gas processing plant and pipeline are currently under construction.

6. Colongra Gas Pipeline. Stores and delivers natural gas across 9 kilometres to the Colongra peaking power station at Munmorah.

7. VicHub is a pipeline interconnect facility situated at Longford. The facility enables gas to flow between the EGP, the Tasmanian gas pipeline and the Victorian gas transmission system. The facility has a nominal daily injection capacity of 150 TJ per day and a withdrawal capacity of 135 TJ per day.

8. The Group holds a 50% interest in the ActewAGL Distribution Partnership ("ADP"), primarily operating as 'Evoenergy'. The remaining 50% is ultimately held by the Australian Capital Territory ("ACT") government. ADP owns and operates the gas networks in the ACT, Queanbeyan and Nowra.

Electricity distribution

8. ADP owns and operates the electricity distribution network in the ACT.

9. Jemena Electricity Network delivers electricity to over 350,000 homes and businesses through approximately 6,300

kilometres of distribution network covering approximately 950 square kilometres of northwest greater Melbourne.

10. The Group holds a 34% interest in United Energy Distribution Holdings Pty Ltd ("UEDH"). UEDH group delivers electricity to over 680,000 homes and businesses through a distribution network covering approximately 1,472 square kilometres of southeast Melbourne and the Mornington Peninsula.

Other businesses

11. The Rosehill Recycled Water Scheme treats and delivers high quality recycled water for industry and irrigation through a 20 kilometre network.

12. Ovida was established in 2017 to deliver services including distributed energy resources and dedicated connection assets to Australian energy consumers and renewable energy generators. Serving the east coast markets, Ovida provides its customers with more choice and easier access to benefits by removing the complexities of asset ownership, operations and management.

Services business

13. Zinfra provides engineering and design, project management, construction, civil, maintenance and asset operations services to the Australian utility infrastructure sectors and adjacent markets.

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For the year ended 31 December 2018

The board of directors of SGSP (Australia) Assets Pty Ltd (the "Company") presents its report together with the consolidated financial statements of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2018 and the auditor's report thereon.

Directors

The directors of the Company for the year ended 31 December 2018 and up to the date of this report (unless otherwise stated) are listed below:

Mr Ruan Qiantu (Chairman)
Mr Sun Peng
Ms Jeanne Cheng
Mr Stanley Huang Tian Guan
Mr Paul John Adams (retired as Managing Director 15 October 2018)
Mr Frank Anton Tudor (appointed as Managing Director 15 October 2018)
Mr Albert Yeuk Kuk Tse
Mr Nicholas Greiner
Ms Lena Yue Joo Chia

Principal activities

The Group primarily consists of two operating businesses, an assets business and a services business. The assets business has ownership interests in a number of regulated and unregulated assets in the Australian energy sector. The services business provides services to the Australian utility infrastructure sectors and adjacent markets. Refer to the inside of the cover page for detailed description of the Group's principal activities.

Review of operations

| | Consolidated | |
|----------------------|----------------|---------|
| | 2018 | 2017 |
| | \$'000 | \$'000 |
| Net profit after tax | 225,090 | 241,565 |

Dividends

| | 2018 | 2017 |
|---|----------------|---------|
| | \$'000 | \$'000 |
| Dividends paid by the Company to its shareholders | 155,400 | 167,800 |

Significant changes in the state of affairs

In the opinion of the directors there were no significant changes in the state of affairs of the Group during the year.

Matters subsequent to balance date

Commercial operation of the Northern Gas Pipeline (NGP) commenced on 3 January 2019. The NGP transports gas approximately 623 kilometres from Tennant Creek in the Northern Territory (NT) to Mt Isa in Queensland, connecting gas resources in the NT to the east coast gas market. The pipeline has a capacity of approximately 90 terajoules per day.

On 14 March 2019, the Group commenced a formal sale process seeking to divest the Group's interest in the Rosehill cash-generating unit.

No other matters or circumstances have arisen since balance date that significantly affected or could significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in future years.

Likely developments and expected results of operations

The Australian energy sector, while evolving, continues to enable the Group's strong and reliable returns as well as offer new opportunities. The Group aims to be a world leader in energy infrastructure ownership and management and will continue to operate and pursue portfolio growth accordingly. Further information on likely developments in the operations of the Group and the expected results of operations has not been included in this report because disclosure of the information would be likely to result in unreasonable prejudice to the Group.

Directors' report

SGSP (Australia) Assets Pty Ltd
ABN 60 126 327 624

For the year ended 31 December 2018

Environmental regulation and performance

The Group is subject to environmental regulations under both Commonwealth and State legislation relating to assets in which the Group has an ownership interest and end services provided by the Group to third parties. The directors are not aware of any significant breaches during the year ended 31 December 2018 or to the date of signing this report.

Insurance of directors and officers

The directors and officers of the Group are covered by a directors and officers insurance policy for liabilities and expenses arising as a result of their work, to the extent permitted by law. The nature of the liabilities insured against and the cost of the insurance premiums are confidential in accordance with the terms of the insurance contracts and normal commercial practice.

Auditor's independence declaration

A copy of the auditor's independence declaration, as required under *section 307C of the Corporations Act 2001*, is set out on page 3 and forms part of the Director's report for the year ended 31 December 2018.


Rounding of amounts

The Company is of a kind referred to in *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191*. Amounts in the financial statements have been rounded off in accordance with that instrument, as indicated.

Signed in accordance with a resolution of the board of directors:

Director: 

Name: Ruan, Qiaatu

Director: 

Name: Foster

Place: Melbourne
Date: 21 March 2019



Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To the Directors of SGSP (Australia) Assets Pty Ltd

I declare that, to the best of my knowledge and belief, in relation to the audit of SGSP (Australia) Assets Pty Ltd for the financial year ended 31 December 2018 there have been:

- i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- ii. no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

KPMG

Penny Stragalinos

Partner

21 March 2019

Income statement

For the year ended 31 December 2018

SGSP (Australia) Assets Pty Ltd
ABN 60 126 327 624

| | Notes | 2018 \$'000 | 2017 \$'000 |
|---|-------|----------------|----------------|
| Revenue and other income | B2 | 1,764,885 | 1,789,871 |
| Share of net profits of associate and joint venture | C3,C4 | 82,662 | 67,496 |
| Employee benefits expense | B6 | (469,986) | (450,810) |
| Depreciation and amortisation expense | C1,C2 | (270,113) | (263,014) |
| Materials and services expense | B3 | (497,787) | (522,221) |
| Operating profit | | 609,661 | 621,322 |
| Interest income | D2 | 2,505 | 1,586 |
| Finance costs | D2 | (289,550) | (275,651) |
| Unwind of economic hedging instruments | D2 | (488) | (1,680) |
| Net finance costs | | (287,533) | (275,745) |
| Profit before income tax | | 322,128 | 345,577 |
| Income tax expense | B4 | (97,038) | (104,012) |
| Profit for the year | | 225,090 | 241,565 |
| Attributable to: | | | |
| Owners of the Company | | 225,090 | 241,565 |

The above income statement should be read in conjunction with the accompanying notes.

Refer to note B1 for operating segment information.

Statement of comprehensive income

For the year ended 31 December 2018

SGSP (Australia) Assets Pty Ltd

ABN 60 126 327 624

| | Notes | 2018 \$'000 | 2017 \$'000 |
|--|-------|-----------------|----------------|
| Profit for the year | | 225,090 | 241,565 |
| Other comprehensive income | | | |
| Items that will never be reclassified to profit or loss | | | |
| Defined benefit superannuation plan actuarial gain/(loss) before tax | B6 | 1,098 | 13,471 |
| Tax on defined benefit superannuation plan actuarial gain/(loss) | | (329) | (4,041) |
| Defined benefit superannuation plan actuarial gain/(loss) after tax | | 769 | 9,430 |
| Items that are or may be reclassified to profit or loss | | | |
| Movement in hedging reserve before tax | | (46,358) | (45,301) |
| Tax on movement in hedging reserve | | 13,907 | 13,591 |
| Movement in hedging reserve after tax | D3 | (32,451) | (31,710) |
| Other comprehensive income for the year | | (31,682) | (22,280) |
| Total comprehensive income for the year | | 193,408 | 219,285 |
| Attributable to: | | | |
| Owners of the Company | | 193,408 | 219,285 |

The above statement of comprehensive income should be read in conjunction with the accompanying notes.

Balance sheet

As at 31 December 2018

SGSP (Australia) Assets Pty Ltd
ABN 60 126 327 624

| | Notes | 2018 \$'000 | 2017 \$'000 |
|--|-------|-------------------|----------------|
| Current assets | | | |
| Cash at bank and in hand | | 26,936 | 31,709 |
| Receivables | B7 | 321,981 | 316,425 |
| Inventories | | 47,976 | 41,335 |
| Derivative financial instruments | D3 | 452 | 40,954 |
| Prepayments and deposits | | 14,285 | 15,624 |
| Total current assets | | 411,630 | 446,047 |
| Non-current assets | | | |
| Property, plant and equipment | C1 | 7,441,434 | 7,042,792 |
| Intangible assets | C2 | 1,778,564 | 1,795,339 |
| Investments in associate and joint venture | C3,C4 | 1,254,861 | 1,247,109 |
| Lease receivable | | 8,663 | 8,931 |
| Derivative financial instruments | D3 | 452,408 | 309,005 |
| Defined benefit superannuation plans | B6 | 33,228 | 34,678 |
| Total non-current assets | | 10,969,158 | 10,437,854 |
| TOTAL ASSETS | | 11,380,788 | 10,883,901 |
| Current liabilities | | | |
| Payables | B8 | 243,971 | 225,717 |
| Provisions | B8 | 181,871 | 162,326 |
| Interest bearing liabilities | D1 | 1,209 | 582,060 |
| Contract liability | B2 | 49,757 | 47,208 |
| Derivative financial instruments | D3 | 187 | 803 |
| Lease related liabilities | | 3,207 | 3,207 |
| Total current liabilities | | 480,202 | 1,021,321 |
| Non-current liabilities | | | |
| Interest bearing liabilities | D1 | 6,328,185 | 5,297,299 |
| Provisions | B8 | 98,183 | 112,507 |
| Deferred tax | B4 | 650,191 | 614,591 |
| Lease related liabilities | | 34,485 | 36,329 |
| Derivative financial instruments | D3 | 101,055 | 145,145 |
| Total non-current liabilities | | 7,212,099 | 6,205,871 |
| TOTAL LIABILITIES | | 7,692,301 | 7,227,192 |
| Net assets | | 3,688,487 | 3,656,709 |
| Share capital | D5 | 3,200,000 | 3,200,000 |
| Hedging reserve | D3 | (59,251) | (26,800) |
| Retained earnings | | 547,738 | 483,509 |
| TOTAL EQUITY | | 3,688,487 | 3,656,709 |

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

Statement of changes in equity

SGSP (Australia) Assets Pty Ltd

ABN 60 126 327 624

For the year ended 31 December 2018

| Notes | Share capital \$'000 | Hedging reserve \$'000 | Retained earnings \$'000 | Total \$'000 |
|--|-------------------------|---------------------------|-----------------------------|------------------|
| Balance at 1 January 2018, as previously reported | 3,200,000 | (26,800) | 483,509 | 3,656,709 |
| Adjustment on initial application of AASB 9 (2014), net of tax | - | - | (6,230) | (6,230) |
| Adjusted balance at 1 January 2018 | 3,200,000 | (26,800) | 477,279 | 3,650,479 |
| Profit for the year | - | - | 225,090 | 225,090 |
| Other comprehensive income | | | | |
| Hedging reserve movement, net of tax D3 | - | (32,451) | - | (32,451) |
| Defined benefit superannuation plan actuarial gain, net of tax | - | - | 769 | 769 |
| Total other comprehensive income | - | (32,451) | 769 | (31,682) |
| Total comprehensive income for the year | - | (32,451) | 225,859 | 193,408 |
| Transactions with the owners of the Company recognised directly in equity | | | | |
| Dividends paid to shareholders: \$0.05 per share | - | - | (155,400) | (155,400) |
| | - | - | (155,400) | (155,400) |
| Balance at 31 December 2018 | 3,200,000 | (59,251) | 547,738 | 3,688,487 |

| Notes | Share capital \$'000 | Hedging reserve \$'000 | Retained earnings \$'000 | Total \$'000 |
|--|-------------------------|---------------------------|-----------------------------|------------------|
| Balance at 1 January 2017 | 3,200,000 | 4,910 | 400,314 | 3,605,224 |
| Profit for the year | - | - | 241,565 | 241,565 |
| Other comprehensive income | | | | |
| Hedging reserve movement, net of tax D3 | - | (31,710) | - | (31,710) |
| Defined benefit superannuation plan actuarial gain, net of tax | - | - | 9,430 | 9,430 |
| Total other comprehensive income | - | (31,710) | 9,430 | (22,280) |
| Total comprehensive income for the year | - | (31,710) | 250,995 | 219,285 |
| Transactions with the owners of the Company recognised directly in equity | | | | |
| Dividends paid to shareholders: \$0.05 per share | - | - | (167,800) | (167,800) |
| | - | - | (167,800) | (167,800) |
| Balance at 31 December 2017 | 3,200,000 | (26,800) | 483,509 | 3,656,709 |

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

Cash flow statement

SGSP (Australia) Assets Pty Ltd
ABN 60 126 327 624

For the year ended 31 December 2018

| | Notes | 2018 \$'000 | 2017 \$'000 |
|---|-------|------------------|----------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Receipts from customers | | 1,928,143 | 1,936,812 |
| Payments to suppliers and employees | | (1,150,487) | (1,137,576) |
| Income taxes paid | | (34,937) | (76,686) |
| Interest received | | 363 | 295 |
| Net cash inflow from operating activities | B5 | 743,082 | 722,845 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Payments for property, plant and equipment and intangibles | | (621,082) | (685,698) |
| Proceeds from sale of property, plant and equipment | | 3,643 | 2,085 |
| Acquisition of subsidiary, net of cash acquired | | - | (393,041) |
| Dividends and distributions received from investments | | 58,451 | 58,024 |
| Net cash outflow from investing activities | | (558,988) | (1,018,630) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Proceeds from borrowings | D6 | 1,741,004 | 2,426,466 |
| Repayment of borrowings | D6 | (1,492,507) | (1,665,000) |
| Interest paid | | (278,176) | (269,276) |
| Dividends paid | | (155,400) | (167,800) |
| Debt issuance costs | | (3,788) | (9,829) |
| Net cash inflow/(outflow) from financing activities | | (188,867) | 314,561 |
| Net increase/(decrease) in cash and cash equivalents | | (4,773) | 18,776 |
| Cash and cash equivalents at the beginning of the year | | 31,709 | 12,933 |
| Cash and cash equivalents at the end of the year | | 26,936 | 31,709 |

The above cash flow statement should be read in conjunction with the accompanying notes.

Cash and cash equivalents comprise cash deposits at call.

Notes to the financial statements

SGSP (Australia) Assets Pty Ltd
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For the year ended 31 December 2018

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Notes to the financial statements

SGSP (Australia) Assets Pty Ltd
ABN 60 126 327 624

For the year ended 31 December 2018

SECTION A ABOUT THIS REPORT

A1 Basis of preparation

SGSP (Australia) Assets Pty Ltd ("the Company") is a for-profit company domiciled in Australia. The address of the Company's registered office and principal place of business is Level 16, 567 Collins Street, Melbourne VIC 3000. These consolidated financial statements for the year ended 31 December 2018 comprise the Company and its subsidiaries (collectively "the Group"). The comparative figures are for the year ended 31 December 2017.

The Group primarily consists of two operating businesses, an assets business and a services business. The assets business has ownership interests in a number of regulated and unregulated assets in the Australian energy sector. The services business provides services to the Australian utility infrastructure sectors and adjacent markets. Refer to the inside of the cover page for detailed description of the Group's principal activities.

(a) Going concern basis of accounting

These financial statements have been prepared on a going concern basis, which contemplates the Group continuing in operation for the foreseeable future.

The Group's current liabilities exceed its current assets by \$68.6 million. The Group continues on its growth trajectory with working capital, investing and financing requirements being actively managed through operating cashflows and utilisation of committed facilities. The Group has access to unused committed facilities of \$663.7 million (refer to note D4 (d)), all of which are available for more than 12 months from the date of authorisation of these financial statements.

The Group has historically generated positive operating cash flows and traded profitably. The directors expect this to continue in the foreseeable future.

Based on the above, the directors believe that the going concern basis of preparation is appropriate.

(b) Statement of compliance

These financial statements are general purpose financial statements that have been prepared in accordance with Australian Accounting Standards ("AASBs") adopted by the Australian Accounting Standards Board and the *Corporations Act 2001*. These financial statements also comply with International Financial Reporting Standards adopted by the International Accounting Standards Board.

These financial statements were authorised for issue by the board of directors on 21 March 2019.

(c) Basis of measurement

These financial statements have been prepared under the historical cost convention, with the exception of defined benefit superannuation plans, customer contributions of assets, derivative financial instruments and borrowings in fair value hedge relationships, which are measured at fair value.

(d) Functional and presentation currency

These financial statements are presented in Australian dollars, which is the Company's and Group entities' functional currency. The Company is of a kind referred to in *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191*. Amounts in these financial statements have been rounded off in accordance with that instrument to the nearest thousand dollars, unless otherwise stated.

(e) Accounting policies

Except for the changes below, accounting policies adopted in the preparation of these financial statements are consistent between the periods.

The Group has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2018:

- (i) AASB 9 (2014) *Financial Instruments*
- (ii) AASB 15 *Revenue from Contracts with Customers*

The nature and effects of the changes are as follows:

Notes to the financial statements

SGSP (Australia) Assets Pty Ltd
ABN 60 126 327 624

For the year ended 31 December 2018

SECTION A ABOUT THIS REPORT

(i) AASB 9 (2014) *Financial Instruments*

The Group early adopted AASB 9 *Financial Instruments* for its 2015 financial statements when the main impact was in the area of hedge accounting. AASB 9 (2014) *Financial Instruments* became mandatory for the Group's 2018 financial statements and its incremental content mainly relates to the measurement of trade receivables and contract assets.

AASB 9 establishes a new approach for recognising impairment on loans and receivables, including trade receivables — an “expected loss” model that focuses on the risk that a loan will default rather than whether a loss has been incurred. The standard establishes a simplified impairment approach for qualifying trade receivables within the scope of AASB 15 i.e. those that do not contain a significant financing component, and lease receivables. For these assets an entity must recognise a loss allowance based on Lifetime Expected Credit Losses (ECLs).

AASB 9 allows an entity to use a simplified “provision matrix” for calculating expected losses as a practical expedient, for trade receivables, if consistent with the general principles for measuring expected losses. The provision matrix is based on an entity's historical default rates over the expected life of the trade receivables and is adjusted for forward-looking estimates.

The Group has determined that the application of AASB 9's impairment requirements at 1 January 2018 results in an additional allowance for impairment as follows.

| | \$'000 |
|---|---------------|
| Loss allowance at 31 December 2017 under AASB 139 | 1,406 |
| Additional impairment recognised at 1 January 2018 on contract assets | 8,900 |
| Loss allowance at 1 January 2018 under AASB 9 | 10,306 |

The Group has not restated comparative information. The additional impairment recognised at 1 January 2018 on contract assets is recognised in retained earnings.

(ii) AASB 15 *Revenue from Contracts with Customers*

AASB 15 replaces all revenue guidance, introducing a control-based model that harmonises the approach to sale, service and construction transactions. Its five step model drives revenue recognition when/as control is transferred, measured at the amount of the transaction price as allocated to each performance obligation under a contract.

The Group has applied AASB 15 using the cumulative effect method i.e. by recognising the cumulative effect of initially applying AASB 15 as an adjustment to the opening balance of equity at 1 January 2018. Therefore, the comparative information has not been restated and continues to be reported under AASB 118 *Revenue* and AASB 111 *Construction Contracts*.

However, the application of AASB 15 has not had any material impact on the financial position and/or financial performance of the Group. As such, there is no adjustment to report for any of the financial statement line items in the current and prior year.

AASB 15 uses the terms ‘contract asset’ and ‘contract liability’ to describe ‘accrued revenue’ and ‘deferred revenue’. The Group has adopted the terminology used in AASB 15 to describe such balances.

The Group's accounting policies for its revenue streams are disclosed in detail in Note B2. The details of accounting policies under AASB 118 and AASB 111 are also disclosed.

SECTION A ABOUT THIS REPORT

A2 Significant accounting policies

Significant accounting policies adopted in the preparation of these financial statements are disclosed throughout the report and below are policies not listed elsewhere:

(a) Comparative figures

Where applicable, comparative figures have been adjusted to conform to changes in presentation for the current year.

(b) New accounting standards and interpretations not yet adopted

The following accounting standards, amendments to accounting standards and interpretations have been identified as those which may impact the Group in the period of initial adoption. They were available for early adoption for these financial statements but have not been applied:

AASB 16 Leases becomes mandatory for the Group's 2019 financial statements and will impact the majority of the Group's lessee leases that are currently being treated as operating leases. As for finance leases presently, those leases will have assets and liabilities recognised on the balance sheet, expense recognition will become front-loaded and be classified as depreciation and finance costs. It is not expected that this standard will impact the Group's lessor accounting.

Based on a review of the Group's property and vehicles operating lease population, the impact of transition to AASB 16 will be a reduction in operating lease rental expense, with broadly offsetting increases in depreciation and interest expense resulting in an immaterial impact to profit. Based on the current property and vehicles operating lease population and renewal assumptions, the accretive impact on gross assets and liabilities in the Group's 2019 financial statements is expected to have an overall immaterial impact on net assets. The Group is in the process of assessing other arrangements within its business units to identify potential impacts on the Group's consolidated financial statements on adoption of the new standard.

AASB Interpretation 23 becomes mandatory for the Group's 2019 financial statements and provides further guidance on how to apply the recognition and measurement requirements when there is uncertainty over income tax treatments. It requires an entity to consider whether it is probable that a taxation authority will accept an uncertain tax treatment. The Group is in the process of assessing the potential impact on the Group's consolidated financial statements on adoption of the new standard.

There are also other amendments and revisions to accounting standards and interpretations that have not been early adopted. These changes are not expected to result in any material changes to the Company's financial performance or financial position.

A3 Critical accounting estimates and judgements

The preparation of financial statements in conformity with AASBs requires management to make estimates and judgements that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. The estimates and judgements are based on past experience and various other factors that are believed to be reasonable judgements under the circumstances. Actual results may differ. The estimates and judgements are reviewed on an ongoing basis. Changes to accounting estimates are recognised prospectively.

The estimates and judgements that are significant to these financial statements are disclosed within each note.

SECTION B OPERATIONS AND PERFORMANCE

B1 Operating segments

(a) Accounting policy

Segment results reflect those that are reported to the Board for the purpose of making decisions about resources to be allocated to the segments and assessing performance. Segment results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Segment results include transactions between segments primarily from the services business servicing the assets business. Such transactions, including any unrealised gains, are eliminated on consolidation.

(b) Operating segments

The Group operates in one geographical segment, which is Australia. The Group comprises the following operating segments:

(i) Electricity distribution

The electricity distribution network delivers electricity from the high voltage transmission network to end users. The Group charges retailers and some large customers regulated rates for the use of the distribution network. The electricity distribution segment does not purchase or sell electricity in the ordinary course of business. This segment includes the Group's investment in the associate and interest in the joint venture (as proportionate to electricity distribution activities).

(ii) Gas distribution

The gas distribution network delivers natural gas to commercial and residential end users. The Group charges retailers and some large customers regulated rates for the use of the distribution network. The gas distribution segment does not purchase or sell gas in the ordinary course of business. This segment includes the Group's investment in the joint venture (as proportionate to gas distribution activities).

Revenue from one major customer of the Group's gas distribution segment represents \$244.6 million (year ended 31 December 2017: \$266.5 million) of the Group's total revenue for the year.

(iii) Gas transmission and water distribution

The gas transmission and water distribution segment transports gas and water and earns revenue from these services at contracted rates negotiated on arm's length terms.

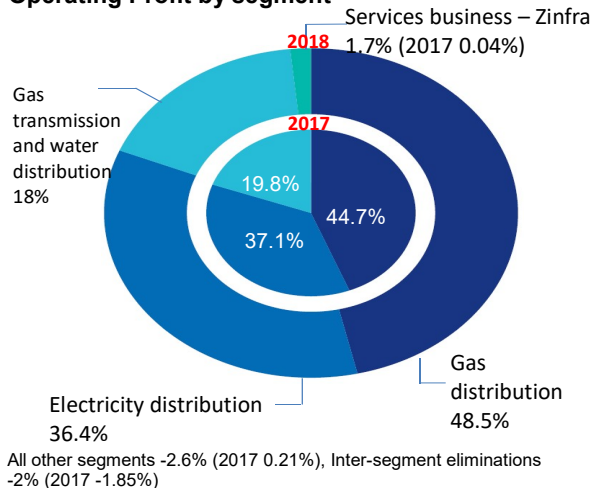
(iv) Services business - Zinfra

Zinfra provides engineering and design, project management, construction, civil, maintenance and asset operations services to the Australian utility infrastructure sectors and adjacent markets, including to other operating segments within the Group.

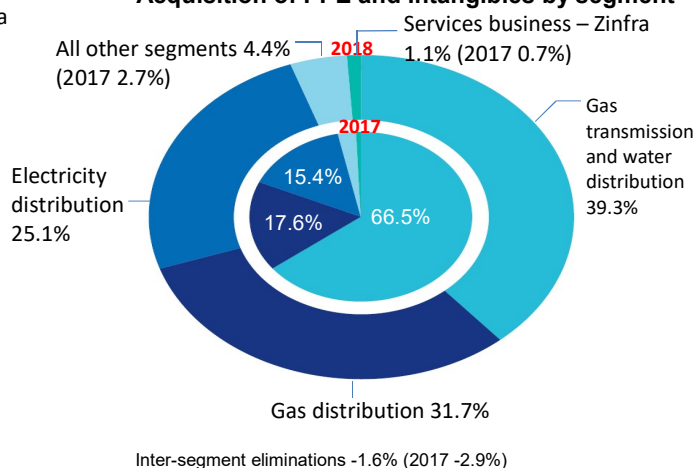
(v) All other segments

All other segments include contracts for asset management services to Australian utility infrastructure customers (by group entities other than Zinfra), Ovida (SGSPAA's renewable and private energy infrastructure business) and corporate costs not allocated to identified segments.

Operating Profit by segment



Acquisition of PPE and Intangibles by segment



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(c) Segment performance

| Notes | Electricity distribution | | Gas distribution | | Gas transmission and water distribution | | Services business - Zinfra | | All other segments | | Inter-segment eliminations | | Total | |
|--|--------------------------|----------|------------------|-----------|---|----------|----------------------------|---------|--------------------|---------|----------------------------|-----------|------------------|-----------|
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| Operating profit | 221,983 | 230,650 | 295,890 | 277,948 | 109,615 | 122,675 | 10,268 | 215 | (15,891) | 1,343 | (12,204) | (11,509) | 609,661 | 621,322 |
| Revenue and other income | 423,383 | 447,489 | 575,936 | 586,106 | 252,781 | 260,190 | 638,530 | 576,036 | 39,140 | 51,466 | (164,885) | (131,416) | 1,764,885 | 1,789,871 |
| Gas and electricity distribution revenue | 350,770 | 375,220 | 525,347 | 536,504 | - | - | - | - | - | - | - | - | 876,117 | 911,724 |
| Gas transmission and water distribution revenue | - | - | - | - | 252,179 | 260,190 | - | - | - | - | - | - | 252,179 | 260,190 |
| Infrastructure services revenue | 46,894 | 46,497 | 50,149 | 49,190 | - | - | 638,530 | 576,036 | 38,409 | 46,648 | (164,885) | (131,416) | 609,097 | 586,954 |
| Other income | 25,719 | 25,772 | 440 | 412 | 602 | - | - | - | 731 | 4,818 | - | - | 27,492 | 31,002 |
| Share of net profits of associate and joint venture | 69,974 | 53,098 | 12,688 | 14,398 | - | - | - | - | - | - | - | - | 82,662 | 67,496 |
| Depreciation and amortisation expense | (83,782) | (84,956) | (108,902) | (103,425) | (67,694) | (62,330) | (9,191) | (8,472) | (1,673) | (4,819) | 1,129 | 988 | (270,113) | (263,014) |
| Interest income | - | - | - | - | - | - | 354 | 232 | 2,151 | 1,354 | - | - | 2,505 | 1,586 |
| Finance costs and unwind of economic hedge instruments | (86,327) | (83,505) | (114,010) | (110,346) | (89,695) | (83,455) | (6) | (25) | - | - | - | - | (290,038) | (277,331) |
| Acquisition of property, plant and equipment and intangibles | 162,797 | 168,154 | 204,994 | 192,160 | 255,064 | 724,618 | 7,096 | 7,510 | 28,467 | 29,684 | (10,178) | (31,281) | 648,240 | 1,090,845 |

The comparatives above have been adjusted to conform with changes in presentation for the current year in relation to: allocation of share of net profits from joint venture between the electricity and gas distribution segments, and; allocation of corporate depreciation to the operating segments. Also, offsetting entries on the finance costs line have been removed.

SECTION B OPERATIONS AND PERFORMANCE

B2 Revenue and other income

The Group has adopted AASB 15 with a date of initial application of 1 January 2018. Refer note A1 (e) (ii) for information on the nature and effects of the changes.

(a) Accounting policy

Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. The Group recognises revenue at a point in time or over time, when or as it satisfies performance obligations by transferring control over a promised product or service to a customer.

The Group recognises contract liabilities for consideration received in respect of unsatisfied performance obligations. Similarly, if the Group satisfies a performance obligation before it receives consideration, the Group recognises either a contract asset or a receivable on its balance sheet, depending on whether something other than the passage of time is required before the consideration becomes unconditional.

Revenue is recognised for customer contracts as follows:

(i) Gas and electricity distribution revenue

Revenue is earned from the distribution of gas and electricity and related services. Revenue is recognised as the services are rendered i.e. on delivery, and incorporate usage estimation where necessary. Credit terms are as stated in note B7(d).

A significant proportion of the Group's distribution services revenue is subject to economic regulation that seeks to determine either prices or revenue outcomes. In these financial statements regulated revenue is recognised as volumes multiplied by the agreed tariffs for the relevant period. Any differences to the regulated outcome are reflected in subsequent reporting periods via actual tariff changes.

(ii) Gas transmission and water distribution revenue

Revenue is earned from the actual and contracted transmission of gas and the distribution of recycled water. Revenue is recognised as the services are rendered i.e. on actual/contracted delivery and incorporate usage estimation where necessary. Credit terms are as stated in note B7(d).

(iii) Infrastructure services revenue

Revenue is earned through provision of engineering and design, project management, construction, civil, maintenance and asset operations services. Credit terms are as stated in note B7(d).

For contracts with variable consideration, variable consideration is determined using the expected value or most likely outcome - whichever method is a better prediction of the final outcome. The estimation of the variable consideration amount is constrained to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur. Where the performance obligation is satisfied over time, the input method (i.e. costs incurred) is used to measure progress towards the satisfaction of performance obligations. The costs incurred on contracts are assessed to ensure that they are proportionate to the progress in satisfying the performance obligation. Given the type of contracts executed in the Group, the input method is deemed the most appropriate method as it measures the costs expended to satisfy the obligation.

Revenue is recognised when, or as the performance obligation is satisfied. The revenue is recognised either over time (where the customer receives and consumes all of the benefits provided as work is being performed) using the stage of completion method, or at a point in time (where control is passed on to the customer at a certain point in time).

In the comparative period, revenue was measured at the fair value of the consideration received or receivable, net of returns, trade allowances and duties and taxes paid. Revenue from rendering of services and construction contracts was recognised in proportion to the stage of completion of the contract when the outcome of the contract could be estimated reliably.

Revenue received in advance of providing the service was treated as unearned and deferred to the balance sheet.

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Revenue from other income is described as follows:

(i) Dividends and distributions

Dividends and distributions are recognised as revenue when the right to receive payment is established.

Dividends received from associates and distributions received from joint ventures are accounted for in accordance with the equity method of accounting (refer note C3 (a)).

(ii) Other income

Other income includes interest from redeemable preference shares recognised using the effective interest method.

(b) Critical accounting estimates and judgements

(i) Energy delivery

Estimates are made where required to account for the period between the meter reading date and the end of the accounting period. The estimates are made based on factors including historical consumption patterns, base usage and weather conditions.

(ii) Infrastructure services

Reliably measuring the outcome and the stage of completion of contracts involves a level of estimation of a range of factors that are subject to risk and uncertainty. The estimates and judgements relate to forecast revenue and costs to complete, stage of project completion, and the recoverability of unapproved variations, claims and disputes.

The carrying amount of contract assets is set out in note B7.

(c) Disaggregation of revenue and other income

Refer to operating segment note B1(c).

(d) Timing of revenue recognition

| | 2018 \$'000 | 2017 \$'000 |
|---|------------------|------------------|
| Goods/services transferred at a point in time | 1,224,209 | 1,242,213 |
| Goods/services transferred over time | 513,184 | 516,656 |
| Revenue | 1,737,393 | 1,758,869 |

(e) Contract balances

The following table provides information about receivables, contract assets and contract liabilities from contracts with customers.

| | 31-Dec-18 \$'000 | 1-Jan-18 \$'000 |
|---|---------------------|--------------------|
| Receivables, which are included in 'Total invoiced receivables' | 93,364 | 95,429 |
| Contract assets | 214,486 | 186,380 |
| Contract liabilities | (49,757) | (47,208) |

The contract assets primarily relate to the Group's rights to consideration for work completed but not billed at the reporting date. The contract assets are transferred to receivables when the rights become unconditional.

The contract liabilities primarily relate to the advance consideration received from customers for which revenue is recognised when the performance obligation is satisfied. The amount of \$47,208 thousand recognised in contract liabilities at the beginning of the year has been recognised as revenue for the year ended 31 December 2018. The amount of revenue recognised in the year ended 31 December 2018 from performance obligations satisfied (or partially satisfied) in previous years is nil.

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SECTION B OPERATIONS AND PERFORMANCE

(f) Transaction price allocated to the remaining performance obligations

The following table includes revenue expected to be recognised in the future related to performance obligations that are unsatisfied (or partially unsatisfied) at the reporting date.

| | 2019 \$'000 | 2020 \$'000 | 2021 \$'000 | Total \$'000 |
|--|----------------|----------------|----------------|-----------------|
| Infrastructure services revenue | 48,674 | 4,161 | - | 52,835 |
| Infrastructure services to related parties | 77,662 | - | - | 77,662 |

The Group applies the practical expedient in paragraph 121 of AASB 15 and does not disclose information about remaining performance obligations that have original expected durations of one year or less. The revenue expected to be recognised in the future disclosed above relates only to fixed price contracts where the transaction price has been determined and revenue recognised in line with paragraphs 121 and B16 of AASB 15 i.e. a right to consideration from a customer in an amount that corresponds directly with the value to the customer of the Company's performance completed to date.

B3 Materials and services expense

(a) Significant items disclosure

| | 2018 \$'000 | 2017 \$'000 |
|---|----------------|----------------|
| Materials and services includes: | | |
| Net loss on disposal of property, plant and equipment and intangible assets | (8,554) | (10,680) |
| Increase in environmental provisions | - | (27,429) |
| Acquisition of subsidiary related costs | - | (21,475) |
| Reversal of stamp duty provision | - | 19,642 |

B4 Taxation

(a) Accounting policy

(i) Tax consolidation

The Company is the head entity in the SGSP (Australia) Assets Pty Ltd tax consolidated group ("tax group") comprising the Company and its wholly owned Australian tax resident subsidiaries. Entities that are not 100% owned and entities that are not residents for Australian tax purposes are generally treated as separate single tax entities.

(ii) Income tax expense or benefit

Income tax expense or benefit comprises current and deferred tax, using tax rates and legislation enacted or substantively enacted as at balance date. Income tax expense or benefit is recognised in the income statement, or in other comprehensive income to the extent that it relates to items recognised there.

(iii) Current tax

Current tax is the expected tax on the taxable income for the year and any adjustment to tax payable or receivable in respect to previous years.

(iv) Deferred tax

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Temporary differences are not provided for the initial recognition of goodwill, or the initial recognition of assets and liabilities that affect neither accounting profit nor taxable income. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities.

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A deferred tax asset is recognised only to the extent that it is probable that future taxable income will be available against which the asset can be utilised. A deferred tax asset is de-recognised to the extent that it is no longer probable that the related tax benefit will be realised. Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the tax group intends to settle its tax assets and liabilities on a net basis.

(v) Goods and Services Tax ("GST")

Revenue, expenses and assets are recognised net of the amount of GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included within other receivables or other payables in the balance sheet.

(b) Critical accounting estimates and judgements

The tax expense and deferred tax balances are in reference to income tax legislation, aspects of which are subject to interpretation and judgement. These interpretations and judgements are subject to risk and uncertainty and changes in circumstances may alter possible outcomes in relation to tax matters.

The Australian Taxation Office is currently conducting a transfer pricing audit in relation to the Company's convertible instruments. No liability has been recognised.

(c) Income tax expense

| | 2018 \$'000 | 2017 \$'000 |
|---|-----------------|------------------|
| Current tax expense | | |
| Current year | (44,841) | (57,813) |
| Adjustments for prior years | (349) | (4,617) |
| Deferred tax expense | | |
| Origination and reversal of temporary differences | (51,546) | (45,582) |
| Adjustments for prior years | (302) | 4,000 |
| Total income tax expense | (97,038) | (104,012) |

(d) Reconciliation of income tax expense to prima facie tax payable

The Group's income tax expense and prima facie tax expense are materially consistent.

| | 2018 \$'000 | 2017 \$'000 |
|--|-----------------|------------------|
| Profit before income tax | 322,128 | 345,577 |
| Prima facie tax expense at the Australian tax rate of 30% (2017 - 30%) | (96,638) | (103,673) |
| Tax effect of amounts which are not assessable / (deductible) in calculating taxable income: | | |
| Non-assessable income: | | |
| - Stamp duty provision reversal | - | 5,892 |
| - Other | 263 | 238 |
| Non-deductible expenses: | | |
| - Acquisition of subsidiary related costs | (13) | (5,852) |
| (Under)/over provision in respect of prior year | (650) | (617) |
| Total income tax expense | (97,038) | (104,012) |

(e) Franking credit account

The franking credit balance as at 31 December 2018 is \$49.7 million (2017: \$81.3 million).

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SECTION B OPERATIONS AND PERFORMANCE

(f) Deferred tax liability / (asset)

The balance comprises the tax effect of temporary differences attributable to:

| | Opening Balance \$'000 | AASB 9 (2014) Adjustment \$'000 | Charged to Income \$'000 | Acquisition of Subsidiary \$'000 | Charged to Equity \$'000 | Closing Balance \$'000 |
|-------------------------------|------------------------------|--|--------------------------------|--|--------------------------------|------------------------------|
| 2018 | | | | | | |
| Property, plant and equipment | 668,063 | - | 57,514 | - | - | 725,577 |
| Other items* | (53,472) | (2,670) | (5,666) | - | (13,578) | (75,386) |
| | 614,591 | (2,670) | 51,848 | - | (13,578) | 650,191 |
| 2017 | | | | | | |
| Property, plant and equipment | 611,483 | - | 56,580 | - | - | 668,063 |
| Other items | (43,682) | - | (14,998) | 14,758 | (9,550) | (53,472) |
| | 567,801 | - | 41,582 | 14,758 | (9,550) | 614,591 |

* Other items mainly includes deferred tax for employee provisions, environmental and restoration provisions, intangible assets and financial assets.

Tax effect of unrecognised temporary differences

| | 2018 \$'000 | 2017 \$'000 |
|---------------------------------|----------------|----------------|
| Capital investment in associate | 10,705 | 10,705 |
| Capital losses at balance date | 4,001 | 4,001 |

B5 Reconciliation of result for the year to cash flows from operating activities

| | 2018 \$'000 | 2017 \$'000 |
|--|----------------|----------------|
| Profit before income tax | 322,128 | 345,577 |
| Non-cash flows in profit: | | |
| Depreciation and amortisation | 270,113 | 263,014 |
| Defined benefit superannuation plans - service costs | 4,999 | 5,131 |
| Non-operating activities: | | |
| Share of profit of associate and joint venture | (82,662) | (67,496) |
| Interest income | (2,505) | (1,586) |
| Finance costs including economic hedges | 290,038 | 277,331 |
| Loss on disposal of property, plant and equipment | 8,554 | 10,680 |
| Exchange differences - unrealised | 95 | (64) |
| Changes in assets and liabilities: | | |
| Increase in receivables and other current assets | (21,811) | (39,800) |
| Increase in inventories | (6,641) | (3,540) |
| (Decrease)/increase in payables, provisions, deferred income and lease liabilities | (4,652) | 9,989 |
| Interest received | 363 | 295 |
| Income taxes paid | (34,937) | (76,686) |
| Net cash inflow from operating activities | 743,082 | 722,845 |

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B6 Employee costs and defined benefit superannuation plans

(a) Employee benefits expense

| | 2018 \$'000 | 2017 \$'000 |
|--|------------------|------------------|
| Defined benefit superannuation plans - service costs | (4,999) | (5,131) |
| Defined contribution superannuation expenses | (31,135) | (29,939) |
| Other employee benefit expenses | (433,852) | (415,740) |
| Total employee benefits expense | (469,986) | (450,810) |

(b) Accounting policy

(i) Wages and salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months of balance date are recognised in provisions in respect of employees' services up to balance date and are measured at the undiscounted amounts expected to be paid when the liabilities are settled. Non-vesting sick leave is recognised in the income statement when the leave is taken and measured at the rates paid or payable.

Annual leave that is not expected to be settled within 12 months after the end of the reporting period is recognised and measured at the present value of amounts expected to be paid when the liabilities are settled using the remuneration rate expected to apply at the time of settlement.

The provision for annual leave is classified as a current liability as the Group does not have an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

(ii) Long service leave

The liability for long service leave expected to be settled within 12 months of balance date is recognised in the current provision for employee benefits and is measured in accordance with the measurement principles described for annual leave, above. The liability for long service leave expected to be settled more than 12 months from balance date is recognised in the non-current provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to balance date.

(iii) Superannuation plans

Defined benefit superannuation plans:

The Group's net asset/liability in respect of defined benefit superannuation plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in the current and prior years, discounting that amount and deducting the fair value of any plan assets.

The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Group, the recognised asset is limited by the asset ceiling, to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

Remeasurements of the net defined benefit superannuation plans asset/liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognised immediately in other comprehensive income. Net interest income/expense and other expenses related to defined benefit superannuation plans are recognised in the income statement. The Group determines the net interest income/expense by applying the discount rate used to measure the defined benefit obligation at the beginning of the year to the net defined benefit superannuation plans asset/liability at the beginning of the year, taking into account any expected contributions and benefit payments.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognised immediately in the income statement. The Group recognises gains and losses on the settlement of a defined benefit superannuation plan when the settlement occurs.

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Defined contribution superannuation plans:

Obligations for contributions to defined contribution superannuation plans are recognised as an expense in the income statement in the periods during which the services are rendered by the employees. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

(iv) Incentive plans

A liability for employee benefits in the form of bonus plans is recognised in provisions when there is no realistic alternative but to settle the liability and at least one of the following conditions is met:

- there are formal terms in the plan for determining the amount of the benefit;
- the amounts to be paid are determined before the time of completion of the financial report; or
- past practice gives clear evidence of the amount of the obligation.

(v) Termination benefits

Liabilities for termination benefits, not in connection with the acquisition of an entity or operation, are recognised when a detailed plan for the terminations has been developed and a valid expectation has been raised in those employees affected that the terminations will be carried out.

(vi) Employee benefit on-costs

Employee benefit on costs, including payroll tax, workers' compensation and superannuation guarantee contribution, are recognised and included in employee benefit liabilities and costs when the employee benefits to which they relate are recognised as liabilities or costs.

(c) Critical accounting estimates and judgements

(i) Annual leave and long service leave

When assessing expected future payments of annual and long service leave consideration is given to employee wage increases as well as the experience of employee departures and periods of service. The expected future payments are discounted using market yields at the end of the reporting period on Australian corporate bonds with terms to maturity that match the expected timing of cash outflows.

(ii) Defined benefits

The present value of the defined benefit obligations and the net expense for defined benefit superannuation plans depends on a number of factors that are determined on an actuarial basis using principal assumptions set out in section B6 (j) below, subject to risks set out in section B6 (k) below, with sensitivities to the assumptions set out in section B6 (l) below.

(d) Defined benefit superannuation plans

The Group makes contributions to one Mercer Investment Nominees Limited ("Equisuper") defined benefit superannuation plan and one Russell Investment Group ("Russell") defined benefit superannuation plan. The plans provide defined benefit amounts to employees or their dependents upon retirement, death, disablement or withdrawal. Benefits are mostly in the form of a lump sum payment based on the employee's final average salary although some defined benefit members are also eligible for pension benefits. The terms and conditions of the two plans are consistent. The plans operate under the regulatory framework provided by the Superannuation Industry (Supervision) legislation. The plans' Trustees are responsible for the governance of the plans and have a legal obligation to act solely in the best interests of the beneficiaries. The trustees are responsible for administration of the plans and payments to beneficiaries, management and investment of the plan assets and compliance with superannuation law and other applicable regulations. The defined benefit sections of the plans are closed to new members.

Actuarial valuations of the funds as at 31 December 2018 and 31 December 2017 were performed resulting in the information set out below:

(e) Balance sheet amounts

The amounts included in the balance sheet arising from the Group's obligations in respect of its defined benefit superannuation plans are as follows:

| | 2018 \$'000 | 2017 \$'000 |
|---|----------------|----------------|
| Present value of funded defined benefit obligations | (182,011) | (184,521) |
| Fair value of plan assets | 215,239 | 219,199 |
| Present value of net assets | 33,228 | 34,678 |

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(f) Categories of plan assets

The analysis of the plan assets by category is as follows:

| | 2018 % | 2017 % |
|------------------------|--------------|--------------|
| Australian equities | 20.4 | 20.0 |
| International equities | 24.2 | 21.7 |
| Fixed income | 14.0 | 12.7 |
| Property | 5.0 | 6.6 |
| Cash | 18.2 | 18.8 |
| Growth alternatives | 7.6 | 9.6 |
| Defensive alternatives | 10.6 | 10.6 |
| | 100.0 | 100.0 |

The fair value measurement of plan assets (refer to note F1) uses a level 2 fair value hierarchy that reflects the significance of the inputs used in making the measurements. Fair value is measured using valuation techniques with significant observable inputs such as investment fund valuations.

(g) Reconciliations

| | 2018 \$'000 | 2017 \$'000 |
|--|------------------|------------------|
| <i>Present value of funded defined benefit obligations</i> | | |
| Opening defined benefit obligation | (184,521) | (185,286) |
| Service cost | (4,999) | (5,131) |
| Interest cost | (6,261) | (6,532) |
| Contributions by plan participants | (2,474) | (2,154) |
| Actuarial gains/(losses) | 4,842 | (5,734) |
| Benefits paid by the plan | 11,402 | 20,316 |
| Closing defined benefit obligation | (182,011) | (184,521) |
| <i>Fair value of plan assets</i> | | |
| Opening fair value of plan assets | 219,199 | 207,756 |
| Interest income | 7,252 | 7,242 |
| Actuarial (losses)/gains | (3,744) | 19,205 |
| Contributions from the employer | 1,460 | 3,158 |
| Contributions by plan participants | 2,474 | 2,154 |
| Benefits paid | (11,402) | (20,316) |
| Closing fair value of plan assets | 215,239 | 219,199 |

The actual return on plan assets for the year was a gain of \$3.5 million (year ended 31 December 2017: gain of \$26.4 million)

(h) Amounts recognised in the income statement

The amounts recognised in the income statement in respect of these defined benefit superannuation plans are as follows:

| | 2018 \$'000 | 2017 \$'000 |
|---|----------------|----------------|
| Service cost | (4,999) | (5,131) |
| Net interest income | 991 | 710 |
| Total expense included in the income statement | (4,008) | (4,421) |

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(i) Amounts recognised in other comprehensive income

The amounts recognised in other comprehensive income are as follows:

| | 2018 \$'000 | 2017 \$'000 |
|--|----------------|----------------|
| Actuarial gain before tax recognised in other comprehensive income | 1,098 | 13,471 |
| Cumulative actuarial losses before tax recognised in retained earnings | (34,432) | (35,530) |

(j) Principal actuarial assumptions

The principal actuarial assumptions are set out below:

| | Russell | | Equisuper | |
|--|-----------|-----------|-----------|-----------|
| | 2018 % | 2017 % | 2018 % | 2017 % |
| Discount rate (active members) | 3.6 | 3.5 | 3.7 | 3.6 |
| Discount rate (pensioners) | N/A | N/A | 3.7 | 3.6 |
| Expected long term salary increase rate | 3.4 | 3.5 | 3.4 | 3.5 |
| Expected pension increase rate | N/A | N/A | 2.5 | 2.5 |
| Weighted average duration of the defined benefit obligation (in years) | 4.9 | 5.3 | 8.0 | 8.0 |

(k) Risks

There are a number of risks to which the plan exposes the Group. The more significant risks relating to the defined benefits are:

Investment risk - the risk that investment returns will be lower than assumed and the Group will need to increase contributions to offset this shortfall.

Salary growth risk - the risk that wages or salaries (on which future benefit amounts will be based) will rise more rapidly than assumed, increasing defined benefit obligations and thereby requiring additional employer contributions.

Legislative risk - the risk that legislative changes could be made which increase the cost of providing the defined benefits.

Pension risks - firstly, the risk that pensioner mortality will be lower than expected, resulting in pensions being paid for a longer period. Secondly, that a greater proportion of eligible members elect to take a pension benefit, which is generally more valuable than the corresponding lump sum benefit. Thirdly, the risk that inflation is higher than anticipated, increasing pension payments, and thereby requiring additional employer contributions.

(l) Sensitivity analysis

Reasonably possible changes at balance date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown below:

| | Increase/(decrease) to defined benefit obligation | |
|------------------------------------|---|----------------|
| | 2018 \$'000 | 2017 \$'000 |
| Defined benefit obligation | | |
| Discount rate (0.5% higher) | (5,149) | (5,716) |
| Discount rate (0.5% lower) | 5,483 | 5,756 |
| Salary increase rate (0.5% higher) | 4,351 | 4,601 |
| Salary increase rate (0.5% lower) | (4,147) | (4,702) |

(m) Employer contributions

Employer contributions to the defined benefit superannuation plans are based on recommendations by the plans' actuaries. The target funding method is used to determine the contribution rates. Under this method, the employer contribution rate is set to meet a 105% funding target.

Per the actuaries' 2018 reports, total minimum employer contributions to be paid by the Group for the year ending 31 December 2018 are nil. However, the Group may continue to contribute to assist in protecting the financial position.

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SECTION B OPERATIONS AND PERFORMANCE

B7 Receivables

(a) Accounting policy

Receivables are generally non-interest bearing and stated at amortised cost using the effective interest method, following their initial recognition at fair value. The recoverability of receivables is assessed on an periodic basis and at balance date. The Group applies the AASB 9 simplified approach to measuring expected credit losses for trade and other receivables as well as contract assets and records the loss allowance at the amount equal to the expected lifetime credit losses.

The carrying amount of receivables is reduced through the use of an allowance account for impaired receivables and any expected loss is immediately expensed in the income statement. The amount of any impairment loss is measured as the difference between the receivable's carrying amount and the present value of estimated future cash flows discounted at the receivable's original effective interest rate. When a receivable is considered uncollectible it is written off against the allowance account. Subsequent recoveries of amounts previously written off, and impairment reversals based on objective evidence, are credited against the income statement.

(b) Critical accounting estimates and judgements

For estimates and judgements relating to contract assets refer to note B2(b).

The loss allowances for financial assets are based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period. Details of the key assumptions and inputs used are disclosed in the note above.

(c) Summary

| | 2018 \$'000 | 2017 \$'000 |
|--|----------------|----------------|
| Trade receivables | 68,935 | 74,937 |
| Trade receivables from related parties | 24,429 | 20,492 |
| Total invoiced trade receivables | 93,364 | 95,429 |
| Allowance for impairment loss | (1,637) | (1,406) |
| Contract assets | 164,891 | 163,740 |
| Contract assets due from related parties | 49,595 | 22,640 |
| Total contract assets | 214,486 | 186,380 |
| Allowance for impairment loss | (8,900) | - |
| Total trade receivables | 297,313 | 280,403 |
| Reimbursement rights | 517 | 14,782 |
| Income tax receivables | 8,118 | 18,370 |
| Other receivables from related parties | 10,615 | - |
| Other receivables | 5,418 | 2,870 |
| Total receivables | 321,981 | 316,425 |

(d) Terms and conditions

The average credit terms vary depending on the nature of the accounts receivable balance:

- related parties range between 7 to 14 days;
- retailers are 10 days; and
- other external customers range between 20 to 30 days.

(e) Ageing of total invoiced trade receivables

| | 2018 \$'000 | 2017 \$'000 |
|--|----------------|----------------|
| Not past due | 68,187 | 70,708 |
| Past due not impaired: 0 - 30 days | 11,613 | 12,730 |
| Past due not impaired: 31 - 60 days | 1,719 | 2,863 |
| Past due not impaired: more than 61 days | 10,208 | 7,722 |
| Past due considered impaired | 1,637 | 1,406 |
| Total invoiced trade receivables | 93,364 | 95,429 |

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Total invoiced trade receivables past due not considered impaired are \$23.5 million (2017: \$23.3 million). Payment terms on these amounts have not been renegotiated.

(f) Impairment of receivables

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

| | 2018 \$'000 | 2017 \$'000 |
|--|----------------|----------------|
| Balance at 1 January 2018, as previously reported | 1,406 | 1,882 |
| Adjustment on initial application of AASB 9 (2014) | 8,900 | - |
| Adjusted balance at 1 January 2018 | 10,306 | 1,882 |
| Additional allowance recognised | 334 | 88 |
| Amounts utilised | (103) | (564) |
| | 10,537 | 1,406 |

Fair value and credit risk

Due to the short term nature and collectability of the receivables, the carrying amount approximates fair value. The maximum exposure to credit risk is the carrying amount of receivables. Collateral is not held as security, nor is it the Group's policy to transfer (on-sell) receivables to other entities.

B8 Payables, provisions and contingent liabilities

(a) Payables accounting policy

Payables represent liabilities for goods and services provided to the Group prior to balance date that are unpaid. Payables are stated at amortised cost and are generally non-interest bearing.

Foreign currency transactions

Transactions in foreign currencies are translated into the Group's functional currency using the exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate at balance date. Foreign currency differences arising on translation are recognised in the income statement, except for differences arising on the translation of qualifying cash flow hedges, which are recognised in other comprehensive income.

(b) Payables summary

| | 2018 \$'000 | 2017 \$'000 |
|-------------------------------------|----------------|----------------|
| Trade and other payables | 94,832 | 89,037 |
| Payables to related parties | 1,089 | 4,205 |
| Accrued expenses | 71,353 | 55,835 |
| Interest payable | 35,360 | 35,303 |
| Interest payable to related parties | 41,337 | 41,337 |
| Total payables | 243,971 | 225,717 |

(c) Provisions accounting policy

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

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

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at balance date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as finance costs.

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(d) Provisions related critical accounting estimates and judgements

(i) Environmental provisions

Determining whether a present legal or constructive obligation exists and whether a reliable estimate of costs can be made are often matters of judgement, whereby previous experience and expert opinions are considered.

There are many uncertainties to consider when estimating the future costs of environmental remediation. Significant factors include information available about site conditions, gaining required approvals for proposed remediation method, successful remediation within the expected timeframes, previous experience, expert opinions, current costs and market conditions and new developments such as evolving technologies, laws and standards affecting costs, and interpretation of current environmental laws and regulations.

These provisions have been reviewed through the year to assess the Group's obligations, probability and estimate of outflow of resources. Changes in the assumptions underlying these estimated costs may impact future reported results. Subject to these factors, but taking into consideration experience gained to date regarding environmental matters of a similar nature, the Group believes the provisions to be appropriate based upon currently available information.

(ii) Decommissioning provisions

Estimating future decommissioning costs involves considerable judgement based on the estimated current cost of detailed plans prepared.

(e) Provisions summary

| | Current | | Non-current | |
|-------------------------------|----------------|----------------|----------------|----------------|
| | 2018 \$'000 | 2017 \$'000 | 2018 \$'000 | 2017 \$'000 |
| Employee benefits | 116,840 | 115,650 | 15,744 | 16,014 |
| Environmental and restoration | 56,050 | 36,832 | 39,212 | 70,081 |
| Decommissioning | - | - | 43,227 | 26,412 |
| Other | 8,981 | 9,844 | - | - |
| Total provisions | 181,871 | 162,326 | 98,183 | 112,507 |

(f) Movements in provisions (excluding employee benefits)

| | Decommissi- oning \$'000 | Environme- ntal and restoration \$'000 | Other \$'000 | Total \$'000 |
|----------------------------------|--------------------------------|---|-----------------|-----------------|
| 2018 | | | | |
| Current and non-current | | | | |
| Opening carrying amount | 26,412 | 106,913 | 9,844 | 143,169 |
| Additional provisions recognised | 15,937 | 9,963 | 8,543 | 34,443 |
| Unused amounts reversed | - | (13) | (914) | (927) |
| Utilised during the year | - | (22,504) | (8,492) | (30,996) |
| Discounting of provisions | 878 | 903 | - | 1,781 |
| Closing carrying amount | 43,227 | 95,262 | 8,981 | 147,470 |

Decommissioning

Decommissioning provisions are recognised in respect of certain gas transmission assets owned by the Group. Where there is a change in the expected decommissioning costs, an adjustment is recorded against the carrying amount of the provision and the associated plant and equipment.

Environmental and restoration

Environmental provisions are recognised in respect of obligations to remediate contamination, caused by former gasworks, at certain sites. Restoration provisions are recognised in respect of civil works and leases.

Other

Other provisions include restructuring, contracts, legal and defect provisions.

(g) Contingent liabilities

Other than as disclosed in these financial statements, the directors are not aware of any other contingent liabilities that could have a material effect on the financial statements.

SECTION C OUR ASSETS

C1 Property, plant, and equipment

(a) Accounting policy

The Group recognises the cost of an item of property, plant and equipment as an asset if it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other costs are recognised in the income statement as incurred.

All classes of property, plant and equipment are measured at cost less any accumulated depreciation and any accumulated impairment losses.

The cost of an item of property, plant and equipment comprises the cost of direct materials, direct labour, an appropriate proportion of direct production overheads, and (where relevant) the estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Items of plant and equipment under construction are recognised as construction in progress. Once the asset construction is complete and the asset is capable of operating in the manner intended by management, the item of plant and equipment is transferred from construction in progress to the relevant asset class and depreciation of the asset commences.

Where significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment and depreciated separately.

Depreciation is charged to the income statement on a straight line basis over the estimated useful life of each item of property, plant and equipment. Depreciation of assets used to produce new assets is included in the carrying amount of the new asset. Land is not depreciated.

Disposals of items result in their carrying amount being derecognised immediately.

(b) Critical accounting estimates and judgements

Estimates are made regarding useful lives of items of property, plant and equipment based on factors that are subject to risk including the regulatory environment and technological developments.

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SECTION C OUR ASSETS

(c) Property, plant and equipment

| | Freehold land \$'000 | Freehold buildings \$'000 | Easements \$'000 | Leasehold improvements \$'000 | Infrastructure assets \$'000 | Other property, plant and equipment \$'000 | Leased plant and equipment \$'000 | Construction in progress \$'000 | Total \$'000 |
|--|-------------------------|------------------------------|---------------------|----------------------------------|---------------------------------|---|--------------------------------------|------------------------------------|-----------------|
| Useful life (years) | Indefinite | 1 - 70 | 40 | 1 - 25 | 1 - 120 | 1 - 20 | 1 - 20 | n/a | |
| Year ended 31 December 2018 | | | | | | | | | |
| Opening carrying amount - 1 January 2018 | 66,251 | 78,237 | 7,589 | 40,354 | 6,128,010 | 23,629 | 37,312 | 661,410 | 7,042,792 |
| Additions | 58 | 498 | - | 773 | 193,857 | 3,496 | - | 413,477 | 612,159 |
| Transfers from/(to) other asset classes | (520) | 13,592 | - | 468 | 71,698 | 5,720 | - | (92,325) | (1,367) |
| Depreciation charge | - | (2,707) | (330) | (4,299) | (195,369) | (10,546) | (2,639) | - | (215,890) |
| Disposals | - | - | - | (218) | (11,475) | (421) | (83) | - | (12,197) |
| Decommissioning provision | - | - | - | - | 6,340 | - | - | 9,597 | 15,937 |
| Closing carrying amount - 31 December 2018 | 65,789 | 89,620 | 7,259 | 37,078 | 6,193,061 | 21,878 | 34,590 | 992,159 | 7,441,434 |
| At 31 December 2018 | | | | | | | | | |
| Cost | 65,789 | 103,095 | 10,765 | 65,356 | 7,888,688 | 130,397 | 53,902 | 992,159 | 9,310,151 |
| Accumulated depreciation | - | (13,475) | (3,506) | (28,278) | (1,695,627) | (108,519) | (19,312) | - | (1,868,717) |
| Carrying amount | 65,789 | 89,620 | 7,259 | 37,078 | 6,193,061 | 21,878 | 34,590 | 992,159 | 7,441,434 |
| Year ended 31 December 2017 | | | | | | | | | |
| Opening carrying amount - 1 January 2017 | 63,978 | 77,186 | 7,854 | 44,231 | 5,702,273 | 31,542 | 39,978 | 321,589 | 6,288,631 |
| Additions | 982 | 268 | - | - | 511,014 | 4,338 | 37 | 449,640 | 966,279 |
| Transfers from/(to) other asset classes | 1,291 | 3,218 | 65 | 399 | 102,080 | 2,057 | (56) | (109,819) | (765) |
| Depreciation charge | - | (2,435) | (330) | (4,276) | (179,847) | (12,850) | (2,580) | - | (202,318) |
| Disposals | - | - | - | - | (10,525) | (1,458) | (67) | - | (12,050) |
| Decommissioning provision | - | - | - | - | 3,015 | - | - | - | 3,015 |
| Closing carrying amount - 31 December 2017 | 66,251 | 78,237 | 7,589 | 40,354 | 6,128,010 | 23,629 | 37,312 | 661,410 | 7,042,792 |
| At 31 December 2017 | | | | | | | | | |
| Cost | 66,251 | 89,005 | 10,765 | 64,271 | 7,632,835 | 123,125 | 54,158 | 661,410 | 8,701,820 |
| Accumulated depreciation | - | (10,768) | (3,176) | (23,917) | (1,504,825) | (99,496) | (16,846) | - | (1,659,028) |
| Carrying amount | 66,251 | 78,237 | 7,589 | 40,354 | 6,128,010 | 23,629 | 37,312 | 661,410 | 7,042,792 |

SECTION C OUR ASSETS

C2 Intangible assets

(a) Accounting policy and critical accounting estimates and judgements

All classes of intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

Amortisation is charged to the income statement on a straight line basis over the estimated useful life of each intangible asset with a finite life.

Estimates are made regarding useful lives of items of intangible assets based on factors that are subject to risk including the regulatory environment and technological developments.

(i) Goodwill

Goodwill represents the future economic benefits arising from other assets acquired in business combinations that are not individually identified and separately recognised.

Goodwill is not amortised but is tested for impairment per the Impairment Policy (refer note C5).

(ii) Electricity distribution licence

A licence is held to distribute electricity to end-users within the Jemena Electricity Network, covering a defined area of north-west greater Melbourne. The licence is issued in perpetuity so long as the associated regulatory requirements are met. Given the Group continuously monitors compliance with regulatory requirements and intends to continue to maintain the network for the foreseeable future, the licence has an indefinite useful life. Therefore the licence is not amortised but is tested for impairment per the Impairment Policy.

(iii) Software

Computer software includes the cost of software licences purchased by the Group and other additional software development costs.

(iv) Contract intangibles

Contract intangibles represent the value attributed to the material customer contracts that the Group acquired in business combinations. The value of these contracts are based on independent valuations, predicated on estimates and judgements. The value of these contracts is determined with reference to the separately identifiable net cash flows generated under each contract, discounted back to present value. Their useful lives reflect both the contract terms and, where applicable, assumed renewal periods.

(v) Construction in progress

Internally generated intangibles in progress are recognised as the sum of all directly attributable costs necessary to create, produce and prepare the asset to be capable of operating in the manner intended, at which point the intangible asset is transferred to the relevant asset class and amortisation of the asset commences.

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(c) Intangible assets

| Useful life (years) | Goodwill \$'000 | Contract Intangibles \$'000 | Electricity distribution licence \$'000 | Software \$'000 | Construction in progress \$'000 | Total \$'000 |
|--|--------------------|-----------------------------------|--|--------------------|---------------------------------------|-----------------|
| | Indefinite | 8 - 33 | Indefinite | 5 - 7 | n/a | |
| Year ended 31 December 2018 | | | | | | |
| Opening carrying amount - 1 January 2018 | 1,541,373 | 69,705 | 10,516 | 129,151 | 44,594 | 1,795,339 |
| Additions | - | - | - | 11,735 | 24,346 | 36,081 |
| Transfers from/(to) other asset classes | - | - | - | 35,374 | (34,007) | 1,367 |
| Amortisation charge | - | (4,474) | - | (49,749) | - | (54,223) |
| Disposals | - | - | - | - | - | - |
| Closing carrying amount - 31 December 2018 | 1,541,373 | 65,231 | 10,516 | 126,511 | 34,933 | 1,778,564 |
| At 31 December 2018 | | | | | | |
| Cost | 1,541,373 | 109,157 | 10,516 | 598,964 | 34,933 | 2,294,943 |
| Accumulated amortisation | - | (43,926) | - | (472,453) | - | (516,379) |
| Carrying amount | 1,541,373 | 65,231 | 10,516 | 126,511 | 34,933 | 1,778,564 |
| Year ended 31 December 2017 | | | | | | |
| Opening carrying amount - 1 January 2017 | 1,516,101 | 29,162 | 10,516 | 148,467 | 27,173 | 1,731,419 |
| Additions | 25,272 | 49,192 | - | 14,394 | 35,708 | 124,566 |
| Transfers from/(to) other asset classes | - | - | - | 19,052 | (18,287) | 765 |
| Amortisation charge | - | (8,649) | - | (52,047) | - | (60,696) |
| Disposals | - | - | - | (715) | - | (715) |
| Closing carrying amount - 31 December 2017 | 1,541,373 | 69,705 | 10,516 | 129,151 | 44,594 | 1,795,339 |
| At 31 December 2017 | | | | | | |
| Cost | 1,541,373 | 119,762 | 10,516 | 551,659 | 44,594 | 2,267,904 |
| Accumulated amortisation | - | (50,057) | - | (422,508) | - | (472,565) |
| Carrying amount | 1,541,373 | 69,705 | 10,516 | 129,151 | 44,594 | 1,795,339 |

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SECTION C OUR ASSETS

C3 Investment in associate

(a) Accounting policy

Associates are those entities in which the Group has significant influence, but no control or joint control, over the financial or operating policies.

Interests in associates are accounted for using the equity method. They are recognised initially at cost. Subsequent to initial recognition, the consolidated financial statements include the Group's share of the income statement and other comprehensive income of equity-accounted investees, until the date on which significant influence or joint control ceases.

Unrealised gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(b) United Energy Distribution Holdings Pty Ltd

The Company owns a 34% interest in United Energy Distribution Holdings Pty Ltd ("UEDH"). Refer to the inside of the cover page for description of UEDH's principal activities.

(c) Reconciliation of movements in investment in UEDH

| | Opening \$'000 | Share of profit \$'000 | Dividends received/ receivable \$'000 | Share of reserves \$'000 | Closing \$'000 |
|------------------------------|-------------------|------------------------------|--|--------------------------------|-------------------|
| 2018 | | | | | |
| Ordinary shares | 130,739 | 27,496 | (37,656) | (5,844) | 114,735 |
| Redeemable preference shares | 205,243 | - | - | - | 205,243 |
| | 335,982 | 27,496 | (37,656) | (5,844) | 319,978 |
| 2017 | | | | | |
| Ordinary shares | 141,096 | 4,895 | (15,506) | 254 | 130,739 |
| Redeemable preference shares | 205,243 | - | - | - | 205,243 |
| | 346,339 | 4,895 | (15,506) | 254 | 335,982 |

The following table summarises the balance sheet information of UEDH:

| | 2018 \$'000 | 2017 \$'000 |
|--|----------------|----------------|
| Current assets (including cash and cash equivalents - 31 December 2018: \$7.5 million; 31 December 2017: \$82.2 million) | 84,628 | 155,920 |
| Non-current assets (including financial assets - 31 December 2018: \$37.0 million, 31 December 2017: \$12.5 million) | 3,144,299 | 3,067,003 |
| Current liabilities (including financial liabilities - 31 December 2018: (\$311.0) million, 31 December 2017: Nil) | (480,513) | (143,961) |
| Non-current liabilities (including financial liabilities - 31 December 2018: (\$2,412.1) million, 31 December 2017: (\$2,716.5) million) | (2,527,514) | (2,813,214) |
| Net assets (100%) | 220,900 | 265,748 |

Capital expenditure contracted for at balance date but not recognised as a liability by the UEDH group is as follows:

| | 2018 \$'000 | 2017 \$'000 |
|---|----------------|----------------|
| Payable within one year | 2,088 | 1,386 |
| Payable later than one year but not later than five years | 849 | 1,103 |
| Later than five years | 123 | - |
| | 3,060 | 2,489 |

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The following table summarises the income statement information of UEDH:

| | 2018 \$'000 | 2017 \$'000 |
|---|----------------|----------------|
| Revenue | 649,395 | 640,497 |
| Depreciation and amortisation | (136,323) | (148,909) |
| Interest income | 664 | 694 |
| Interest expense | (161,080) | (164,389) |
| Net profit after tax | 78,336 | 48,203 |
| Total comprehensive income for distribution | 61,147 | 48,950 |

The following table summarises the Group's equity accounting of UEDH:

| | 2018 \$'000 | 2017 \$'000 |
|---|----------------|----------------|
| Group's share of net assets (34%) | 75,106 | 90,354 |
| Consolidation adjustments | 244,872 | 245,628 |
| Carrying amount of interest in UEDH | 319,978 | 335,982 |
| Group's share of: | | |
| - Profit* | 27,496 | 4,895 |
| - Other comprehensive income (hedging reserves) | (5,844) | 254 |
| - Interest on redeemable preference shares held by the Company, included within UEDH group's interest expense | 25,719 | 25,772 |
| Group's total recognised comprehensive income from UEDH | 47,371 | 30,921 |

* Adjustments made to the equity accounted profit in the prior year mainly relate to hedging corrections that UEDH treated as prior period restatement items

The Company is not aware of any UEDH group contingent liabilities that could have a material effect on the financial statements.

C4 Investment in joint venture

(a) Accounting policy

Joint ventures are arrangements in which the Group has joint control, whereby the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

Interests in joint ventures are accounted for using the equity method. They are recognised initially at cost. Subsequent to initial recognition, the consolidated financial statements include the Group's share of the income statement and other comprehensive income of equity-accounted investees, until the date on which significant influence or joint control ceases.

Unrealised gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(b) ActewAGL Distribution Partnership

The Group holds a 50% interest in the ActewAGL Distribution Partnership ("ADP"). Refer to the inside of the cover page for description of ADP's principal activities.

(c) Critical accounting estimates and judgements

In classifying as a joint venture the Group considered and made certain judgements about the structure of the arrangement, the legal form of any separate vehicles, the contractual terms of the arrangement and other facts and circumstances.

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SECTION C OUR ASSETS

(d) Reconciliation of movements in investment in ADP

| | Opening \$'000 | Share of profit \$'000 | Dividends received/ receivable \$'000 | Closing \$'000 |
|-----------------------------------|-------------------|------------------------------|--|-------------------|
| 2018 | | | | |
| ActewAGL Distribution Partnership | 911,127 | 55,166 | (31,410) | 934,883 |
| | 911,127 | 55,166 | (31,410) | 934,883 |
| 2017 | | | | |
| ActewAGL Distribution Partnership | 891,044 | 62,601 | (42,518) | 911,127 |
| | 891,044 | 62,601 | (42,518) | 911,127 |

The following table summarises the balance sheet information of ADP:

| | 2018 \$'000 | 2017 \$'000 |
|--|------------------|------------------|
| Percentage ownership interest 50% | | |
| Current assets (including cash and cash equivalents - 31 December 2018: \$5.7 million; 31 December 2017: \$4.5 million) | 137,551 | 127,789 |
| Non-current assets (including financial assets - 31 December 2018: \$18.1 million; 31 December 2017: \$16.2 million) | 1,345,565 | 1,306,317 |
| Current liabilities (including financial liabilities - 31 December 2018: (\$2.5) million, 31 December 2017: (\$2.3) million) | (88,223) | (85,747) |
| Non-current liabilities (including financial liabilities - 31 December 2018: (\$12.1) million, 31 December 2017: (\$12.0) million) | (18,936) | (18,095) |
| Net assets (100%) | 1,375,957 | 1,330,264 |

Capital expenditure contracted for at balance date but not recognised as a liability by the joint venture is as follows:

| | 2018 \$'000 | 2017 \$'000 |
|---|----------------|----------------|
| Payable within one year | 5,782 | 6,069 |
| Payable later than one year but not later than five years | 975 | 650 |
| | 6,757 | 6,719 |

The following table summarises the income statement information of ADP:

| | 2018 \$'000 | 2017 \$'000 |
|-------------------------------|----------------|----------------|
| Revenue | 312,655 | 381,783 |
| Depreciation and amortisation | (61,669) | (57,105) |
| Interest income | 1,053 | 1,430 |
| Interest expense | (601) | (573) |

The following table summarises the Group's equity accounting of ADP:

| | 2018 \$'000 | 2017 \$'000 |
|---|----------------|----------------|
| Group's share of net assets (50%) | 687,979 | 665,132 |
| Consolidation adjustments | 246,904 | 245,995 |
| Carrying amount of interest in ADP | 934,883 | 911,127 |
| Total comprehensive income for distribution | 107,241 | 121,852 |
| Group's share of total comprehensive income | 55,166 | 62,601 |

ADP had contingent liabilities of \$4.7 million as at 31 December 2018 (as at 31 December 2017: \$4.7 million) relating to bank guarantees. ADP are not aware of any other contingent liabilities that could have a material effect on the financial statements.

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SECTION C OUR ASSETS

C5 Impairment testing

(a) Accounting policy

An asset is impaired when its carrying amount exceeds its recoverable amount.

The carrying amounts of the Group's assets are reviewed at each balance date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

For goodwill, intangible assets that have an indefinite useful life and construction in progress intangible assets, the recoverable amount is estimated irrespective of whether there is any indication of impairment.

The recoverable amount of assets is the greater of their fair value less costs of disposal and its value in use. In assessing the recoverable amount, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If it is not possible to estimate the recoverable amount of the individual asset, an entity shall determine the recoverable amount of the cash-generating unit (CGU) to which the asset belongs. A CGU is the smallest identifiable group of assets that generates cash inflows independently of the cash flows generated by any other asset or group of assets. For the purpose of impairment testing, goodwill and corporate assets are allocated to the CGUs' carrying amounts.

When the carrying amount of an asset or CGU exceeds its recoverable amount the difference is immediately recognised in the income statement as an impairment loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to reduce the carrying amount of the other assets in the CGU on a pro-rata basis. An impairment loss in respect of goodwill is not reversed.

Impairment losses in respect of other assets are reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of accumulated depreciation or amortisation, if no impairment loss had been recognised. The reversal of an impairment loss is recognised in the income statement.

(b) Impairment testing

The Group's CGUs and allocated goodwill identified for impairment testing are as follows:

| | 2018 \$'000 | 2017 \$'000 |
|---|------------------|------------------|
| Carrying amounts of goodwill by CGU | | |
| Jemena Gas Network ("JGN") | 502,738 | 502,738 |
| Jemena Electricity Network ("JEN") | 148,144 | 148,144 |
| Jemena Eastern Gas Pipeline ("EGP") | 760,983 | 760,983 |
| Jemena Queensland Gas Pipeline ("QGP") | 10,939 | 10,939 |
| Jemena Darling Downs Pipeline Network ("DDPN") | 25,272 | 25,272 |
| Jemena Colongra | - | - |
| Jemena VicHub | - | - |
| Jemena Northern Gas Pipeline ("NGP") | - | - |
| Zinfra | 88,298 | 88,298 |
| 50% of ActewAGL Distribution Partnership ("ADP") | - | - |
| 34% of United Energy Distribution Holdings Pty Ltd ("UEDH") | - | - |
| Rosehill | 4,999 | 4,999 |
| Total | 1,541,373 | 1,541,373 |

CGU impairment testing was carried out at 31 December 2018 resulting in no impairments being recognised (2017: nil).

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(c) Critical accounting estimates and judgements

Fair value less costs of disposal is measured using some inputs that are not based on observable market data, deemed level 3 within the fair value hierarchy as per note F1.

The following table lists critical estimates and assumptions used in estimating the recoverable amount of CGUs:

| CGU | Cash Flow Horizon (years) ^a | Terminal Value Assumptions ^b | Post Tax Discount WACC 2018 ^c | Post Tax Discount WACC 2017 ^c | Comments on critical estimates and assumptions |
|-------------------------------------|--|---|--|--|---|
| Regulated Assets | | | | | |
| JGN | 20 | RAB 1.3 x (2017: RAB 1.2 x) | 4.55% | 4.93% | <p>- For regulated assets where terminal values are a significant driver of recoverable value, Management monitors risks on an ongoing basis in relation to any change; including cross checking with implied market multiples of peers and recent market transactions for recent changes in RAB multiples. This also applies to the key elements of the discount rate and forward profile of capex profiles for these CGUs; which can have a material impact on the recoverable amount.</p> <p>- The final electricity price decision is yet to be remade by the Australian Energy Regulator ("AER") following the favourable Competition Tribunal ruling and has multiple facets that could impact the recoverable amount including but not limited to the cost of debt and value of tax imputation credits (gamma).</p> |
| JEN | 20 | RAB 1.3 x (2017: RAB 1.2 x) | 4.90% | | |
| UED | 10 | RAB 1.4 x (2017: RAB 1.25 x) | 4.55% | | |
| ADP | 10 | RAB 1.4 x (2017: RAB 1.25 x) | 4.55% | | |
| Gas & Water Transmission | | | | | |
| EGP | 20 | Perpetual Growth 0% - 3.0% (2017: Perpetual Growth 0% - 3.0%) | 4.55% - 6.19% | 4.93% - 7.05% | <p>- Management monitors risks on an ongoing basis for any change in the assumptions supporting the growth rates and forward profile of cash flows for these CGUs, including key elements of the discount rate which can have a material impact on the recoverable amount.</p> <p>- The perpetual growth assumption is largely determined by contractual parameters and the projected Australian Consumer Price Index.</p> <p>- The National Gas Rules (Rules) were gazetted in Aug 17 and place new obligations on SGSPAA's pipelines business in relation to information disclosure, contract negotiations and dispute resolution. Management is conducting a review of the financial implications and proposed mitigations arising from these new information and disclosure rules. Management successfully worked with the Northern Territory Government to secure a derogation from the new Rules for the Northern Gas Pipeline.</p> |
| QGP | 20 | | | | |
| DDPN | 20 | | | | |
| NGP | 20 | | | | |
| Colongra | 12 | | | | |
| VicHub | 20 | | | | |

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| CGU | Cash Flow Horizon (years) ^a | Terminal Value Assumptions ^b | Post Tax Discount WACC 2018 ^c | Post Tax Discount WACC 2017 ^c | Comments on critical estimates and assumptions |
|---|--|---|--|--|--|
| Gas & Water Transmission (continued) | | | | | |
| Rosehill | 12 | Not assumed | 4.43% | 4.93% | - Additional specific risk premiums were included in the discount rates for the pipeline CGU's namely, EGP, QGP, VicHub, NGP and DDP. These premiums reflected market outlook potential risks not fully captured in the cash flow forecasts. These risks include competition from QLD liquefied natural gas and NSW coal seam gas, re-contracting risks and the threat of coverage which may potentially impact EGP and QGP, as well as contracting and construction risk. |
| Services | | | | | |
| Zinfra | 5 | Contract Growth 1.5% (2017: Contract Growth 1.5%) | 9.73% | 10.03% | - The market continues to be highly competitive and volatile which could impact revenue and EBITDA margin growth rates. The ability to maintain competitive margins as well as managing re-contracting risks for key customers remains a focus for the business. - Growth is driven mainly by revenue growth across both term and construction contracts supported by identified opportunities, realistic win rates and historical trends. |

Notes:

- a The forecasts include assumptions related to the growth in revenue, operating expenditure and capital expenditure. For regulated CGUs, the growth assumption is primarily driven by the assumptions in the regulatory building block models with growth being a function of the regulated asset base ("RAB") and the allowable return from the regulator in the current regulatory period and expected future returns in the years post the current regulatory period.
- b Terminal values are calculated by applying a multiple to the RAB in the terminal year for regulated assets and terminal growth rates to terminal year cash flows for unregulated assets.
- c All CGUs' future nominal cash flows are discounted to their present value using a discount rate based on the weighted average cost of capital ("WACC"). The WACC takes into account the average rates of return required by providers of debt and equity capital (weighted to the market) to compensate them for the time value of money and the inherent risk or uncertainty in achieving the cash flow returns for that outlay of capital.

Reasonably possible change in key assumptions

The recoverable amount for the following CGUs approximates their carrying value. Accordingly, any deterioration in the key assumptions would result in possible recoverable amount deficiencies:

- ActewAGL: The Evoenergy final decision is due for release in April 2019. The outcome of this decision and ActewAGL's management response may materially impact the recoverable value.
- JGN: The 2020-25 price review may reduce JGN's recoverable value if the outcome is below management's long-term assumptions.
- JEN: Management are required to submit regulatory proposals to the AER in July 2019. The assumptions in the proposal may deviate from the assumptions as at December 2018.
- EGP: Gas market reform and the impact of supply and demand factors drive some uncertainty in revenue projections, especially on recontracting assumptions.

C6 Capital commitments

Capital expenditure contracted for at balance date but not recognised as a liability by the Group is as follows:

| | 2018 \$'000 | 2017 \$'000 |
|---|----------------|----------------|
| Payable within one year | 53,895 | 112,219 |
| Payable later than one year but not later than five years | - | 18,981 |
| | 53,895 | 131,200 |

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D1 Interest bearing liabilities

(a) Accounting policy

Borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest bearing borrowings are either stated at fair value or at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

(b) Interest bearing liabilities

| | Maturity date | Issue rate | Current | | Non-current | |
|-------------------------|---------------|------------|----------------|----------------|----------------|----------------|
| | | | 2018 \$'000 | 2017 \$'000 | 2018 \$'000 | 2017 \$'000 |
| Secured | | | | | | |
| Finance leases* | | | 1,209 | 997 | 47,523 | 49,778 |
| | | | 1,209 | 997 | 47,523 | 49,778 |
| Unsecured | | | | | | |
| Bank loans - Syndicated | | | | | | |
| Facility Agreements | | | - | 415,000 | 920,000 | 125,000 |
| Less: borrowing costs | | | - | (412) | (4,597) | (3,062) |
| Debt securities | | | | | | |
| - USD 130m Senior notes | 15-Apr-18 | 6.850% | - | 166,475 | - | - |
| - GBP 250m MTN | 22-Feb-21 | 5.125% | - | - | 473,939 | 467,379 |
| - USD 500m MTN | 09-Apr-23 | 3.300% | - | - | 684,312 | 623,875 |
| - AUD 150m MTN | 25-Mar-20 | BBSW+1.60% | - | - | 150,000 | 150,000 |
| - AUD 350m MTN | 12-Mar-21 | 5.500% | - | - | 350,000 | 350,000 |
| - EUR 500m MTN | 30-Jun-22 | 2.000% | - | - | 846,307 | 802,657 |
| - AUD 350m MTN | 28-Jun-23 | 3.750% | - | - | 350,916 | 346,073 |
| - USD 500m MTN | 29-Jul-26 | 3.250% | - | - | 647,103 | 592,458 |
| - HKD 875m MTN | 21-May-27 | 3.300% | - | - | 155,132 | 141,788 |
| - USD 500m MTN | 07-Jul-27 | 3.500% | - | - | 682,434 | 630,654 |
| - AUD 250m MTN | 27-Sep-24 | 3.750% | - | - | 250,000 | 250,000 |
| Less: borrowing costs | | | - | - | (24,884) | (29,301) |
| Convertible instruments | | | - | - | 800,000 | 800,000 |
| | | | - | 581,063 | 6,280,662 | 5,247,521 |
| | | | 1,209 | 582,060 | 6,328,185 | 5,297,299 |

For more information about the Group's exposure to interest rate and foreign currency risk, see note D4. Details of financing facilities utilised/unutilised are also contained in note D4 (d).

*For more information about lease obligations refer to note D7 (d).

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D2 Finance income and costs

(a) Accounting policy

Finance income and costs are recognised using the effective interest method.

Borrowing costs that are directly attributable to the construction of a qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. The capitalisation rate used to determine the amount of borrowing costs to be included in the cost of qualifying assets is the weighted average interest rate of 4.22% for the year applicable to the Group's outstanding borrowings (year ended 31 December 2017: 4.13%). Generally, the Group's gearing rate is applied to the capitalisation rate to determine the amount of interest to capitalise, however NGP construction costs are nominated to be 100% debt funded for this purpose.

(b) Summary

| | 2018 \$'000 | 2017 \$'000 |
|---|------------------|----------------|
| Finance income | | |
| Interest income on funds invested | 1,514 | 876 |
| Defined benefit net interest | 991 | 710 |
| | 2,505 | 1,586 |
| Finance costs | | |
| Interest and finance charges paid/payable on borrowings | (305,305) | (291,262) |
| Gain/(loss) on the fair value hedging instruments (fair value hedges) | 77,368 | (24,737) |
| Gain/(loss) on the fair value hedged items (fair value hedges) | (83,437) | 30,466 |
| Other hedging related items | 396 | 2,929 |
| Capitalised finance charges | 27,158 | 13,478 |
| Interest on finance leases | (3,949) | (6,261) |
| Unwinding of discount on liabilities | (1,781) | (264) |
| | (289,550) | (275,651) |
| Economic hedge | | |
| Unwind of economic hedging instruments through hedge reserves | (488) | (1,680) |

SECTION D FINANCING OUR BUSINESS

D3 Derivative financial instruments and hedging reserve

(a) Accounting policy

The Group uses derivative financial instruments such as interest rate swaps, cross currency swaps and foreign exchange contracts to hedge its exposure to foreign exchange and interest rate risks arising from financing activities. The Group does not speculatively trade in derivative financial instruments, however, derivative financial instruments that do not qualify for hedge accounting are accounted for as held for trading.

Derivative financial instruments are recognised at fair value (refer to note F1) determined using level 2 fair value hierarchy inputs, and using discounted cash flow analysis.

The Group applies the maturity date approach to classify derivative financial instruments. Derivative financial instruments are classified as non-current, except for those instruments that mature in less than 12 months from balance date, which are classified as current.

In order to qualify for hedge accounting all of the following hedge effectiveness testing criteria need to be met:

- there is an economic relationship between the hedged item and the hedging instrument;
- the effect of credit risk does not dominate the value changes that result from that economic relationship; and
- the hedge ratio is the same as that resulting from actual amounts of hedged items and hedging instruments for risk management.

(i) Hedge ineffectiveness

Hedge ineffectiveness may arise from counterparty credit risk, changes in timing of the forecast transactions and forecast transactions not occurring. However, the Group tests the hedging effectiveness periodically to ensure that the sources of ineffectiveness do not dominate the hedge relationship.

(ii) Fair value hedges

Changes in the fair value of a derivative financial instrument designated as a fair value hedge of the exposure to changes in fair value of a recognised asset, liability or unrecognised firm commitment, is recognised in the income statement. The hedged item is also stated at fair value in respect of the risk being hedged, the gain or loss attributable to the hedged risk is recognised in the income statement with an adjustment to the carrying amount of the hedged item.

(iii) Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecasted transaction, the effective part of any gain or loss on the derivative financial instrument is recognised in other comprehensive income and accumulated in the hedging reserve. The ineffective portion of the gain or loss is recognised in the income statement.

When the forecast transaction subsequently results in the recognition of a non-financial asset or liability, or a forecast transaction for a non-financial asset or liability becomes a firm commitment for which hedge accounting is applied, the associated cumulative gains or losses is removed from equity and included in the initial cost or other carrying amount of the non-financial asset or liability. If a hedge of a forecasted transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gains and losses that were recognised directly in equity are reclassified into the income statement in the same year or years during which the asset acquired or liability assumed affects the income statement (e.g. when interest expense is recognised). In either case, if the amount is a loss and the Group expects that all or a portion of that loss will not be recovered in one or more future periods, it shall immediately reclassify the amount that is not expected to be recovered into the income statement.

When a cash flow hedging instrument expires or is sold, terminated or exercised, or the entity revokes designation of the hedge relationship, and the hedged forecast transaction is still expected to occur, the cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement or used to adjust the initial cost of the non-financial item. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was recognised in equity is immediately transferred to the income statement.

(iv) Foreign currency basis spreads

The cumulative change in fair value of the foreign currency basis spreads of cross currency interest rate swaps designated in hedge relationships is recognised as a cost of hedging in a separate component of the hedging reserve.

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(b) Critical accounting estimates and judgements

The fair value of derivative financial instruments is determined as follows:

- the fair value of derivative financial instruments with standard terms and conditions and traded on active liquid markets is determined with reference to quoted market prices. The quoted market price used is the current mid-price, as the derivative financial instruments are in hedging relationships with offsetting market risks; and
- the fair value of other derivative financial instruments is determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

Judgements about whether the Group's hedges are in effective economic relationships are on the basis of critical terms of the hedging instrument and hedged item being aligned; including face values, cash flows and currency, and the relationship between the hedged risk and the corresponding value of the hedging derivatives resulting in a hedge ratio of one.

(c) Summary

| | Current | | Non-current | |
|---|----------------|----------------|----------------|----------------|
| | 2018 \$'000 | 2017 \$'000 | 2018 \$'000 | 2017 \$'000 |
| Assets* | | | | |
| Fair value hedges | | | | |
| Cross currency swap contracts | - | - | 370,895 | 295,209 |
| Interest rate swap contracts | - | - | 1,034 | - |
| Cash flow hedges | | | | |
| Cross currency swap contracts | - | 40,905 | 78,474 | 8,503 |
| Interest rate swap contracts | - | - | 2,005 | 5,293 |
| Forward foreign exchange contracts | 452 | 49 | - | - |
| Instruments which do not qualify for hedge accounting | | | | |
| Interest rate swap contracts | - | - | - | - |
| | 452 | 40,954 | 452,408 | 309,005 |

| | Current | | Non-current | |
|---|----------------|----------------|----------------|----------------|
| | 2018 \$'000 | 2017 \$'000 | 2018 \$'000 | 2017 \$'000 |
| Liabilities* | | | | |
| Fair value hedges | | | | |
| Cross-currency swap contracts | - | - | 60,536 | 57,365 |
| Interest rate swap contracts | - | - | - | 3,820 |
| Cash flow hedges | | | | |
| Cross-currency swap contracts | - | - | (44,350) | 48,081 |
| Interest rate swap contracts | 184 | 300 | 84,869 | 35,879 |
| Forward foreign exchange contracts | 3 | 503 | - | - |
| Instruments which do not qualify for hedge accounting | | | | |
| Interest rate swap contracts | - | - | - | - |
| | 187 | 803 | 101,055 | 145,145 |

| | 2018 % | 2017 % |
|---------------------------------------|-----------|-----------|
| Weighted Average Interest Rate | | |
| Cross currency swap contracts | 3.82 | 3.69 |
| Interest rate swap contracts | 2.69 | 2.61 |

* The Group classifies derivative financial instruments with positive fair values as assets and negative fair values as liabilities. The Group also presents the fair value of the derivative financial instruments based on their bifurcated hedge accounting designations.

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(d) Foreign currency risk management

The following table summarises the carrying amount and hedge accounting designations of foreign exchange contracts used to manage foreign currency exposure:

| | Weighted average exchange rate | Foreign currency contract value FC\$'000 | Carrying amount \$'000 | Less than 1 year \$'000 | 1- 5 years \$'000 |
|------------------------------------|--------------------------------|---|---------------------------|----------------------------|----------------------|
| 2018 | | | | | |
| Forward foreign currency contracts | | | | | |
| - Buy USD (United States Dollar) | 0.7275 | 10,411 | 426 | 426 | - |
| - Buy CAD (Canadian Dollar) | 0.9639 | 12,996 | 23 | 23 | - |
| 2017 | | | | | |
| Forward foreign currency contracts | | | | | |
| - Buy USD (United States Dollar) | 0.7030 | 3,137 | (454) | (454) | - |

(e) Hedge accounting

As 31 December 2018, the Group held various types of derivative financial instruments and formally designated them in cash flow and fair value hedge relationships for accounting purposes, in accordance with the requirements of AASB 9. The following table summarises the derivative financial instruments in the consolidated balance sheet and the effects of hedge accounting on the Group's financial position and performance for 2018.

| | Nominal amount of hedging instrument \$'000 | Change in the value of the hedging instrument used for calculating hedge ineffectiveness \$'000 | Change in value of the hedged item used for calculating hedge ineffectiveness \$'000 | Change in value of the hedging instrument recognised in hedging reserve \$'000 | Hedge ineffectiveness recognised in (profit) and loss \$'000 | Amount reclassified from the cash flow hedge reserve to (profit) or loss \$'000 |
|---------------------------------------|--|--|---|---|---|--|
| Cash flow hedges | | | | | | |
| Interest (up to 11 years) | 3,969,000 | (52,162) | 52,162 | (52,162) | - | - |
| Capital expenditure (up to 1 year) | 27,793 | 550 | (550) | 550 | - | - |
| Foreign currency debt (up to 9 years) | 3,071,738 | 11,098 | (10,702) | 10,702 | (396) | (488) |
| Fair value hedges | | | | | | |
| Local Currency debt (up to 5 years) | 250,000 | 4,854 | (4,843) | N/A | (11) | N/A |
| Foreign currency debt (up to 9 years) | 3,071,738 | 78,483 | (78,594) | N/A | 111 | N/A |

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(f) Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net changes in the fair value of cash flow hedging instruments related to highly probable forecast transactions. The future periods in which the cash flows associated with derivative financial instruments in the cash flow hedge reserve are expected to impact profit and loss are the same as when the hedged highly probable cash flows are expected to occur.

| | 2018 \$'000 | 2017 \$'000 |
|--|-----------------|-----------------|
| Balance at beginning of the year | (26,800) | 4,910 |
| Revaluation (cash flow hedge accounting) | (30,901) | (23,794) |
| Revaluation (foreign currency basis spreads)* | 2,199 | (9,270) |
| (Gain)/loss taken to income statement (unwind of economic hedge instruments, net of tax) | 342 | 1,176 |
| Share of associate's hedge reserve | (4,091) | 178 |
| Balance at end of the year | (59,251) | (26,800) |

* AASB 9 requires the foreign currency basis spreads of cross currency swaps to be separated from hedge relationships in Equity.

SECTION D FINANCING OUR BUSINESS

D4 Financial Risk Management

Overview

The Group has exposure to the following risks from the use of financial instruments:

- interest rate risk
- currency risk
- credit risk
- liquidity risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risks, and the Group's management of capital. Further quantitative disclosures are included throughout these financial statements.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board has established the Risk, Health, Safety and Environment Committee, which is responsible for developing and monitoring the Group's risk management policies. The committee reports regularly to the Board of Directors on its activities.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Risk Management framework operates in conjunction with several other policies of the Group, including the:

- Delegations of Financial Authority which sets out the approvals required for such transactions as investment of surplus funds, execution of hedging transactions, borrowings and issue of guarantees and indemnities;
- Treasury Operations Manual which sets out the day-to-day Treasury front office processes such as cash management and the operations of the Treasury back office, such as settlement processes and bank account operations; and
- Refinancing and Hedging Strategy which sets out the refinancing and hedging strategies over the relevant financial period.

Together, these policies provide a financial risk management framework which supports the Group's objectives of finding the right balance between risk and reward to enhance profitability and business performance while minimising current and future exposures.

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign currency risk, including:

- forward foreign exchange contracts;
- interest rate swaps ("IRS"); and
- cross currency swaps ("CCS").

The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

It is the Group's policy to ensure, wherever possible, that all hedging activities comply with the hedge accounting requirements of AASB 9 *Financial Instruments*. However, there may be instances where it makes commercial and economic sense to enter into derivative financial instrument transactions that do not achieve hedge accounting. In these instances, under AASB 9 such derivative financial instruments must be classified as "held for trading". However, this classification is not an indication of intent to trade in derivative financial instruments.

The material financial risks associated with the Group's activities are each described below, together with details of the Group's policies for managing the risk.

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(a) Interest rate risk

The Group is exposed to the risk of movements in interest rates on its borrowings. In addition, the regulated electricity distribution business and gas distribution business revenues are impacted directly by changes in the interest rates relating to each of their respective price review periods. This is a result of the "building block" approach where interest rates are considered in the determination of the regulatory weighted average cost of capital and consequently, regulated revenues. The price review period is five years for gas and electricity distribution. The AER has in December 2013 issued its guidelines for determining the rate of return for regulated assets. This guideline impacts the hedging approach taken by the Group, as it now references a 10-year trailing average method rather than market observation at the start of the regulatory period. Hedging of interest rate exposure is aligned to the transition path proposed by the AER.

The objective of hedging activities carried out by the Group in relation to these businesses is to minimise the exposure to changes in interest rates by matching the actual cost of debt with the cost of debt assumed by the regulator when setting the rate of return for the relevant business. The exposure is managed by maintaining an appropriate mix of fixed and floating rate borrowings and by the use of IRS.

The debt portfolio of the Group consists of both floating rate debt and fixed rate debt. The Group's interest rate hedging policy is linked to debt notionally allocated to the asset classes. Interest rate derivative financial instruments are used in order to maintain the percentage of allocated fixed rate debt according to the asset classes (Jemena, which includes regulated network assets and pipelines; and Zinfra, which is an infrastructure services business), as approved by the Board. Hedging of the regulated assets is aligned with tenures linked to the respective regulatory reset periods.

As at balance date, the Group had the following financial assets and liabilities exposed to fair value interest rate risk that were not designated in a hedging relationship:

| | 2018 \$'000 | 2017 \$'000 |
|--|----------------|----------------|
| Financial assets: | | |
| Cash at bank and in hand | 26,936 | 31,709 |
| | 26,936 | 31,709 |
| Financial liabilities: | | |
| Bank loans and debt securities not designated in an interest rate hedging relationship | 672,738 | 922,263 |
| | 672,738 | 922,263 |

The Group utilises IRS to manage its exposure to interest rate risk (refer note D3 (d)). Under IRS, the Group agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the Group to mitigate the risk of changing interest rates on debt held.

Due to the Group's interest rate risk management policies, the exposure at a corporate level to interest rate risk at any point in time is significantly reduced. At balance date, 92.5% of the Group's borrowings are fixed through either fixed rate debt or pay fixed IRS.

Sensitivity Analysis

| | 2018 | | 2017 | |
|----------------------|--------------------------------|------------------|--------------------------------|------------------|
| | Net profit/(loss) \$'000 | Equity \$'000 | Net profit/(loss) \$'000 | Equity \$'000 |
| AUD | | | | |
| Interest rate (+10%) | (2,918) | 52,050 | (3,808) | 28,266 |
| Interest rate (-10%) | 2,902 | (62,583) | 3,812 | 14,662 |
| USD | | | | |
| Interest rate (+10%) | - | (39,925) | - | (30,971) |
| Interest rate (-10%) | - | 53,955 | - | 37,185 |

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(b) Currency risk

The Group's policy is to eliminate all currency risk due to funding activities in offshore debt markets. All foreign currency denominated debt has been fully hedged through the use of cross currency swaps into Australian dollar debt. Other foreign exchange rate exposures arising from commitments to foreign currency purchases are managed within approved policy parameters utilising forward foreign exchange contracts.

The objective of the Group's currency risk management program is to eliminate material foreign exchange risk by utilising various hedging techniques as approved by the Board. The Group therefore considers currency risk exposure to be minimal.

The Group enters into cross currency swaps to manage exposures from foreign currency loans in USD, GBP, EUR and HKD (refer note D3 (e)). It is the policy of the Group to cover 100 per cent of the exposure generated by these loans.

Under cross currency swaps, the Group agrees to exchange specified principal and interest foreign currency amounts at an agreed future date at a specified exchange rate. Such contracts enable the Group to mitigate the risk of adverse movements in foreign exchange rates.

As at balance date, the Group held the following cross currency swaps for foreign currency denominated borrowings: The maturity of these swaps matches the maturity of the relevant foreign currency denominated borrowings.

| | 2018 \$'000 | 2017 \$'000 |
|--|------------------|------------------|
| Cross currency swaps notional amounts | | |
| USD | 1,799,004 | 1,924,149 |
| GBP | 399,776 | 399,776 |
| EUR | 723,275 | 723,275 |
| HKD | 149,683 | 149,683 |
| | 3,071,738 | 3,196,883 |

The Group also enters into forward foreign exchange contracts to hedge the exchange rate risk in relation to specific purchase orders (refer note D3 (e)). It is the policy of the Group to fully hedge currency exposures above an approved threshold once the exposure is recognised. The derivative financial instrument used to hedge the exposure is entered into when there is a high degree of certainty as to the nature of the exposure, including currency, amount and delivery date so as to ensure a high level of effectiveness in cash flow hedging.

As at balance date, the Group had the following financial assets and liabilities exposed to currency risk that were not designated in a hedging relationship.

| | 2018 \$'000 | 2017 \$'000 |
|--------------------------|----------------|----------------|
| Financial assets: | | |
| Cash (USD denominated) | 503 | 185 |
| | 503 | 185 |

Sensitivity analysis performed by management showed that movement in foreign currencies and the impact on net profit and equity is not material.

(c) Credit risk

Credit risk refers to the risk a counterparty will default on its contractual obligations resulting in financial loss to the Group and arises from the Group's financial assets, comprising cash and cash equivalents, trade and other receivables and derivative financial instruments.

The Group has adopted a policy of only dealing with creditworthy counterparties. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate values of transactions conducted are spread amongst approved counterparties. The Group therefore considers credit risk exposure to be minimal.

The Group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with strong investment grade credit ratings assigned by international credit rating agencies.

Notes to the financial statements

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SECTION D FINANCING OUR BUSINESS

Accounts receivable consist of a number of customers, spread across a range of industries and geographical areas. In most part, the Group's revenue is sourced from its regulated energy networks, contracted gas pipelines with large industrial customers, and maintenance services provided predominantly to other regulated energy or water distribution utilities. Despite the relatively low risk of bad debts, the Group regularly monitors the financial condition of its accounts receivable balances to ensure the exposure to bad debts is minimised. Refer to note B7 for more information.

The carrying amount of financial assets recorded in the financial statements, net of any allowances for impairment losses and credit value adjustments, represents the Group's maximum exposure to credit risk.

(d) Liquidity risk

The Group targets a minimum net liquidity, defined as available short term funds and committed financing facilities. As at balance date, the Group had the following committed financing facilities available:

| | 2018 \$'000 | 2017 \$'000 |
|---|----------------|----------------|
| Floating rate | | |
| Unsecured working capital, reviewed annually: | | |
| - Amounts used - bank guarantees | 76,354 | 83,439 |
| - Amount unused | 83,646 | 56,561 |
| Unsecured bilateral facilities with various maturity dates and which may be extended by mutual agreement: | | |
| Unsecured syndicated bank loan facilities: | | |
| - Amount used | 920,000 | 540,000 |
| - Amount unused | 580,000 | 1,075,000 |
| Total amount used | 996,354 | 623,439 |
| Total amount unused (refer note A1 (a)) | 663,646 | 1,131,561 |

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

As part of managing liquidity risk, the Group aims to maintain a diversified debt portfolio, in terms of maturity and source. In this regard, the Group has raised funds in both the bank debt market, the domestic and offshore capital markets. The investment grade credit rating of the Group ensures ready access to both domestic and offshore capital markets.

Liquidity risk is managed by the Group based on expected net cash inflows and outflows from financial assets and liabilities and available banking facilities combined with access to global capital markets. The following table summarises the maturities of the Group's financial assets and liabilities based on the remaining earliest contractual maturities at carrying amount.

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(d) Liquidity risk

Undiscounted contractual cash flow

| | Carrying amounts \$'000 | Less than 1 year \$'000 | Between 1 and 2 years \$'000 | Between 2 and 5 years \$'000 | Over 5 years \$'000 | Total \$'000 |
|--|-------------------------------|-------------------------------|------------------------------------|------------------------------------|------------------------|--------------------|
| As at 31 December 2018 | | | | | | |
| Financial assets | | | | | | |
| Cash and cash equivalents | 26,936 | 26,936 | - | - | - | 26,936 |
| Receivables (including lease receivable) | 330,644 | 332,518 | 336 | 1,265 | 7,062 | 341,181 |
| Interest rate swaps | 3,039 | 347 | 369 | 376 | 2,336 | 3,428 |
| Cross-currency swaps | 449,369 | | | | | |
| Cross currency swaps - receive | | 60,698 | 60,698 | 1,978,814 | | 2,100,210 |
| Cross currency swaps - pay | | (60,068) | (58,058) | (1,694,564) | | (1,812,690) |
| Forward foreign currency contracts | 452 | 492 | - | - | - | 492 |
| | 810,440 | 360,923 | 3,345 | 285,891 | 9,398 | 659,557 |
| Financial liabilities | | | | | | |
| Variable interest rate loans | 1,065,289 | 5,611 | 151,541 | 120,753 | 800,134 | 1,078,039 |
| Fixed interest rate loans | 4,464,105 | 157,613 | 157,613 | 3,015,528 | 2,024,580 | 5,355,334 |
| Convertible instruments | 800,000 | 82,000 | 82,000 | 246,000 | 2,987,266 | 3,397,266 |
| Payables | 243,971 | 243,971 | - | - | - | 243,971 |
| Finance leases | 48,732 | 6,869 | 7,033 | 21,479 | 63,864 | 99,245 |
| Interest rate swaps | 85,053 | 21,009 | 27,028 | 44,383 | 1,188 | 93,608 |
| Cross-currency swaps | 16,186 | | | | | |
| Cross-currency swaps - receive | | (53,112) | (53,112) | (159,335) | (1,765,205) | (2,030,764) |
| Cross-currency swaps - pay | | 58,268 | 55,510 | 180,193 | 1,692,238 | 1,986,209 |
| Forward foreign currency contracts | 3 | (4) | - | - | - | (4) |
| | 6,723,339 | 522,225 | 427,613 | 3,469,001 | 5,804,065 | 10,222,904 |
| Net maturity | | (161,302) | (424,268) | (3,183,110) | (5,794,667) | (9,563,347) |

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SECTION D FINANCING OUR BUSINESS

Undiscounted contractual cash flow

| | Carrying amounts \$'000 | Less than 1 year \$'000 | Between 1 and 2 years \$'000 | Between 2 and 5 years \$'000 | Over 5 years \$'000 | Total \$'000 |
|------------------------------------|-------------------------------|-------------------------------|------------------------------------|------------------------------------|------------------------|--------------------|
| As at 31 December 2017 | | | | | | |
| Financial assets | | | | | | |
| Cash and cash equivalents | 31,709 | 31,709 | - | - | - | 31,709 |
| Receivables | 292,204 | 284,679 | 300 | 1,131 | 7,500 | 293,610 |
| Interest rate swaps | 5,293 | (1,300) | (894) | 1,673 | 6,695 | 6,174 |
| Cross-currency swaps | 344,617 | | | | | |
| Cross currency swaps - receive | - | 228,282 | 56,106 | 1,219,035 | 650,852 | 2,154,275 |
| Cross currency swaps - pay | - | (189,496) | (61,782) | (1,286,727) | (491,484) | (2,029,489) |
| Forward foreign currency contracts | 49 | 50 | - | - | - | 50 |
| | 673,872 | 353,924 | (6,270) | (64,888) | 173,563 | 456,329 |
| Financial liabilities | | | | | | |
| Variable interest rate loans | 686,323 | 430,755 | 133,704 | 151,445 | - | 715,904 |
| Fixed interest rate loans | 4,393,036 | 320,594 | 148,417 | 1,945,447 | 2,919,296 | 5,333,754 |
| Convertible instruments | 800,000 | 82,000 | 82,000 | 246,000 | 3,069,266 | 3,479,266 |
| Payables | 225,717 | 225,717 | - | - | - | 225,717 |
| Finance leases | 50,775 | 7,177 | 7,207 | 22,373 | 74,189 | 110,946 |
| Interest rate swaps | 39,999 | 19,753 | 15,764 | 13,026 | (2,617) | 45,926 |
| Cross-currency swaps | 105,446 | | | | | |
| Cross-currency swaps - receive | - | (47,994) | (47,994) | (143,983) | (1,643,132) | (1,883,103) |
| Cross-currency swaps - pay | - | 55,888 | 58,518 | 200,808 | 1,780,166 | 2,095,380 |
| Forward foreign currency contracts | 503 | 508 | - | - | - | 508 |
| | 6,301,799 | 1,094,398 | 397,616 | 2,435,116 | 6,197,168 | 10,124,298 |
| Net maturity | | (740,474) | (403,886) | (2,500,004) | (6,023,605) | (9,667,969) |

Notes to the financial statements

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SECTION D FINANCING OUR BUSINESS

(e) Fair value of financial assets and liabilities

The Group classified the fair value measurements (refer note F1) of its financial instruments using a level 2 fair value hierarchy that reflects the significance of the inputs used in making the measurements. Fair value is measured using valuation techniques and significant market observable data as well as market corroboration based on active quotes. These include industry standard interest rate, foreign exchange and currency basis yield curves sourced directly from Bloomberg. In addition, an adjustment to the fair value for all cross currency and interest rate swap contracts is applied for credit risk in accordance with AASB 13 Fair Value Measurement. Credit risk is obtained directly from the observable Credit Default Swap curves within Bloomberg for each of the relevant counterparties, with the Bilateral Credit Risk applied uniformly across all swap assets and liabilities as at balance date.

With the exception of the below, the fair values of other financial assets and liabilities approximate their carrying amounts

| | Carrying amount | | Fair value | |
|---------------------------------|-----------------|----------------|----------------|----------------|
| | 2018 \$'000 | 2017 \$'000 | 2018 \$'000 | 2017 \$'000 |
| Financial liabilities | | | | |
| Debt securities (fixed rate) | 4,415,373 | 4,342,261 | 4,033,787 | 4,272,426 |
| Debt securities (floating rate) | 149,886 | 149,797 | 151,173 | 152,130 |

(f) Financial covenants

The terms of certain financing arrangements contain financial covenants.

The Group regularly monitors compliance with its financial covenants and reports to its banking syndicate on a semi-annual basis and was in compliance with its financial covenants throughout the year.

D5 Share capital

(a) Accounting policy

Ordinary share capital is recorded at the fair value of consideration received. The costs of issuing securities are charged against the share capital. Ordinary share capital bears no special terms or conditions affecting income or capital entitlements of the shareholders.

(b) Summary

| | 2018 \$ | 2017 \$ |
|--|----------------------|----------------------|
| Fully paid ordinary shares (at \$1 each) | 3,200,000,100 | 3,200,000,100 |
| | 3,200,000,100 | 3,200,000,100 |

Notes to the financial statements

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SECTION D FINANCING OUR BUSINESS

D6 Reconciliation of movements of assets and liabilities to cash flows arising from financing activities

| | 1 January 2018 | Cash flows | | | Non-cash changes | | 31 December 2018 |
|---|------------------------------|--|---|-----------------|---------------------------------|-----------------|------------------------------|
| | Opening Balance \$'000 | Proceeds from borrowings \$'000 | Repayment of borrowings \$'000 | Other \$'000 | Fair value changes \$'000 | Other \$'000 | Closing Balance \$'000 |
| Interest bearing liabilities | | | | | | | |
| Finance leases | 50,775 | - | - | (7,177) | - | 5,134 | 48,732 |
| Bank loans | 536,526 | 1,741,004 | (1,361,004) | - | - | (1,123) | 915,403 |
| Debt securities | 4,492,058 | - | (131,503) | - | 200,287 | 4,417 | 4,565,259 |
| Convertible instruments | 800,000 | - | - | - | - | - | 800,000 |
| | 5,879,359 | 1,741,004 | (1,492,507) | (7,177) | 200,287 | 8,428 | 6,329,394 |
| Derivative financial instruments - Assets | | | | | | | |
| Cross currency swap contracts | (344,617) | - | - | - | (104,752) | - | (449,369) |
| Interest rate swap contracts | (5,293) | - | - | - | 2,254 | - | (3,039) |
| Forward foreign exchange contracts | (49) | - | - | - | (403) | - | (452) |
| | (349,959) | - | - | - | (102,901) | - | (452,860) |
| Derivative financial instruments - Liabilities | | | | | | | |
| Cross currency swap contracts | 105,446 | - | - | - | (89,260) | - | 16,186 |
| Interest rate swap contracts | 39,999 | - | - | - | 45,054 | - | 85,053 |
| Forward foreign exchange contracts | 503 | - | - | - | (500) | - | 3 |
| | 145,948 | - | - | - | (44,706) | - | 101,242 |

Notes to the financial statements

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SECTION D FINANCING OUR BUSINESS

D7 Lease obligations

(a) Accounting policy

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the leased property or, if lower, at the present value of the minimum lease payments.

Finance lease payments are apportioned between finance costs and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to the income statement.

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

(b) Critical accounting estimates and judgements

The assessment of contractual arrangements requires a degree of judgement as to whether the significant risks and rewards of ownership of an asset are substantially transferred to the Group.

(c) Operating lease commitments

| | 2018 \$'000 | 2017 \$'000 |
|--|----------------|----------------|
| Minimum lease payments under non-cancellable operating leases: | | |
| - not later than one year | 31,012 | 32,990 |
| - later than one year but not later than five years | 89,456 | 97,503 |
| - later than five years | 80,701 | 108,793 |
| | 201,169 | 239,286 |
| | | |
| | 2018 \$'000 | 2017 \$'000 |
| Operating lease expenditure for the year | 22,797 | 23,564 |
| | 22,797 | 23,564 |

(d) Finance lease commitments

| | 2018 \$'000 | 2017 \$'000 |
|---|-----------------|-----------------|
| Minimum lease payments: | | |
| - not later than one year | 6,869 | 7,177 |
| - later than one year but not later than five years | 28,512 | 29,580 |
| - later than five years | 63,864 | 74,189 |
| | 99,245 | 110,946 |
| Future finance charge | | |
| - not later than one year | (5,660) | (6,181) |
| - later than one year but not later than five years | (21,008) | (23,411) |
| - later than five years | (23,844) | (30,579) |
| | (50,512) | (60,171) |
| Total net finance leases | 48,733 | 50,775 |
| Representing lease liabilities: | | |
| Current | 1,209 | 997 |
| Non-current | 47,523 | 49,778 |
| Total lease liabilities | 48,732 | 50,775 |

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SECTION E GROUP STRUCTURE

E1 Parent entity information

(a) Parent entities

The Company is the ultimate Australian parent of the Group.

The ultimate parent entity is State Grid Corporation of China ("SGCC").



Notes to the financial statements

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SECTION E GROUP STRUCTURE

(b) Financial information of the Company

| | 2018 \$'000 | 2017 \$'000 |
|--|------------------|------------------|
| Balance sheet | | |
| Assets | | |
| Current assets | 2,452,355 | 2,545,232 |
| Non-current assets | 6,200,041 | 6,182,815 |
| Total Assets | 8,652,396 | 8,728,047 |
| Liabilities | | |
| Current liabilities | 569,559 | 1,211,025 |
| Non-current liabilities | 5,989,717 | 5,392,667 |
| Total Liabilities | 6,559,276 | 6,603,692 |
| Equity | | |
| Share capital | 3,200,000 | 3,200,000 |
| Reserves | (48,467) | (19,084) |
| Retained earnings | 32,219 | 34,071 |
| Accumulated losses | (1,090,632) | (1,090,632) |
| Total Equity | 2,093,120 | 2,124,355 |
| Income statement | | |
| Profit for the year | 153,548 | 167,212 |
| Other comprehensive income for the year | (29,383) | (34,074) |
| Total comprehensive income for the year | 124,165 | 133,138 |
| Dividends | | |
| Dividends paid to shareholders: \$0.05 per share (year ended 31 December 2017: \$0.05 per share) | 155,400 | 167,800 |

(c) Disclosures of the Company

The Company has provided performance guarantees on behalf of the Group. No liability was recognised as the fair value of the guarantees is immaterial.

The Australian Taxation Office is currently conducting a transfer pricing audit in relation to the Company's convertible instruments. No liability has been recognised

The Company did not have any contractual commitments for the acquisition of property, plant and equipment as at 31 December 2018 or 31 December 2017.

SECTION E GROUP STRUCTURE

E2 Subsidiaries

(a) Accounting policy

(i) Business combinations

The Group accounts for business combinations using the acquisition method. The Group identifies the acquirer and the acquisition date. As of the acquisition date, the Group recognises the identifiable assets acquired and the liabilities assumed at their acquisition-date fair values. Then, the Group recognises goodwill as of the acquisition date, measured as the excess of the fair value of consideration transferred over the net assets or net liabilities recognised as described.

(ii) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it 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. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and other components of equity. Any resulting gain or loss is recognised in the income statement. Any interest retained in the former subsidiary is measured at fair value when control is lost.

(iii) Transactions eliminated on consolidation

Intra-Group balances and transactions, and any unrealised income and expenses arising from intra-Group transactions, are eliminated in preparing the consolidated financial statements.

(b) Critical accounting estimates and judgements

(i) Fair value in business combinations

Business combinations are accounted for using the acquisition method. This method requires the application of fair values for both the consideration given and the assets and liabilities acquired. The calculation of fair values is often predicated on estimates and judgements including future cash flows, revenue streams and value in use calculations. The determination of the fair values may remain provisional for up to 12 months from the date of acquisition due to the time necessarily required to obtain independent valuations of individual assets and to complete assessments of provisions.

(c) Subsidiaries

The consolidated financial statements incorporate the assets, liabilities, equity, revenues and expenses and cash flows of the following subsidiaries:

All subsidiaries are incorporated in Australia and 100% of their ordinary share capital was owned by the Group during the current year and prior year, except for the entities having different classes of shares issued as noted below:

Jemena Electricity Networks (Vic) Ltd has Ordinary class A, Ordinary class B, Class C preference and Class D preference shares on issue. 100% of its equity is owned by the Group.

Jemena Eastern Gas Pipeline (2) Pty Ltd has Ordinary class L and Ordinary class M shares on issue. 100% of its equity is owned by the Group.

Jemena Eastern Gas Pipeline (3) Pty Ltd has Ordinary class A and Ordinary class B shares on issue. 100% of its equity is owned by the Group.

Jemena Gas Trust and QGP Unit Trust have units on issue. 100% of their equity is owned by the Group.

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SECTION E GROUP STRUCTURE

Name of entity

Jemena Electricity Networks (Vic) Ltd
Jemena Gas Networks (NSW) Ltd
Ovida Pty Ltd (formerly known as Jemena Asset Management Holdings Pty Ltd)
ZNX Pty Ltd
ZNX (2) Pty Ltd
Jemena Eastern Gas Pipeline (1) Pty Ltd

Jemena Eastern Gas Pipeline (2) Pty Ltd
Jemena Eastern Gas Pipeline Holdings Pty Ltd
Jemena Queensland Gas Pipeline (2) Pty Ltd
Jemena Queensland Gas Pipeline (1) Pty Ltd
Jemena VicHub Pipeline Pty Ltd
Jemena Eastern Gas Pipeline (3) Pty Ltd
Jemena Gas Transmission Pty Ltd
Jemena Networks (ACT) Pty Ltd
Jemena Group Holdings Pty Ltd
Jemena Holdings Pty Ltd
Jemena Limited
Jemena Gas Pipelines Holdings Pty Ltd
Jemena Asset Management Pty Ltd
Jemena Asset Management (5) Pty Ltd

Name of entity

Jemena NT Pipelines Pty Ltd
Jemena NSGC Pty Ltd

AquaNet Sydney Pty Ltd
Jemena Colongra Pty Ltd
Jemena Northern Gas Pipeline Pty Ltd
Ovida

SGSP Rosehill Network Pty Ltd
Jemena Darling Downs Pipeline (1) Pty Ltd
Jemena Darling Downs Pipeline (2) Pty Ltd
Jemena Darling Downs Pipeline (3) Pty Ltd
CLM Infrastructure Pty Ltd
Jemena Contracting Services (West) Pty Ltd
Zinfra Contracting Pty Ltd
Jemena EH Pty Ltd
Zinfra Pty Ltd
Jemena Management Holdings Pty Ltd
Jemena Management Services Pty Ltd
Jemena Gas Trust
QGP Unit Trust

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SECTION E GROUP STRUCTURE

E3 Related party transactions

(a) Related entities

The Group engages in related party transactions with various entities within the AusNet Services Ltd group ("AusNet Services"). AusNet Services is a related entity via the Company's shareholders. The transmission networks of AusNet Services (Transmission) Limited transmits electricity to the Jemena Electricity Network. The Group also engages and provides construction work on network assets to AusNet Services. AusNet Services provides various asset management services to the Group.

The Group, via Zinfra, engages in related party transactions with its associate, UEDH, for construction and maintenance of its electricity network in Victoria.

The Group engages in related party transactions with its joint venture, ADP, to develop, construct, operate and maintain the electricity network and the gas networks in ACT, Queanbeyan and Nowra.

The Group engages in related party transactions with the NARI Group Corporation ("NARI") for supply of electric power equipment. NARI is a related entity via one of the Company's shareholders.

The Group, via Zinfra, provided construction services to ElectraNet in relation to electricity transmission in South Australia. ElectraNet is a related entity via one of the Company's shareholders.

(b) Subsidiaries

Interests in subsidiaries are set out in note E2 (c).

(c) Key management personnel

Key management personnel compensation paid (including salaries, superannuation and bonuses) is set out below. The key management personnel of the Group comprise the directors and those executives that report directly to the Managing Director.

| | 2018 \$ | 2017 \$ |
|------------------------------|-------------------|-------------------|
| Short-term employee benefits | 12,788,652 | 11,491,289 |
| Post-employment benefits | 202,149 | 216,903 |
| Total | 12,990,801 | 11,708,192 |

(d) Transactions with related parties

The following transactions occurred with related parties:

| | 2018 \$'000 | 2017 \$'000 |
|--|----------------|----------------|
| Sales of goods and services | | |
| Associate | 128,390 | 91,348 |
| Joint venture | 36,897 | 45,084 |
| Other related parties | 156,580 | 77,631 |
| Other income | | |
| Associate - interest on redeemable preference shares | 25,719 | 25,772 |
| Associate – directors' fees | 30 | 30 |
| Joint venture – directors' fees | 304 | 271 |
| Purchase of goods | | |
| Administration expenses to shareholders | 40 | 23 |
| Maintenance expenses to other related parties | 8,510 | 23,467 |
| Purchase of goods from other related parties | 18,190 | 1,573 |

Notes to the financial statements

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SECTION E GROUP STRUCTURE

| | 2018 \$'000 | 2017 \$'000 |
|--|----------------|----------------|
| Finance costs | | |
| Shareholders | 82,000 | 82,000 |
| Dividend payments | | |
| <i>Dividend payments to:</i> | | |
| Shareholders | 155,400 | 167,800 |
| (e) Outstanding balances with related parties | | |
| The following related party balances are outstanding at balance date | | |
| | 2018 \$'000 | 2017 \$'000 |
| Current receivables | | |
| Associate | 30,615 | 17,377 |
| Joint venture | 4,163 | 3,235 |
| Other related parties | 49,861 | 22,520 |
| Current payables | | |
| Other related parties | 1,089 | 4,205 |
| Shareholders | 41,337 | 41,337 |
| Non-current payables | | |
| Shareholders | 800,000 | 800,000 |

Notes to the financial statements

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SECTION F OTHER DISCLOSURES

F1 Fair value measurement

(a) Accounting policy

The Group defines a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Level 1 inputs: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 inputs: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 inputs: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

F2 Remuneration of auditors

During the year the following fees were paid or payable for services provided by the auditor of the Company and its subsidiaries:

(a) Audit services

| | 2018 \$ | 2017 \$ |
|--|------------------|------------------|
| Statutory audit | 943,800 | 901,800 |
| Regulatory audits | 1,224,325 | 269,325 |
| Total remuneration for audit services | 2,168,125 | 1,171,125 |

(b) Other services

| | 2018 \$ | 2017 \$ |
|--|---------------|----------------|
| Taxation services | 8,793 | 18,346 |
| Other assurance services | 90,500 | 120,000 |
| Other advisory services | - | 147,094 |
| Regulatory advisory services | - | 63,500 |
| Total remuneration for other services | 99,293 | 348,940 |

The Group employs KPMG to perform both the statutory audit and the audit of regulatory returns as these returns represent an extension of the information obtained from the statutory audit. Using the same firm for both audits contributes to the efficiency of the audit process.

F3 Events occurring after balance date

Commercial operation of the Northern Gas Pipeline (NGP) commenced on 3 January 2019. The NGP transports gas approximately 623 kilometres from Tennant Creek in the Northern Territory (NT) to Mt Isa in Queensland, connecting gas resources in the NT to the east coast gas market. The pipeline has a maximum capacity of approximately 90 terajoules per day.

On 14 March 2019, the Group commenced a formal sale process seeking to divest the Group's interest in the Rosehill cash-generating unit.

No other matters or circumstances have arisen since balance date that significantly affected or could significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in future years.

Directors' declaration

SGSP (Australia) Assets Pty Ltd
ABN 60 126 327 624

For the year ended 31 December 2018

In the directors' opinion:

1. the financial statements and notes set out on pages 4 to 58 are in accordance with the *Corporations Act 2001*, including:
 - (a) giving a true and fair view of the Group's financial position as at 31 December 2018 and of its performance for the year ended on that date; and
 - (b) complying with Accounting Standards, *the Corporations Regulations 2001* and other mandatory professional reporting requirements.
2. there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.
3. The directors draw attention to Note A1 to the financial statements, which includes a statement of compliance with International Financial Reporting Standards.

This declaration is made in accordance with a resolution of the board of directors.

Director:



Place: Melbourne
Date: 21 March 2019

Ruan Qiantu

Director:



FRANK TUDOR



Independent Auditor's Report

To the members of SGSP (Australia) Assets Pty Ltd

Opinion

We have audited the **Financial Report** of SGSP (Australia) Assets Pty Ltd (the Company).

In our opinion, the accompanying Financial Report of the Company is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the Group's financial position as at 31 December 2018 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The **Financial Report** comprises:

- *Consolidated balance sheet* as at 31 December 2018
- *Consolidated income statement, Consolidated statement of comprehensive income, Consolidated statement of changes in equity, and Consolidated statement of cash flows* for the year then ended
- Notes including a summary of significant accounting policies
- *Directors' Declaration*.

The **Group** consists of SGSP (Australia) Assets Pty Ltd (the Company) and the entities it controlled at the year end or from time to time during the financial year.

Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report.

We are independent of the Group in accordance with *the Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the Financial Report in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.

Key Audit Matters

The **Key Audit Matters** we identified are:

- Recoverability of non-current assets, including property, plant and equipment, intangible assets and investments
- Recognition of revenue
- Taxation

Key Audit Matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Report of the current period.

These matters were addressed in the context of our audit of the Financial Report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Recoverability of non-current assets, including property, plant and equipment (\$7,441m), intangible assets (\$1,779m) and investments (\$1,255m)

Refer to note C5 Impairment testing.

| The key audit matter | How the matter was addressed in our audit |
|--|---|
| <p>Recoverability of non-current assets is a key audit matter due to the:</p> <ul style="list-style-type: none"> • complex nature of the regulatory framework for determining revenue and expenditure applicable to each of the Group's regulated cash generating units (CGUs); • complexity in auditing the forward-looking assumptions applied to the Group's discounted cash flow models for each CGU given the significant management assumptions involved. Key assumptions in the cash flow models included terminal values, expected capital and operating expenditure, expected returns from future regulatory determinations, contract margins and re-contracting risk, inflation, growth rates and discount rates; and • challenges associated with auditing long term forecast cash flow models (up to 20 years), having regard to emerging regulatory, technology and market changes and accounting standard requirements. | <p>Our procedures included:</p> <ul style="list-style-type: none"> • involving our regulatory specialists, and using our industry knowledge, to consider the impact of relevant regulatory developments on management's discounted cash flow models for regulated CGUs; • testing the key controls over the cash flow models, including review and approval of key assumptions and business unit budgets which form the basis of the cash flow forecasts; • assessing the appropriateness of the methodology applied by the Group to perform the annual impairment test against the requirements of the accounting standards; • assessing cash flow model integrity, including the accuracy of the underlying calculation formulas; • challenging management's key assumptions, in particular those relating to discount rates, revenue growth and forecasted expenditure by analysing historical data and taking into consideration expected future events, and corroborating the key market related assumptions to external data, through the following procedures: <ul style="list-style-type: none"> – comparing regulated cash flow assumptions to relevant regulatory determinations. We analysed attributes including allowable expenditures, rates of return, inflationary impacts, and trends influencing long-term projections of these; – comparing non-regulated cash flows to customer contracts and historical trends and performance; – agreeing cash flow forecasts to Board approved budgets; |

Recoverability of non-current assets, including property, plant and equipment (\$7,441m), intangible assets (\$1,779m) and investments (\$1,255m)

| | |
|--|--|
| | <ul style="list-style-type: none"> – using our industry knowledge and information published by regulatory and other bodies to assess the reasonableness of assumptions and the impact of technology, market and regulatory changes on those assumptions; – involving our valuation specialists to assess the reasonableness of terminal value multiples and growth rates and the discount rates by considering comparable market information and evaluating the economic assumptions particularly relating to cost of debt and cost of equity; and – for regulated assets, assessing the appropriateness of long term (up to 20 years) cash flow forecasts against accounting standard requirements by considering industry practice and the long term nature of the Group’s regulated asset base. ● evaluating management’s sensitivity analysis in respect of the key assumptions, including the identification of areas of estimation uncertainty and reasonably possible changes in key assumptions. We assessed the appropriateness of the related disclosures against accounting standard requirements; ● comparing carrying values of CGUs to available market data, such as implied earnings and asset multiples of comparable entities; and ● assessing the disclosures in the financial report against accounting standard requirements. |
|--|--|

| Recognition of revenue (\$1,737m) | |
|--|---|
| Refer to note B2 Revenue and other income. | |
| The key audit matter | How the matter was addressed in our audit |
| <p>Revenue recognition is a key audit matter due to the:</p> <ul style="list-style-type: none"> ● nature of the complex regulatory framework and billing process for the distribution of electricity and gas, in particular: <ul style="list-style-type: none"> - determining approved tariff rates used to bill customers for the distribution of electricity and gas. The Group's regulatory determinations are promulgated by regulatory bodies, are routinely revised and require judgement to interpret and apply; - inherent complexity in the Group's customer billings processes to estimate energy consumed and determine relevant tariffs; and - judgement required to audit management's revenue accrual models which estimate the unbilled period between the customer's last bill and reporting date. This estimate includes assumptions as to consumption patterns, weather conditions and tariffs. ● judgement required to audit management's estimate of revenue relating to infrastructure services fixed price construction contracts. This estimate includes assumptions for forecast revenue and costs to complete, stage of project completion, and recoverability of unapproved variations and claims. ● AASB 15 <i>Revenue from Contracts with Customers</i> being applicable to the group for this reporting period, resulting in the need for management to assess whether various revenue streams across the Group were compliant with the new revenue recognition and disclosure requirements. | <p>Our procedures included, amongst others:</p> <ul style="list-style-type: none"> ● Considering, in conjunction with our regulatory specialists, the impact of relevant regulatory determinations on the Group's revenue; ● comparing system tariffs charged to customers to regulator approved tariffs; ● evaluating the appropriateness of management's accounting policies for revenue recognition against new accounting standard requirements, including testing a sample of customer contracts to assess management's revenue recognition assessment against the accounting standard requirements; ● analysing revenue against historical performance, regulatory determinations, and energy consumption data; ● working with our Information Technology specialists to: <ul style="list-style-type: none"> - test key controls in the revenue process including interfaces between systems, and the timing of revenue recognition over accounting periods; and - assesses the reasonableness of the unbilled revenue methodology and assumptions applied against industry standards and practice. ● testing a sample of gas transmission and infrastructure services revenue to customer contracts, variations and claims documentation; ● comparing a sample of accrued revenue balances to subsequent customer billings; and ● assessing and challenging management's assumptions relating to the recoverability of infrastructure services revenue by: <ul style="list-style-type: none"> - testing key controls such as the review and approval of project budgets, variations and actual costs incurred; - comparing forecast revenue and cost assumptions against source documents including approved project budgets and bid documents. We also compared them to actual costs incurred to date and the status of project activities; and - comparing management's assumptions to available correspondence on contract variations and claims, and dispute resolution activities. |

Taxation (\$97m Income tax expense)

Refer to note B4 Taxation

| The key audit matter | How the matter was addressed in our audit |
|---|--|
| <p>The Group is subject to income taxes in Australia. Taxation is a key audit matter due to:</p> <ul style="list-style-type: none"> • significantly increased Australian Taxation Office (ATO) compliance activities focused on ensuring taxpayers comply with their Australian tax obligations with respect to international related party transactions and structures. This has led to changes in Australian taxation laws, new ATO guidelines and judicial interpretation of Australia's transfer pricing laws; • the Group currently being subject to an ATO transfer pricing audit in relation to its convertible instruments; and • significant judgement required in the application of taxation legislation to the Group's estimation of tax exposures, associated provisions and contingent liabilities. <p>Due to the complex and specialised nature of Australian taxation law, management engages external advisors to assist in assessing application of tax law to the Group's specific circumstances.</p> <p>In assessing this key audit matter, we involved our senior taxation and transfer pricing specialists, who have industry specific experience and detailed knowledge and experience in the complex Australian taxation requirements and the ATO's compliance program activities.</p> | <p>With the assistance of our taxation specialists, our procedures included, amongst others:</p> <ul style="list-style-type: none"> • inquiring of management and those charged with governance, participating in Audit and Compliance Committee meetings and reading correspondence with the ATO and external advisers to understand the current status of the ATO audit, and the analysis and submissions being prepared by the Group; • analysing management's assessment of tax positions against accounting standard requirements, including: <ul style="list-style-type: none"> • evaluating and corroborating analysis, including areas of key judgement and estimation, against relevant information such as tax legislation, rulings and case law; and • using our subject matter experts' experience and knowledge with ATO audits and compliance programs to assess the completeness of tax matters identified and the Group's conclusions regarding these matters, including the status and possible outcomes. • testing key controls relating to the accounting for and disclosure of tax related transactions and matters; and • assessing the adequacy of the Group's disclosures in respect of significant estimates and judgements and ongoing tax matters against accounting standard requirements. |

Other Information

Other Information is financial and non-financial information in SGSP (Australia) Assets Pty Ltd's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors are responsible for the Other Information.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not and will not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error
- assessing the Group and Company's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Group and Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error; and
- to issue an Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Financial Report.

A further description of our responsibilities for the audit of the Financial Report is located at the *Auditing and Assurance Standards Board* website at: http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf. This description forms part of our Auditor's Report.



KPMG



Penny Stragalinos
Partner
21 March 2019