Victoria Power Networks (Finance) Pty Ltd
ABN 68 101 392 161

Unaudited Special Purpose Financial Statements for the 6 months ended 30 June 2018

Statement of Profit or Loss and Other Comprehensive Income
For the 6 months ended 30 June 2018

	Notes	Consolidated Entity 2018 $'000	2017 $'000
Revenue from operating activities	1	**799,576**	736,510
Other gains / (losses) - net	2(a)	**8,576**	761
Expenses from ordinary activities	2(b)	**(498,119)**	(490,388)
Finance expenses	2(b)	**(101,847)**	(96,176)
Profit before income tax		**208,186**	150,707
Income tax expense		**(62,262)**	(45,998)
Profit for the period		**145,924**	104,709
Other comprehensive income			
Items that may be classified to profit or loss:			
Cash flow hedges - interest rate risk		**(7,508)**	(27,555)
Cash flow hedges - foreign currency risk		**39,387**	(13,830)
Income tax relating to these items	4(b)	**(9,564)**	12,416
Items that will not be classified to profit or loss:			
Actuarial gains / (losses) on defined benefits plans	4(c)	**20,347**	11,152
Income tax relating to these items	4(c)	**(6,105)**	(3,346)
Other comprehensive (loss) / income for the period, net of tax		**36,557**	(21,163)
Total comprehensive income for the period		**182,481**	83,546
Profit is attributable to:			
Owners of Victoria Power Networks (Finance) Pty Ltd		**145,760**	104,741
Non-controlling interests		**164**	(32)
		145,924	104,709
Total comprehensive income for the period is attributable to:			
Owners of Victoria Power Networks (Finance) Pty Ltd		**182,317**	83,578
Non-controlling interests		**164**	(32)
		182,481	83,546

The above Statement of Profit or Loss and other Comprehensive income should be read in conjunction with the accompanying notes.

Victoria Power Networks (Finance) Pty Ltd
Statement of Financial Position
As at 30 June 2018

	Notes	Consolidated Entity 2018 $'000	2017 $'000
ASSETS			
Current assets			
Cash and cash equivalents		**37,095**	43,511
Trade and other receivables		**195,381**	146,797
Inventories		**41,879**	33,178
Derivative financial instruments	5(b)	**233**	131,402
Other assets		**28,539**	30,183
Total current assets		**303,127**	385,071
Non-current assets			
Investments in subsidiaries		**828**	214
Derivative financial instruments	5(b)	**207,262**	208,563
Other financial assets	3(b)	**750**	1,125
Property, plant and equipment		**6,778,706**	6,584,207
Intangible assets		**829,396**	835,583
Other assets		**44,210**	26,579
Total non-current assets		**7,861,152**	7,656,271
Total assets		**8,164,279**	8,041,342
LIABILITIES			
Current liabilities			
Trade and other payables		**220,376**	259,183
Borrowings	3(a)	**698,476**	1,379,596
Derivative financial instruments	5(b)	**93**	418
Provisions		**107,243**	87,201
Other financial liabilities		**375**	331
Deferred income	1(b)	**127,655**	18,675
Total current liabilities		**1,154,218**	1,745,404
Non-current liabilities			
Trade and other payables		**276,416**	177,409
Borrowings	3(a)	**3,689,325**	3,105,496
Deferred income	1(b)	**17,603**	14,141
Derivative financial instruments	5(b)	**87,329**	77,613
Deferred tax liabilities		**790,808**	759,814
Provisions		**4,759**	4,160
Other financial liabilities		**133**	536
Total non-current liabilities		**4,866,373**	4,139,169
Total liabilities		**6,020,591**	5,884,573
Net assets		**2,143,688**	2,156,769
EQUITY			
Issued capital	4(a)	**1,639,196**	1,639,196
Other reserves	4(b)	**24,583**	2,255
Retained earnings	4(c)	**479,200**	515,258
Non-controlling interests		**709**	60

The above Statement of Financial Position should be read in conjunction with the accompanying notes.

	Notes	Consolidated Entity **2018** **$'000**	2017 $'000
Total equity		**2,143,688**	2,156,769

The above Statement of Financial Position should be read in conjunction with the accompanying notes.

Victoria Power Networks (Finance) Pty Ltd
Consolidated Statement of Changes in Equity
For the 6 months ended 30 June 2018

	Attributable to owners of Victoria Power Networks (Finance) Pty Ltd						
Consolidated	**Issued capital $'000**	**Financial equity / distribution reserve $'000**	**Hedging reserve $'000**	**Retained Earnings $'000**	**Total $'000**	**Non-controlling interests $'000**	**Total equity $'000**
Balance at 1 January 2017	1,639,196	17,918	13,306	552,711	2,223,131	92	2,223,223
Profit for the period	-	-	-	104,741	104,741	(32)	104,709
Other comprehensive income	-	-	(28,969)	7,806	(21,163)	-	(21,163)
Total comprehensive income for the period	**-**	**-**	**(28,969)**	**112,547**	**83,578**	**(32)**	**83,546**
Transactions with owners in their capacity as owners:							
Dividends provided for or paid	-	-	-	(150,000)	(150,000)	-	(150,000)
Balance at 30 June 2017	**1,639,196**	**17,918**	**(15,663)**	**515,258**	**2,156,709**	**60**	**2,156,769**
Balance at 1 January 2018	1,639,196	17,918	(15,653)	319,198	1,960,659	545	1,961,204
Profit for the period	-	-	-	145,760	145,760	164	145,924
Other comprehensive income	-	-	22,318	14,242	36,560	-	36,560
Total comprehensive income for the period	**-**	**-**	**22,318**	**160,002**	**182,320**	**164**	**182,484**
Balance at 30 June 2018	**1,639,196**	**17,918**	**6,665**	**479,200**	**2,142,979**	**709**	**2,143,688**

The above Consolidated of Changes in Equity should be read in conjunction with the accompanying notes.

Victoria Power Networks (Finance) Pty Ltd
Statement of Cash Flows
For the 6 months ended 30 June 2017

	Notes	Consolidated Entity 2018 $'000	2017 $'000
Cash flows from operating activities			
Receipts from customers		**816,217**	795,837
Payments to suppliers and employees		**(458,720)**	(435,694)
Interest paid		**(79,475)**	(75,825)
Income taxes paid to related party		**(152,500)**	(166)
Interest received		**848**	479
Net receipt / (repayment) of trust monies		**627**	(191)
Net cash inflow from operating activities		**126,997**	284,440
Cash flows from investing activities			
Payments for property, plant and equipment		**(211,523)**	(174,612)
Proceeds from sale of property, plant and equipment		**2,778**	1,518
Investment in associate		**98**	-
Receipts from customers for capital works		**12,345**	30,254
Payments for intangible assets		**(174)**	(92)
Net cash (outflow) from investing activities		**(196,476)**	(142,932)
Cash flows from financing activities			
Dividends paid to company's shareholders		**-**	(150,000)
Proceeds from borrowings - external		**493,068**	551,436
Repayment of borrowings - external		**(413,000)**	(550,000)
Payment of borrowing costs		**(3,484)**	(400)
Net cash inflow (outflow) from financing activities		**76,584**	(148,964)
Net increase (decrease) in cash and cash equivalents		**7,105**	(7,456)
Cash and cash equivalents at the beginning of the financial period		**29,990**	50,967
Cash and cash equivalents at end of period		**37,095**	43,511

The above Statement of Cash Flows should be read in conjunction with the accompanying notes.

Contents of the notes to the consolidated financial statements

1 Revenue

	Consolidated	
	2018	2017
	$'000	$'000
From continuing operations		
Network revenue		
Distribution Use of System	**473,037**	441,169
Transmission Use of System	**143,740**	150,051
	616,777	591,220
Other operating revenue		
Construction and maintenance revenue	**67,082**	33,631
Prescribed metering	**40,224**	50,395
Alternative control services - connections and transfers	**9,052**	8,251
Alternative control services - public lighting	**6,400**	6,130
Alternative control services - other	**11,558**	7,482
Service level agreement revenue - related party	**11,697**	8,997
Other revenue	**16,500**	12,084
	162,513	126,970
Other income		
Interest revenue - external party	**469**	443
Interest revenue - related party	**19,817**	17,877
	20,286	18,320
	799,576	736,510

(a) Recognising revenue from major business activities

(i) Network revenue

Timing of recognition: Network revenue represents the revenue from Electricity Retailers for the transportation and delivery of electricity through the Distribution System to their customers. Revenue is calculated on a per Energy Retailer customer basis for electricity consumed, time connected to the Distribution Network and/or demand based charges.

Measurement of revenue: Rates per quantity unit and customer tariff type are approved by the Australian Energy Regulatory ('AER') each year.

(ii) Construction and maintenance revenue

Timing of recognition: Construction and maintenance revenue represents electricity related contracted services including design & construct, asset maintenance, commercial solar installations and other similar activities and is recognised by applying the stage of completion method where the outcome can be estimated reliably.

Measurement of revenue: Revenue is recognised in line with contracted amounts. Variations in contract work claims and incentive payments are included to the extent that the amount can be measured reliably and its receipt is considered probable.

1 Revenue (continued)

(a) Recognising revenue from major business activities

(iii) Prescribed metering revenue

Timing of recognition: Prescribed metering revenue comprises charges for up to 160 megawatt hour usage and greater than 160 megawatt hour usage. These charges cover the cost of maintaining, operating and replacing the meter once it has reached the end of its economic life. A per annum charge varies depending on the meter type installed.

Measurement of revenue: Prescribed metering revenue is based on a metering charge set by meter type as approved by the Australian Energy Regulatory ('AER') each year.

(i) Customer contributions revenue

Timing of recognition: Customer contributions - cash represent the revenue recorded from construction of network augmentation assets where the customer was required to fund a portion of construction towards their network augmentation. Cash contributions are recognised as revenue by applying the stage of completion method where the outcome can be estimated reliably.

Customer contributions non-cash represent the fair value of assets 'tied-in' to the distribution network where the customer undertook the construction of the augmentation asset(s) independently. It is a requirement that distribution network assets are transferred to the distribution licence holder for 'tie in'. Non-cash contributions are recognised on the date of 'tie-in' to the distribution network.

Measurement of revenue: The required contribution is calculated based on Chapter 5A of the National Electricity Rules. Customer contributions non-cash are recognised at their fair value.

(iv) Alternative Control Services Revenue

Timing of recognition: Alternative Control Services ("ACS") revenue relates to a set of customer specific activities, primarily on behalf of Electricity Retailers, that fall under a particular area of regulation due to their monopoly or semi-monopoly nature.

ACS activities are of short duration and are recognised either when performed or if the charge is based on duration, such as public lighting, the duration of the service.

Measurement of revenue: Rates per activity are based on either a fixed fee approved by the Australian Energy Regulator ("AER") or hourly labour rates approved by the AER and recovery of materials at cost.

(v) Service level agreement revenue

Timing of recognition: Service level agreement revenue relates to IT system, support and management services provided to entities outside of the Victoria Power Networks Pty Ltd Consolidated Entity. Revenue is recognised as services are performed.

Measurement of revenue: Revenue is based on agreed contracted rates for services.

1 Revenue (continued)

(b) Deferred income

	Consolidated Entity					
	2018			2017		
	Current $'000	**Non-current $'000**	**Total $'000**	Current $'000	Non-current $'000	Total $'000
Customer Contributions	**107,989**	**-**	**107,989**	-	-	-
Other deferred income	**19,666**	**17,603**	**37,269**	18,675	14,141	32,816
	127,655	**17,603**	**145,258**	18,675	14,141	32,816

2 Other income and expense items

(a) Other gains or losses

	Consolidated	
	2018	2017
	$'000	$'000
Gain on investment in associates	**183**	65
Gain / (Loss) on disposal of property, plant and equipment	**266**	598
Fair value foreign exchange cross currency swap gain/(loss)	**8,127**	98
	8,576	761

2 Other income and expense items (continued)

(b) Breakdown of expenses by nature

	Consolidated Entity	
	2018	2017
	$'000	$'000
Expenses, excluding finance expenses		
Transmission fees	**143,740**	150,051
Materials expense	**72,610**	56,458
Personnel expense	**167,978**	166,436
Depreciation and amortisation expense	**147,878**	145,035
External labour, construction and professional services	**166,704**	142,661
Operating lease rentals	**6,043**	5,748
Taxes, fees & charges	**8,937**	8,634
Capitalised expenses *	**(224,245)**	(189,371)
Other expenses	**8,474**	4,736
	498,119	490,388

* Capitalised expenses include a combination of external labour, construction and professional services, materials expense and personnel expense.

	Consolidated	
	2018	2017
	$'000	$'000
Profit before income tax includes the following specific expenses:		
Depreciation		
Freehold buildings	**4,198**	3,647
Plant and equipment	**48,013**	50,127
Distribution system	**92,234**	87,478
Total depreciation	**144,445**	141,252
Amortisation		
Software	**1,841**	2,192
Intellectual property	**1,592**	1,591
Total amortisation	**3,433**	3,783
Finance expenses		
Interest and finance expense - external party	**80,705**	77,104
Interest and finance expense - related parties	**21,142**	19,072
Total finance expenses	**101,847**	96,176

3 Financial assets and financial liabilities

(a) Borrowings

	Consolidated Entity					
	2018			2017		
	Current $'000	**Non-current $'000**	**Total $'000**	Current $'000	Non-current $'000	Total $'000
Unsecured						
Medium term notes	**-**	**1,079,489**	**1,079,489**	-	1,079,150	1,079,150
Bank loans	**698,476**	**-**	**698,476**	897,455	-	897,455
Foreign senior notes	**-**	**2,082,849**	**2,082,849**	482,141	1,871,925	2,354,066
Fixed Rate Note	**-**	**526,987**	**526,987**	-	154,421	154,421
Total unsecured borrowings	**698,476**	**3,689,325**	**4,387,801**	1,379,596	3,105,496	4,485,092

(i) Compliance with loan covenants

Victoria Power Networks (Finance) Pty Ltd has complied with the financial covenants of its borrowing facilities during the 2018 and 2017 reporting periods.

(ii) Borrowings accounting policies

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs.

Borrowings are classified as current liabilities unless the Consolidated Entity has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

3 Financial assets and financial liabilities (continued)

(b) Other financial assets

	Consolidated Entity					
	2018			2017		
	Current $'000	**Non-current $'000**	**Total $'000**	Current $'000	Non-current $'000	Total $'000
Long term cash investment	**-**	**750**	**750**	-	1,125	1,125
	-	**750**	**750**	-	1,125	1,125

4 Equity

(a) Contributed equity

(i) Share capital

		Consolidated			
	Notes	**2018 Shares**	2017 Shares	**2018 $'000**	2017 $'000
Ordinary shares					
Ordinary shares - fully paid	4(a)(ii)	**500**	500	**1,639,196**	1,639,196

(ii) Ordinary shares

Ordinary shares entitle the holder to participate in dividends and have no special voting rights.

Ordinary shares have no par value and the company does not have a limited amount of authorised capital.

(b) Other reserves

The following table shows a breakdown of the balance sheet line item ‘other reserves’. A description of the nature and purpose of each reserve is provided below the table.

	Consolidated Entity	
	2018 $'000	2017 $'000
Hedging reserve - cash flow hedges	**6,665**	(15,663)
Surplus acquisition reserve	**17,918**	17,918
	24,583	2,255

4 Equity (continued)

(b) Other reserves

	Consolidated Entity	
	2018	2017
	$'000	$'000
Movements:		
Hedging reserve - cash flow hedges		
Balance at 1 January	**(15,653)**	13,306
Gain / (loss) recognised on interest rate swaps	**(18,448)**	(14,932)
Gain / (loss) recognised on cross currency swaps	**47,066**	(13,457)
Interest rate swaps transferred to Profit or Loss	**10,940**	(12,623)
(Loss) / gain recognised on forward foreign exchange contracts	**451**	(275)
Cross currency swaps transferred to Profit or Loss	**(8,127)**	(98)
Income tax relating to these items	**(9,564)**	12,416
Balance at 30 June	**6,665**	(15,663)

(i) Nature and purpose of other reserves

Hedging Reserve

The hedging reserve represents hedging gains and losses recognised on the effective portion of cash flow hedges. The cumulative deferred gain or loss on the hedge is recognised in profit or loss when the hedged transaction impacts the profit or loss, or is included as a basis adjustment to the non-financial hedged item, consistent with the applicable accounting policy.

Financial equity / distribution reserve

The financial equity/distribution reserve represents the gains and losses recognised on the discounting of intercompany loans to present values. The carrying value of the loans has been determined on the basis of the best estimate of when they will be settled, with the loans accounted for on the basis of present values with any discounting of the loan balances taken to the reserve.

4 Equity (continued)

(c) Retained earnings

Movements in retained earnings were as follows:

	Consolidated Entity	
	2018	2017
	$'000	$'000
Balance at 1 January	**319,198**	552,711
Net profit for the period	**145,760**	104,741
Actuarial gains / (losses) on defined benefits plans	**20,347**	11,152
Income tax relating to these items	**(6,105)**	(3,346)
Dividends paid	**-**	(150,000)
Balance at 30 June	**479,200**	515,258

5 Financial risk management

(a) Financial risk management objectives

The Consolidated Entity's activities expose it to a variety of financial risks: market risk (including foreign exchange, interest rate and price risk), credit risk and liquidity risk. The Group's overall risk management strategy focuses on monitoring and managing these financial risks such that potential adverse effects on the Consolidated Entity's financial performance are minimised. The Consolidated Entity uses a range of derivative financial instruments to hedge these risk exposures. Derivative financial instruments are not entered into or traded for speculative purposes.

Financial risk management is carried out by the Consolidated Entity's Treasury Function under policies approved by the Board of Directors. The Consolidated Entity has written policies covering specific areas such as foreign exchange risk, interest rate risk, credit risk, liquidity risk, use of derivative and non derivative financial instruments and the investment of excess liquidity.

(b) Derivatives

Derivatives are only used for economic hedging purposes and not as trading or speculative instruments. The Consolidated Entity has the following derivative financial instruments:

	Consolidated Entity	
	2018	2017
	$'000	$'000
Current assets		
Forward foreign exchange contracts - cash flow hedges	**233**	190
Cross currency swaps - cash flow hedges	**-**	131,212
Total current derivative financial instrument assets	**233**	131,402
Non-current assets		
Interest rate swap contracts - cash flow hedges	**12,076**	15,729
Forward foreign exchange contracts - cash flow hedges	**-**	8
Cross currency swaps - cash flow hedges	**195,186**	192,826
Total non-current derivative financial instruments	**207,262**	208,563
Current liabilities		
Interest rate swap contracts - cash flow hedges	**34**	129
Forward foreign exchange contracts - cash flow hedges	**59**	289
Total current derivative financial instrument liabilities	**93**	418
Non-current liabilities		
Interest rate swap contracts - cash flow hedges	**22,945**	18,966
Other hedging instruments	**66**	176
Cross currency swaps - cash flow hedges	**64,318**	58,471
Total non-current derivative financial instrument liabilities	**87,329**	77,613

(i) Classification of derivatives

Derivatives are classified as held for trading and accounted for at fair value through profit or loss unless they are designated as hedges. They are presented as current assets or liabilities if they are expected to be settled within 12 months after the end of the reporting period.

(b) Derivatives

For hedged forecast transactions that result in the recognition of a non-financial asset, the group has elected to include related hedging gains and losses in the initial measurement of the cost of the asset.

6 Critical accounting estimates and judgements

In the application of Australian equivalents to International Financial Reporting Standards (A-IFRS) the Directors are required to make judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

(a) Critical judgements in applying accounting policies

The following are the critical judgements, apart from those involving estimations, that the Directors have made in the process of applying the Consolidated Entity's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

(i) Discount Rate applied to Employee Entitlements and Defined Benefits

Long term employee benefits balances and defined benefit plan obligations are discounted to present value. The discount rate is determined by reference to the market yield on high quality corporate bonds from observable yield curves.

(ii) Determining the Cash Generating Units

Management have concluded that there are two cash generating units within the consolidated entity being the distribution licenses and property, plant and equipment, Powercor and CitiPower. Both Powercor and CitiPower hold a license to distribute and supply electricity in Victoria under the Electricity Industry Act 2000. In addition to the right to distribute, the distribution licences also convey rights and obligations that Powercor and CitiPower must follow.

(iii) Fair value of customer contributions and gifted assets

The fair value of cash and non-cash customer contributions is based on estimating the net present value of the future cashflows expected to be derived from the regulatory asset base (‘RAB’) as a result of the specific extension or modification to the network, an ‘income approach’ as described in Note 1(a).

(b) Critical accounting estimates and assumptions

The following are key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next year.

(i) Revenue Recognition

As disclosed in note 1 there is a certain level of estimation involved in the measurement of the Consolidated Entity's revenue, which includes:
• In relation to distribution revenue an estimation of the amount of electricity consumed but not billed at period end,
• In relation to services provided under contract an estimation of stage of completion,
• In relation to customer contributions an estimate of the stage of completion of the customer project, and the fair value of contributed non-current assets and
• In relation to "pass-through" type revenue an estimation of timing of cash-flows and the net present value of such cashflows.

(b) Critical accounting estimates and assumptions (continued)

As the basis of estimation for distribution revenue is based on actual electricity consumption and in the case of pass through revenue the actual and accrued cost incurred, the Directors do not envisage significant uncertainty risk with respect to amounts recorded in relation to applying the revenue recognition accounting policies.

(ii) Impairment of intangible assets

Determining whether distribution licence assets are impaired require an estimation of the fair value less costs of disposal of the cash-generating units to which the licence belongs. The fair value less costs of disposal calculation required the Directors to estimate the future cash flows expected to arise from the cash-generating units and a suitable discount rate in order to calculate present value.

(iii) Valuation of financial instruments

Some of the Consolidated Entity's assets and liabilities are measured at fair value. To determine the fair value of financial instruments, the Consolidated Entity uses in-house expertise to determine fair value, based on Level 2 inputs of market observable data such as counterparty credit rating. The Directors believe that the chosen valuation techniques and assumptions used are appropriate in determining the fair value of financial instruments.

7 Summary of significant accounting policies

Basis of preparation

The financial statements have been prepared on the basis of historical cost, except for the revaluation of certain non-current assets and financial instruments. Cost is based on the fair values of the consideration given in exchange for the assets.

The Consolidated Entity is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, dated 24 March 2016, and in accordance with that Class Order, amounts in the financial statements, except where indicated, have been rounded off to the nearest thousand dollars.

Significant accounting policies

Accounting policies have been disclosed in respective notes to the financial statements as appropriate. The following other significant accounting policies have been adopted in the preparation and presentation of the financial report:

(a) Net currency asset deficiency

As at 30 June 2018, the Consolidated Entity's current liabilities exceed its current assets by $851,091 thousand (2017: $1,360,333). The Interim Financial Report has been prepared on a going concern basis as the Consolidated Entity is forecast to continue to generate positive operating cash flows and has sufficient debt and equity in place to enable operations to continue as a going concern.

7 Summary of significant accounting policies (continued)

(b) Impairment of tangible and intangible assets

At each reporting date, the Consolidated Entity reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Consolidated Entity estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Intangible assets which have indefinite useful lives are tested for impairment at each reporting date and whenever there is an indication that the assets may be impaired.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately, unless the asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the reversal of the impairment loss is treated as a revaluation increase.

(c) Business combinations

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the

- fair values of the assets transferred
- liabilities incurred
- equity interests issued by the Consolidated Entity
- fair value of any asset or liability resulting from a contingent consideration arrangement, and
- fair value of any pre-existing equity interest in the subsidiary.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The Consolidated Entity recognises any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest’s proportionate share of the acquired entity’s net identifiable assets.

Acquisition-related costs are expensed as incurred.

The excess of the

- consideration transferred,
- amount of any non-controlling interest in the acquired entity, and
- acquisition-date fair value of any previous equity interest in the acquired entity

7 Summary of significant accounting policies (continued)

(c) Business combinations (continued)

over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired, the difference is recognised directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquire is remeasured to fair value at the acquisition date. Any gains or losses arising from such remeasurement are recognised in profit or loss.

(d) Foreign currency transactions

All foreign currency transactions during the financial year are brought to account using the exchange rate in effect at the date of the transaction. Foreign currency monetary items at reporting date are translated using the exchange rate at that date.

Exchange rate differences are brought to account in the Statement of Profit or Loss and Other Comprehensive Income in the period in which they arise except that:

(i) exchange differences which related to assets under construction for future productive use are included in the cost of those assets where they are regarded as an adjustment to interest costs on foreign currency borrowings; and

(ii) exchange differences on transactions entered into in order to hedge certain foreign currency risks.

(e) Inventories

Inventories are valued at the lower of cost or net realisable value. Costs are assigned to inventory on hand on the basis of weighted average costs.

(f) Creditors and accruals

Trade creditors and accruals are recognised when there is an obligation to make future payments resulting from the purchase of goods and services.

(g) Provisions

Provisions are recognised when the Consolidated Entity has a present obligation (legal or constructive) as a result of a past event, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

7 Summary of significant accounting policies (continued)

(h) Receivables

Trade receivables, loans and other receivables are recorded at the amounts receivable less any provision for doubtful debts.

(i) Goods and Services Tax

Revenues, expenses, and assets are recognised net of the amount of Goods and Services Tax ("GST"), except:

(i) where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or

(ii) for receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

Cash flows are included in the Statements of Cash Flows on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.