

AusNet Services Holdings Pty Ltd
ACN 086 006 859

Financial Report

For the financial year ended 31 March 2017

Contents

Directors' report	3
Lead auditor's independence declaration	27
Consolidated income statement	28
Consolidated statement of comprehensive income	29
Consolidated statement of financial position	30
Consolidated statement of changes in equity	31
Consolidated statement of cash flows	32
Notes to the consolidated financial statements	33
Directors' declaration	75
Independent auditor's report	76

This financial report covers the consolidated entity consisting of AusNet Services Holdings Pty Ltd and its subsidiaries. The financial report is presented in Australian dollars.

AusNet Services Holdings Pty Ltd is a company limited by shares, incorporated and domiciled in Victoria, Australia. Its registered office and principal place of business is:

Level 31, 2 Southbank Boulevard
Southbank, Victoria 3006
Australia

A description of the nature of AusNet Services Holdings Pty Ltd's operations and its principal activities is included in the Directors' report.

The financial report was authorised for issue by the Directors on 15 May 2017.

Directors' report

Introduction

The Directors of AusNet Services Holdings Pty Ltd (the Company) present their report on the general purpose financial report of the Company and consolidated entity (the Group) for the financial year ended 31 March 2017 (FY2017).

The immediate parent of the Company is AusNet Holdings (Partnership) Limited Partnership. The ultimate Australian parent of the Company is AusNet Services Ltd, a company incorporated in Australia, which is a listed entity trading as AusNet Services (also referred to as us, our and we).

What we do

We are an energy delivery services business, conducted through our electricity and gas distribution businesses. 24 hours a day, we move energy safely, reliably and efficiently to over a million Australians through our networks of assets, services, people and solutions. In addition, through our commercial energy services business we provide specialist metering, asset intelligence and telecommunication solutions to the utility and infrastructure sectors.

These activities are conducted through the following main operating group companies:

- AusNet Electricity Services Pty Ltd;
- AusNet Gas Services Pty Ltd; and
- Select Solutions Group Pty Ltd.

Our Values

Our values are the foundation for how we achieve our business objectives:

We work safely

We do what's right

We're one team

We deliver

Our Board of Directors

The persons listed below were Directors of the Company during the whole of the financial period and up to the date of this report unless otherwise noted.

Nino **Ficca** (*Managing Director*)

Adam **Newman**

Alistair **Parker** (*appointed 10 October 2016*)

Susan **Taylor** (*appointed 1 April 2016, resigned 23 September 2016*)

Directors' report

Strategy

Financial year FY2017 was the first year of our 'Focus 2021' Corporate Strategy. The strategy has been designed to respond to the new energy environment, which is characterised by a wave of industry change, focused on modernisation and transformation of the energy value chain. This new environment is changing quickly, symbolised by technological advancements, heightened regulatory scrutiny, higher customer expectations and changing roles and responsibilities in the energy market.

In FY2017, we made significant changes to how we operate. The organisation restructured into two operating business units, Regulated Energy Services and Commercial Energy Services, which are supported by corporate functions. This change focuses on delivering outcomes for customers, as well as reflecting each businesses performance requirements.

The 'Focus 2021' Corporate Strategy accelerates our efforts to:

- **lead network transformation** and embrace change;
- **grow commercial services;**
- **drive efficiency and effectiveness** throughout the portfolio to maximise value; and
- **generate trust and respect** with customers and partners to **build our reputation** with all stakeholders.

A core objective of our strategy is to deliver sustainable and growing returns to shareholders, through continued investment in our regulated and contracted asset base, with a continued focus on cost management. The key initiatives of our 'Focus 2021' Corporate Strategy are:

- to grow our contracted energy infrastructure asset base to \$1 billion; and
- to operate all three core networks in the top quartile of efficiency benchmarks.

Our asset base for both the core regulated networks and contracted businesses provides significant and predictable long-term cash flows, enabling maintenance of prudent and sustainable financial settings, as well as continuing to achieve a strong investment-grade credit rating.

Directors' report

Review of operations

We derive most of our earnings from two regulated energy network businesses, an electricity distribution network in eastern Victoria and a gas distribution network in western Victoria.

\$M	FY2017	FY2016	Movement	%
Revenue	1,226.5	1,269.6	(43.1)	(3.4)
EBITDA	639.3	717.5	(78.2)	(10.9)
NPAT	90.4	449.4	(359.0)	(79.9)

During FY2017 we underwent an organisational-wide restructure. As a result, new lines of business were created and the operating segments have changed. Comparative information has been restated for the new operating segments. A summary of our revenues and results by operating segment for the financial year ended 31 March 2017 is set out below:

Electricity distribution business

	FY2017	FY2016	Movement	%
Segment revenue (\$M)	868.2	963.6	(95.4)	(9.9)
Segment result – EBITDA (\$M)	467.4	575.9	(108.5)	(18.8)
Volume (GWh)	7,682	7,662	20	0.3
Connections	705,186	691,378	13,808	2.0
Capital expenditure (\$M)	427.0	467.3	(40.3)	(8.6)

The largest contributor to the fall in revenue is the 5.7 per cent decline in CY2016 electricity distribution tariffs and the 36.8 per cent (\$54.2 million) decline in metering revenue arising from the 2016-2020 Electricity Distribution Price Review (EDPR) determination. Electricity distribution is subject to a revenue cap with true-up mechanisms that impact future period revenues. Refer below for details regarding the application of the revenue cap.

The decline in metering revenues is due to the lower business as usual capex and opex allowance in the 2016-2020 EDPR period as compared to the establishment costs in the metering roll-out period. In addition, there was a downward adjustment due to higher excess expenditures in prior year tariffs as part of the EDPR determination. This was reflected in CY2016 tariffs.

While our cost focus and transformational activities helped achieve a \$6.4 million reduction in operating expenses, our reported operating expenses increased \$13.1 million (3.4 per cent) due to a number of significant events:

- \$8.5 million of redundancy, restructuring and program implementation costs, associated with business efficiency initiatives;
- \$10.5 million of costs related to the impact of the October 2016 storm events that resulted in loss of electricity for over 80,000 customers, predominately due to additional guaranteed service level (GSL) payments to electricity distribution customers. GSL payments are recovered through the regulatory price regime, with a time lag such that these particular GSL payments will not be recovered until the next EDPR period.
- a further \$2.7 million increase in GSL payments during the period, in addition to the October 2016 storm events, due to an increase in both number of events and the rate paid under the current EDPR;
- \$7.5 million (primarily non-cash) write-off for an IT project recognised during the period (total write-off \$9.3 million); offset by;
- \$10.0 million of insurance deductible in the prior year representing settlement costs and legal fees relating to the 2014 bushfires at Yarram and Mickleham.

Capital expenditure has decreased primarily due to \$30.7 million lower spend on the metering program. The IT stabilisation and rollout of the wireless mesh communications network under the metering program is now complete, meeting all regulatory obligations at 31 March 2017.

Directors' report

Future revenue impacts

We recognise revenue for distribution services as those services are provided, based on the prevailing tariffs at the time. Our two regulated businesses; electricity distribution and gas distribution, are regulated by the Australian Energy Regulator (AER) on a calendar year basis which differs to our financial year of April to March. Given the nature of the regulatory model and how tariffs are set, there are a number of items that will impact future revenues for our electricity distribution business as follows:

- There is a difference between the regulated revenue recognised under our accounting policy, and the revenue cap under the EDPR determination. This difference is trued-up (or down) as an adjustment to tariffs in future periods. For CY2016 we recognised \$11.4 million less revenue than permitted under the revenue cap, \$1.7 million of which has been recovered to 31 March 2017. In addition, due to a warm March 2017, \$5.5 million has been over-recovered in relation to CY2017 tariffs to 31 March 2017, resulting in a cumulative under-recovery of \$4.2 million in relation to the revenue cap to be received in CY2017 and CY2018.
- The AER's decision on our 2016 Advanced Metering Infrastructure (AMI) Transition Charges Application will result in a future negative revenue adjustment of \$52.7 million (\$2018), smoothed over calendar years 2018 to 2020.
- Based on CY2015 and CY2016 performance, we will recognise an additional \$14.3 million of revenue (\$14.8 million in CY2017, \$0.5 million reduction in CY2018) under the Service Target Performance Incentive Scheme (STPIS).

Gas distribution business

	FY2017	FY2016	Movement	%
Segment revenue (\$M)	224.3	188.8	35.5	18.8
Segment result – EBITDA (\$M)	164.2	136.7	27.5	20.1
Volume (PJ)	66.3	66.9	(0.6)	(0.9)
Connections	676,035	660,924	15,111	2.3
Capital expenditure (\$M)	87.7	92.7	(5.0)	(5.4)

The EBITDA increase is principally the result of a \$25.3 million increase in regulated revenues to \$205.5 million. This was driven by tariff increases as well as phasing of tariffs in CY2016 and CY2017 which resulted in higher revenues being recognised in FY2017. In addition, \$10.0 million of billing adjustments relating to prior years under-collection from retailers for new regional area customers was recognised in FY2017.

Volumes were consistent year-on-year, with strong customer growth offset by a reduction in per-household consumption due to milder weather in FY2017 and continued energy efficiency. Customer growth of 2.3 per cent is the strongest growth for a number of years due to the continued expansion of Melbourne's western suburbs such as Melton and Wyndham.

Segment expenses increased \$8.0 million compared to prior year due to \$3.6 million of redundancy, restructuring and program implementation costs associated with business efficiency initiatives and higher labour and Gas Access Arrangement Review (GAAR) preparation costs.

The reduction in capital expenditure has arisen from our mains renewal program (replacement of old cast iron and steel pipelines) primarily due to delays experienced in program delivery.

Commercial energy services

	FY2017	FY2016	Movement	%
Segment revenue (\$M)	137.2	117.2	20.0	17.1
Segment result – EBITDA (\$M)	7.7	4.9	2.8	57.1
Capital expenditure (\$M)	9.7	9.7	-	-

The commercial energy services business consists of metering services, emerging energy markets and asset intelligence services. The customers of this business are primarily operating in the utility and essential infrastructure sectors such as electricity, water, gas and rail companies.

New contracts and growth in existing contracts resulted in increased revenues, with EBITDA margins increasing as a result of a completion of a number of low margin contracts in the prior year.

Directors' report

Financial position

Total equity of the Group was \$1,819.2 million as at 31 March 2017, a decrease of \$404.9 million compared to the previous financial year.

Our current liabilities exceed current assets by \$713.7 million at 31 March 2017. We have prepared the financial report on a going concern basis, which contemplates the continuity of normal trading operations. The Group is, and is expected to continue trading profitably, generating positive operating cash flows and successfully refinancing maturing debt. In addition, at 31 March 2017, the Group has available a total of \$525.0 million of undrawn but committed non-current bank debt facilities and \$327.0 million of cash.

Non-current assets increased by \$371.5 million compared to prior year, largely due to the \$524.4 million of capital expenditure invested into the asset base offset by the depreciation of our assets.

Non-current liabilities increased by \$345.0 million due to the refinancing of debt during the year.

Capital management

We manage our capital structure to maximise the return to shareholders, as well as providing the flexibility to fund organic growth and other investment opportunities. An appropriate capital structure is also maintained to ensure an efficient cost of capital is available. Through our cash flows from operations and by maintaining an appropriate and prudent mix of debt and equity, we ensure that we achieve our targeted credit metrics to support an 'A' range credit rating.

Debt raising

The Company is utilised as AusNet Services' common funding vehicle (CFV). Companies within AusNet Services have access to AusNet Services facilities through the CFV.

In line with our Treasury Risk Policy, we maintain a diversified debt portfolio by maturity and source. AusNet Services has an A- credit rating from Standard and Poor's and A3 from Moody's Investor Services. This contributed to the successful completion of bond issues during the current financial year, being:

- a HKD 1.2 billion 9.25-year bond issue raising approximately \$207 million in December 2016;
- a NOK 1 billion 10.5-year bond issue raising approximately \$160 million in January 2017;
- a USD 80 million 9-year bond issue raising approximately \$107 million in January 2017; and
- an AUD 425 million 10.5-year bond issue in February 2017.

These issuances satisfy our refinancing requirements for the next twelve months.

Dividends

Dividends to the Group's parent during the financial year were as follows:

	FY2017	
	Cents per share	Total dividend \$M
FY2017 dividend	54.45	579.0
	54.45	579.0

Directors' report

Material risks and uncertainties

We are committed to understanding and effectively managing risk to provide greater certainty and confidence for our shareholders, employees, customers, suppliers and communities in which we operate. We maintain oversight of our material business risks (financial and non-financial) at an enterprise-wide level and report regularly to the Audit and Risk Management Committee and the Board of Directors on the effectiveness of the management of these risks. We are cognisant of the following principal risks which may materially impact the execution and achievement of our business strategy and financial prospects.

Industry and regulatory risks

Industry developments

The energy industry is currently experiencing a period of unprecedented change and uncertainty across a number of different areas. These areas include the political and policy setting environment, technological advancements in how and where energy is generated and delivered, the regulatory environment and rules within which we operate, and customer expectations and choice regarding their future energy requirements.

There are a number of reviews and reform programs currently in progress that will shape the future of the industry and may potentially impact our business. Some of the more significant items include:

- Finkel review – which aims to develop a national reform blueprint to maintain energy security and reliability in the national electricity market.
- Limited Merits review by the Council of Australian Governments (COAG) to assess the effectiveness of the limited merits review regime and to explore all feasible options, including the removal of the limited merits review.
- The Federal Government is intervening in the wholesale gas market and has tasked the Australian Competition and Consumer Commission (ACCC) to monitor the regime. The implications, if any, for downstream network service providers are uncertain.
- The Victorian Government deferring the adoption of metering competition in Victoria, with a review to be undertaken prior to 1 January 2021.
- Ring-fencing guidelines released by the AER applicable to our business from 1 January 2018. We are currently working through the implementation of this guideline across our regulated and unregulated businesses.

In addition to these reviews, traditional energy models are changing with the closure of coal-fired power stations and the increase in renewable and distributed generation and storage. These changes are driven by changes in technology, environmental and regulatory policies, customer expectations, and cost. These changes are expected to continue in the future and may impact our networks' regulatory framework and ability to adapt and provide services to customers.

We continue to play a key role in the reform of the industry in terms of our active contribution in the current reviews and the trial of new technologies on our network. Our objective is to shape industry development and to lead and deliver network transformation.

Transition to metering competition in Victoria

On 26 November 2015 the Australian Energy Market Commission (AEMC) published its final determination and final rule on expanding competition in metering and related services (Power of Choice). The AEMC's rule does not distinguish Victoria from other jurisdictions in respect of roles for metering service provision once the new framework commences. It proposed that network service providers engaging in the provision of meters and related services be ring-fenced from the regulated network business.

In March 2017, The Victorian Government deferred the adoption of metering competition in Victoria. Victorian electricity distributors will remain responsible for metering services for all small customers until at least 1 January 2021 and the Victorian smart metering specification will remain in place.

The Victorian Government proposed that a review be undertaken prior to 1 January 2021 to determine whether metering competition should be introduced in Victoria. The review will examine the benefits to Victorian electricity users of switching to the national regime, the impact of competition in metering services on particular customer groups, how potential barriers to distributor access to metering data can be addressed and the experience of other jurisdictions in implementing metering competition.

In addition, the implementation of Power of Choice will require us to invest in new systems and processes, and make significant changes to existing systems. This is to accommodate changes under Power of Choice beyond metering contestability, including cost reflective pricing, new business-to-business processes and interaction with a new market gateway. There is a risk that we will not recover some or all of the expenditure associated with implementing these potentially complex changes.

Directors' report

Material risks and uncertainties (continued)

Industry and regulatory risks (continued)

Rapid Earth Fault Current Limiter (REFCL) program

The REFCL program is a Victorian Government mandated program to implement technology that significantly reduces fault current within milliseconds of a single phase to ground fault (i.e. a fallen line), delivering increased level of protection from the possibility of fire starts. REFCL technology will be installed at 22 of our zone substations over the next six years at a total cost of approximately \$275-350 million (including high voltage customers isolating transformers). The REFCL program presents several risks including, but not limited to, technology risk, network risk, vendor risk and funding risk.

No expenditure allowance was provided for in the 2016-2020 EDPR for the REFCL program. Instead it was identified as a 'contingent project' which allows the determination to be amended to include a cost allowance for the capital works when fully scoped and costed. On 31 March 2017 we submitted our contingent project application for the first tranche of the program to the AER, outlining total expenditure of \$104.5 million (\$2016, excluding capitalised overheads), for completion by 30 April 2019. The AER is expected to issue its determination on our application in August 2017. Funding for tranches 2 and 3 of the REFCL program will be subject to future contingent project applications.

While the REFCL devices are a proven technology, this program signifies the first time that they will be applied at scale for bushfire mitigation purposes. As a result, a significant amount of research and development is required within the program in order to ensure the safe and reliable operation of the devices.

With effect from 1 September 2017, the Electrical Safety Amendment (Bushfire Mitigation Civil Penalties Scheme) Bill 2017 will amend the Electricity Safety Act 1998. The Bill imposes a number of bushfire mitigation requirements (including the implementation of the REFCL program to the required performance standards and other Victorian Bushfire Royal Commission recommendations) and enables the enforcement of those requirements through a civil penalty reinforcement regime. The bill has passed parliament but is yet to receive Royal Assent. If it is passed into law as expected there is a risk that failing to comply with the timeframes in the regulations, in particular regarding the successful rollout of REFCL devices, could result in significant financial penalties.

Price determinations

The energy industry in Australia is highly regulated. The regulated component of our revenues (approximately 84.9 per cent of total revenues for the year ended 31 March 2017) will be subject to periodic pricing resets by the AER, where revenue or prices will be determined for each of the networks for the specified regulatory period. We have no ability or flexibility to charge more for regulated services than is provided for under the relevant AER determination or approved access arrangement without regulatory approval. Regulatory control periods are generally five years. The upcoming regulatory reset dates for our gas distribution network and electricity distribution network are 1 January 2018 and 1 January 2021, respectively.

Regulated charges do not necessarily reflect actual or projected operating costs, capital expenditure or the costs of capital. If the regulated charges set by the AER are lower than our costs, this may adversely affect our financial performance and position. In addition, we are exposed to cost changes within a regulatory control period and bear the risk of any shortfall in allowances for costs provided by regulatory determinations. The regulator applies benchmarking as it considers appropriate to each network business, having regard to an overall objective that only capital expenditure that is efficient should form part of the regulated asset base. Operating expenditure is particularly subject to benchmarking comparisons to set efficient levels going forward.

Costs can change materially within a regulatory control period due to, among other things, changes in the costs of labour, equipment or capital inputs (including the cost of finance). In some circumstances where costs are outside our control, the regulatory regime offers cost pass-through protection. However, this is generally limited to costs incurred as a result of a change of exogenous circumstances (e.g. change in law, natural disaster or changes in occupational health and safety or environmental obligations) and the change in costs is often required to satisfy a materiality threshold. It is also possible to re-open a price determination, but this can only occur where the determination is affected by a material error or deficiency. As such, we face exposure to changes in our costs which could adversely affect our financial performance and position.

We carefully manage these risks in a number of ways. Prior to the commencement of a regulatory period, we develop a detailed plan of works to be undertaken and costs to be incurred as well as energy and maximum demand forecasts. Particular emphasis is placed on ensuring that we continue to maintain safe, resilient and reliable networks and that the costs to be incurred are efficient and prudent. This information is submitted to the AER as part of the determination process, and where appropriate the views of industry and other external experts are sought to be included in the submission. During the regulatory period we continuously monitor and manage our costs through processes and systems which produce high quality data, efficiency, effectiveness and control. In addition, through our organisation-wide efficiency program we aim to improve our benchmark performance.

Directors' report

Material risks and uncertainties (continued)

Network risks

Our energy distribution networks and information technology systems are vulnerable to human error in operation, equipment failure, natural disasters (such as bushfires, severe weather, floods and earthquakes), sabotage, terrorist attacks or other events which can cause service interruptions to customers, network failures, breakdowns or unplanned outages. Certain events may occur that may affect electricity distribution lines or gas mains in a manner that would disrupt the supply of electricity or gas. Failures in our equipment may cause supply interruptions or physical damage.

Any service disruption may cause loss or damage to customers, who may seek to recover damages from AusNet Services, and this could harm our business and reputation. Our emergency response, crisis management and business continuity management system is the approved methodology to guide response and recovery activities. However, it may not be able to effectively protect our business and operations from these events.

We are also exposed to the cost of replacing faulty equipment. On rare occasions, faults in plant items are discovered only after the item has been installed within a network, requiring a large scale replacement program. Only some such incidents are covered by plant warranties and in some instances these warranties may only be partial. Additionally, incidents in our zone substations have property cover to insure against failure, but incidents outside the boundaries of our zone substations are self-insured. Any forced replacement program, particularly if not insured or covered by warranties, could be costly and adversely affect our financial performance and position.

Risks associated with technological advancements and changes to traditional energy models are discussed in the industry and regulatory risks section.

Funding and market risks

We rely on access to financial markets as a significant source of liquidity for growth capital requirements not satisfied by operating cash flows. Our access to financial markets could be adversely impacted through various factors, such as a material adverse change in our business or a reduction in our credit rating. The inability to raise capital on favourable terms, particularly during times of uncertainty in the financial markets, could impact our ability to sustain and grow our capital intensive businesses, and would likely increase our cost of capital. AusNet Services has operated a Dividend Reinvestment Plan (DRP) since 2008, with discount levels that have varied between zero and 2.5 per cent. The use of a DRP and the level of discounting is dependent upon funding requirements at a point in time.

Furthermore, we have a large amount of debt, with a net debt to Regulated and Contracted Asset Base ratio at 31 March 2017 of 67.9 per cent (excluding equity credit for the \$705 million of hybrid instruments). The degree to which we may be leveraged in the future could affect our ability to service debt and other obligations, to pay dividends to shareholders, to make capital investments, to take advantage of certain business opportunities, to respond to competitive pressures or to obtain additional financing. In addition, we are exposed to a number of market risks associated with this debt, including interest rate and foreign currency risk.

We effectively manage these risks in accordance with our Treasury Risk Policy which is approved by the Board and reviewed by the Audit and Risk Management Committee periodically. Under this policy, we aim to have a diverse funding mix in terms of source and tenure and proactively monitor and manage our credit metrics. This enables us to maintain an 'A' range credit rating, ensures continued access to various markets and limits the funding requirement for any given year. In addition, through the use of derivative financial instruments we aim to hedge 90 to 100 per cent of our interest rate risk.

Information and communication technology risks

The drive to reduce carbon emissions, customers' needs for higher levels of reliability and the reduction in the cost of digital technology have resulted in a greater role for technology in the enablement, management and operations of utility networks. An example of this greater role is the implementation of smart meters in the electricity distribution business and other 'Smart Network' technology to improve electricity supply reliability. This increased focus on the role technology plays in the management and operations of utility networks will require the introduction of new digital technology platforms. In the event there is any significant delay in the development of new technology, this may negatively impact our revenue or require unforeseen capital investment to replace obsolete technology.

In addition, as with all new business solutions, there are risks associated with solution design, implementation, budgeting, planning and integration and future maintenance, upgrades and support. The crystallisation of any such risks could adversely impact the effectiveness and cost of such a solution and business continuity.

To mitigate these risks, we have established a centralised architecture, delivery and governance capability to ensure technology needs are delivered successfully through an architecturally-led approach with appropriate governance applied.

Directors' report – Remuneration report (audited)

1 Introduction

The remuneration report for the year ended 31 March 2017 outlines the remuneration arrangements of the Group in accordance with the requirements of the *Corporations Act 2001* (Cth) and its regulations. This information has been audited as required by section 308(3C) of the Corporations Act.

The remuneration report details the remuneration arrangements for Key Management Personnel (KMP). KMP are those persons who have authority and responsibility for planning, directing and controlling the major activities of the Group, directly or indirectly, including any Director of the parent company.

The Directors and other KMP of the Group are engaged to provide services to the AusNet Services Group and are not exclusive to any particular entity within AusNet Services. Accordingly, this report includes information that is common to AusNet Services Holdings Pty Ltd and AusNet Services Ltd. The remuneration amounts reported represent the total remuneration received by KMP during the year for services to the AusNet Services Group, and we have not apportioned between particular entities within the AusNet Services Group.

Key Management Personnel

The persons listed below were Directors of the Group for the whole of the financial year and up to the date of this report unless otherwise noted.

Name	Position
Directors	
Nino Ficca	Managing Director
Adam Newman	Director (Executive General Manager and Chief Financial Officer)
Alistair Parker	Director (Executive General Manager, Regulated Energy Services) (appointed 10 October 2016)
Executive KMP	
Nino Ficca	Managing Director
Chad Hymas ¹	Executive General Manager, Commercial Energy Services (formerly General Manager, Strategy & Business Development)
Adam Newman	Director (Executive General Manager and Chief Financial Officer)
Alistair Parker ¹	Director (Executive General Manager, Regulated Energy Services) (formerly General Manager, Asset Management)
Mario Tieppo	Executive General Manager, Technology (formerly Chief Information Officer)

1. Promoted to new role on 1 July 2016 following organisational restructure.

Former Key Management Personnel

Name	Position
Charles Popple	Director (resigned 1 April 2016)
Susan Taylor	Director (resigned 23 September 2016)
John Azaris	General Manager, Service Delivery (ceased as KMP from 1 July 2016)
John Kelso	General Manager, Select Solutions (ceased as KMP from 1 July 2016)

Principles used to determine the nature and amount of remuneration

Directors

The Directors of the Company were remunerated as executives of the AusNet Services Group (which includes, but is not limited to, the Group) and received no remuneration in respect of their services to the Group as Directors.

Directors' report – Remuneration report (audited)

2 Remuneration Overview and Changes

Our executive remuneration structure and approach is designed to link rewards with the performance of employees, the Group and benefits that flow to our shareholders. The table below shows performance outcomes for a range of key measures that have driven remuneration and shareholder outcomes for the current and past reporting periods. These outcomes demonstrate a link between the level of performance achieved and pay outcomes, with lower rewards paid in years of lower corporate performance and higher rewards during years of stronger performance.

Financial performance	FY13	FY14 ^{1,2}	FY15 ³	FY16	FY17 ⁵
NPAT (\$m) ^{1,3,4}	274	178	23	489	255
EBITDA (\$m)	976	1,017	1,047	1,143	1,073
Return on Equity (%)	8.6%	5.3%	1.0%	14.0%	7.0%
TSR Percentile Ranking	87.2	88.1	62.3	71.4	68.6
EPS (3 year CAGR) ²	1.80%	-11.1%	-58.1%	17.8%	3.4%
Share price at 31 Mar (\$)	1.195	1.310	1.460	1.490	1.685
Dividends (cents per share) ⁵	8.20	8.36	8.36	8.53	9.80
STI % ⁶	144.6%	80.0%	56.2%	127.1%	107.6%
LTI vested as % of target - MD	50.0%	48.1%	37.5%	104.9%	70.6%
LTI vested as % of target – other KMP	50.0%	50.0%	33.5%	120.3%	76.1%

1. FY2014 net profit after tax includes a net charge of \$86.7 million for the amount potentially payable in respect of the Section 163AA dispute, \$50.0 million payable for the termination of the Management Services Agreement (MSA) and \$7.7 million in restructuring costs associated with the Termination Deed.
2. FY2014 EPS measure was adjusted to exclude the \$50 million payable for the termination of the MSA at the Board's discretion.
3. FY2015 net profit after tax includes the recognition of \$142.6 million in income tax expense for the settlement with the Australian Taxation Office (ATO) in relation to the intra-group financing audit, the recognition of \$84.1 million net exposure in relation to the intellectual property tax dispute with the ATO and the recognition of a provision for Advanced Metering Infrastructure (AMI) customer rebates of \$22.8 million (after tax).
4. FY2016 net profit after tax includes one-off tax benefits of \$163.1 million associated with our corporate restructure (\$135.0 million) and settlement of the IP dispute with the ATO (\$28.1 million).
5. FY2017 dividends consists of 8.80 cents per share ordinary dividend plus 1.0 cents per share special dividend
6. Corporate STI Scorecard outcome

Key Remuneration outcomes and changes during FY2017:

Short Term Incentive (STI)	The FY2017 STI Corporate scorecard achieved 107.6 per cent of target performance. Individual personal STI scorecard outcomes varied across executive KMP.
Long Term Incentive (LTI)	The 2014 LTI tranche was assessed after the three-year performance period. 70.6 per cent of the Managing Director's LTI and 76.1 per cent of LTI for other executive KMP vested.
Managing Director Pay Structure	As foreshadowed at the 2016 Annual General Meeting, the Board has completed a review of the Managing Director's remuneration arrangements, which confirmed that his fixed remuneration and other components were below the market and had been for some time and that a lower proportion of his remuneration was at risk. The review resulted in: <ul style="list-style-type: none"> • a 19.6 per cent increase in the MD's Fixed Annual Remuneration (FAR) to \$1.3 million; • an increase in his short-term incentive target opportunity to 75 per cent of FAR; • one third of all STI awards deferred into equity for two years; and • an increase in LTI opportunity to 120 per cent of FAR effective from 2017 LTI grant. These changes led to an FY2017 increase of 10.7 per cent in actual remuneration paid
Other Executive KMP	<ul style="list-style-type: none"> • The Company implemented a new operating model and organisation structure to align to its corporate strategy. Two executive KMP, Mr Alistair Parker and Mr Chad Hymas were appointed to new roles with expanded asset portfolios and operating responsibilities and received increases to fixed pay of 19.4 per cent and 33.1 per cent respectively. • Other executive KMP increases ranged from 1.75 per cent to 2.25 per cent.
STI Plan	The Board undertook a review of the Executive KMP STI Plan, which highlighted opportunities to increase transparency and simplicity and better align with the company's business strategy and structure. From 1 April 2017, a new STI plan will be introduced, incorporating the following changes: <ul style="list-style-type: none"> • The introduction of a financial performance gateway to ensure that STI is only paid to KMP when shareholders also benefit. • Moving from dual corporate and personal KPI scorecards to a single additive scorecard. • Significantly greater weighting on financial measures – FY2018 Financial measures (EBITDA and ROE) to account for 60 per cent of STI opportunity for Executive KMP. • Maximum STI opportunity reduced from 196 per cent to 150 per cent of target.

Directors' report – Remuneration report (audited)

3 Executive KMP Remuneration Framework and Reward Mix

The following table summarises AusNet Services' Executive KMP remuneration framework applying to FY2017:

Remuneration objectives and principles						
The objective of our approach to executive KMP remuneration is to attract, motivate and retain senior executives to deliver upon our business plans, while ensuring that remuneration outcomes are linked to company performance and therefore the interests of our shareholders.						
Board decision-making on remuneration matters is guided by a comprehensive set of principles as follows:						
Aligned to strategy and business need	Market competitive	Performance-driven	Simple and transparent	Position in employee value proposition	Reflects fairness across the business	Effective Governance

Remuneration decisions include matters related to the design of the executive remuneration framework, how the framework is applied, how performance measures and targets are set and how outcomes determined.

Remuneration element and link to our business strategy and performance			
FY2017 Approach	Fixed annual remuneration	At risk variable remuneration	
		Short-term incentive	Long-term incentive
Approach	Set at a market competitive level to attract and retain key talent and with regard to the complexity of the role, skills and competencies required.	<ul style="list-style-type: none"> For the Managing Director, STI outcome delivered as two thirds cash and one-third deferred equity rights with two-year deferral period. Other executive KMP receive cash STI payment, based on performance over the year. 	<ul style="list-style-type: none"> KMP LTI delivered as performance rights that vest over a three year period if relevant performance hurdles are achieved.
Purpose & rationale	Attract and retain executives with the capability and experience to deliver outcomes.	<ul style="list-style-type: none"> Motivates and rewards executives for short-term outcomes and milestones which align to shareholder interests and business performance. Because the type and weighting of STI measures is based on the role and responsibilities of the executive, strongly aligned to business strategy and performance. STI is awarded only if there has been a satisfactory level of company performance and individual KPIs have been met. 	<ul style="list-style-type: none"> Designed to motivate and reward sustainable superior performance, which is aligned with the interests of shareholders. The three-year vesting period is designed to align executive performance and decision-making with longer term outcomes and assists in the retention of key executives.
Performance measures & rationale	FAR reviewed against market rates for comparable roles. No guaranteed FAR increases in executive KMP contracts of employment.	<ul style="list-style-type: none"> KPIs based on a balanced scorecard of financial and non-financial measures. Safety of our people and delivery partners and the operation of our assets are paramount to performance. Measured via HSEQ Index and F-Factor performance. STI financial KPIs of EBITDA, Return on Equity and Cash flow from operations are the key financial performance measures for our business because they measure our ability to grow revenues, exhibit cost control and effectively manage working capital. Limiting turnover and retaining key talent is critical to ongoing success. Key business performance measures encompassing service standards, productivity, efficiencies and program delivery activities align to our strategic plan. 	<ul style="list-style-type: none"> LTIP KPIs are Relative Total Shareholder Return (50 per cent), Earnings Per Share growth (25 per cent) and Return on Invested Capital (25 per cent). Total Shareholder Return (TSR) measures returns generated from the investments made against performance of comparator group. Earnings per share (EPS) provides tangible measure of shareholder value creation. Return on invested capital (ROIC)* measures returns generated from investments in operations. Interest cover ratio (ICR)* provides an indication of ability to service debt obligations.

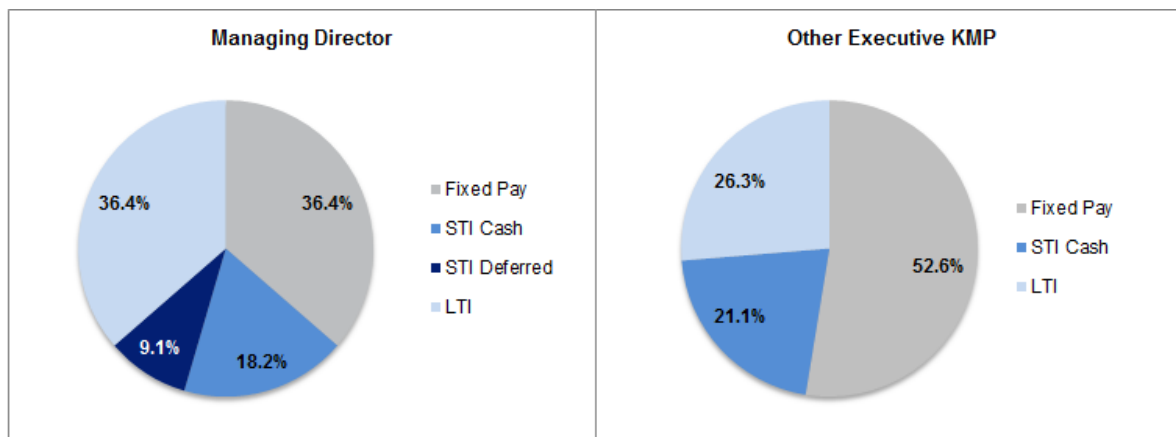
* ROIC & ICR apply only to the Managing Director in relation to the 2014 LTI tranche

Directors' report – Remuneration report (audited)

3 Executive KMP Remuneration Framework and Reward Mix (continued)

Total reward mix

Our FY2017 Executive Remuneration approach comprised Fixed Remuneration, Short Term and Long Term Incentive components as described above. The executive KMP target reward mix is shown below:



Remuneration and Other Terms of employment

Remuneration and other terms of employment for the Managing Director are set out in the table below.

Managing Director	
Term of Agreement	Permanent, subject to six months' notice of termination by either party.
Fixed remuneration	Fixed remuneration includes base salary and superannuation. As at 31 March 2017, FAR was \$1,300,000. Fixed remuneration is reviewed annually by the Remuneration Committee and the Board, with no guarantee of increase.
Short-term incentive	Annual short-term incentive of 75 per cent of FAR for on-target performance. Previously (FY2016) this was 50 per cent. STI is delivered as two-thirds in cash payment and one-third in deferred rights, with a two-year deferral period. Unless otherwise determined by the Board, STI awards are forfeited if terminated for cause or resignation prior to vesting date.
Long-term incentive	Long-term incentive of 100 per cent (120 per cent from FY2018) of FAR for on-target performance, based on the performance measures of TSR, EPS and ROIC. Treatment of LTI awards are dealt with under the LTI plan rules and the specific terms of grant. In general, unless otherwise determined by the Board, LTI awards lapse upon resignation or termination for cause and for termination without cause will remain on foot on a pro-rata basis, to be tested against the relevant performance conditions at the vesting date. Annual invitation to participate with three-year performance period and no retesting of performance measures in subsequent years. Clawback provisions apply in Plan Rules
Termination benefits	Termination benefits calculated at three weeks' pay for every year of service paid at the Managing Director's FAR rate and capped at six months.

The major provisions contained in the services agreements of the other executive KMP are substantially the same as those that apply to the Managing Director. However variable reward opportunity differs for executive KMP, being short-term incentive opportunity of 40 per cent of FAR for on-target performance and long-term incentive of 50 per cent of FAR for on-target performance.

Directors' report – Remuneration report (audited)

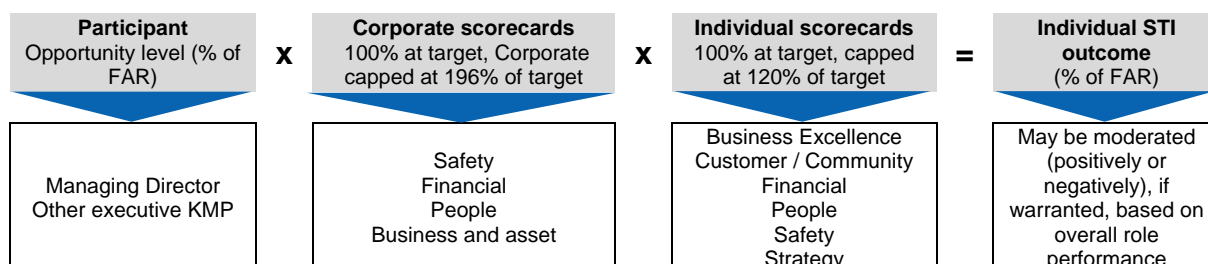
4 2017 Executive KMP Incentive Plans and Pay Outcomes

Short-Term Incentive Plan

The following information describes the STI Plan that was in place for executive KMP during FY2017.

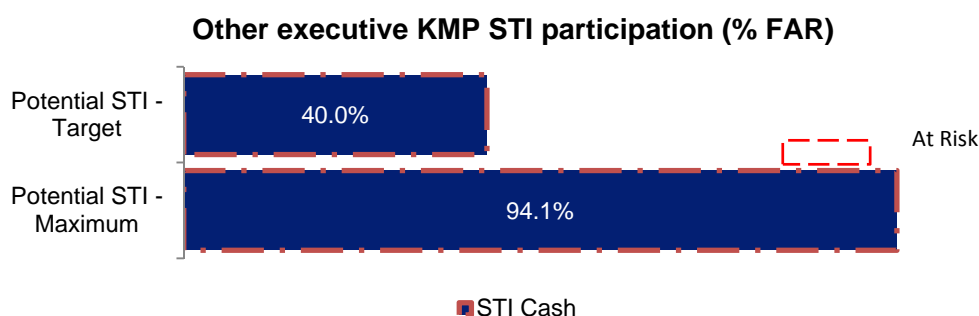
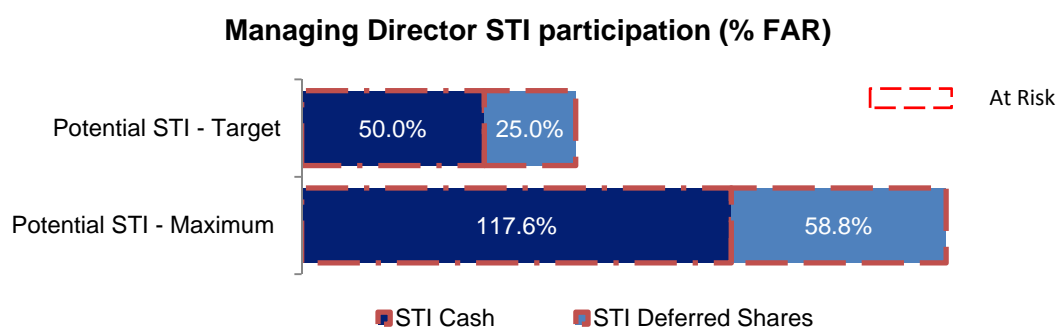
Plan Design

Individual STI outcomes are determined by multiplying the outcome of two separate scorecards (one corporate and one individual) by the participant's STI opportunity level (being a set percentage of FAR).



Executive KMP Participation opportunity

Participation in the FY2017 STI plan is expressed as a percentage of the participants FAR and is set out in the following figure:



Two thirds of the Managing Director's STI award is paid in cash with one third deferred in shares held over a two-year period. STI is paid in cash for all other executives

STI - KPI performance measures and targets

For FY2017, the key corporate performance measures were set to reflect the strategic and financial business drivers, specifically financial performance (EBITDA, ROE and Cash flow from Operations), safety performance and outcomes, retention of key talent, asset performance and efficiency.

The FY2017 targets and performance ranges were set to deliver acceptable financial returns to shareholders and drive sustainable efficiency outcomes over the immediate and longer term.

Directors' report – Remuneration report (audited)**4 2017 Executive KMP Incentive Plans and Pay Outcomes (continued)***FY2017 corporate STI scorecard performance outcomes*

For FY2017, maximum outcomes were achieved in relation to two corporate financial measures, ROE and Cash flow from operations with the remaining EBITDA measure achieving an above-target outcome. For the remaining KPI's contained in the Corporate Scorecard, two achieved maximum performance whilst a further two KPI's achieved target performance. Three KPI's did not achieve threshold performance. Overall the FY2017 corporate STI scorecard achieved a scorecard outcome of 107.6 per cent of overall target performance.

The following table shows the outcome across the performance range for each corporate performance measure:

FY2017 corporate STI scorecard			FY2017 performance outcomes		
Our strategic drivers	Scorecard weighting	Measure	Threshold	Target (100%)	Maximum
Safety	15%	HSEQ index score	●		
		F-factor			●
Financial	40%	EBITDA		●	
		Return on equity			●
		Cash flow from operations			●
People	10%	Turnover of talent	●		
		Service standard		●	
Business and asset	35%	Multilateral Total Factor Productivity	●		
		Metering program – delivery on time and on budget			●
		Metering program – compliance and functionality		●	

Participants in the FY2017 STI plan included the Managing Director, other executive KMP and permanent employees on individual employment agreements. Generally, executive KMP must complete the performance year to qualify for any STI payment. However, in some circumstances the Board, in its absolute discretion, may determine a pro-rata STI payment be awarded to an executive.

Overall STI outcomes for FY2017 are as follows:

	Opportunity		Outcome		
	Target STI (% FAR)	Max STI (% FAR)	Actual STI (% FAR)	Actual STI (% Target)	Actual STI (% Max)
Managing Director	75.0%	176.4%	72.6%	96.8%	41.2%
Other Executive KMP (average) ¹	40.0%	94.1%	37.1%	92.8%	39.5%

1. Excludes any retention component

Executive Retention Plans

As reported last year, in FY2016, the Board established a targeted two-year Executive Retention Plan for several KMP, based on a 20 per cent uplift to target STI opportunity. During FY2017, Alistair Parker and Chad Hymas were appointed to new expanded roles and as part of those appointments, forfeited their participation in the FY2017 period of the retention plan. Adam Newman continued to participate in this second and final year of the Plan, resulting in his higher target FY2017 STI opportunity of 60 per cent and maximum opportunity of 141.1 per cent.

In October 2015, the Board approved a one-off 50 per cent ex-gratia payment opportunity for Mario Tieppo associated with the metering program milestones, scheduled for assessment on 31 March 2017. Key milestones associated with the ex-gratia opportunity have been achieved in full.

The impact of these Retention Plan Payments, which were fully disclosed in the FY2016 Remuneration Report, are reflected in the statutory remuneration table contained in section 6 of this report. All retention plans have now been concluded.

Directors' report – Remuneration report (audited)**4 2017 Executive KMP Incentive Plans and Pay Outcomes (continued)****Long-Term Incentive Plan**

The following describes our LTI Plan design for the 2016 LTI grant, with the three-year performance period concluding on 31 March 2019:

Design aspect	Commentary		
Eligibility	Executive KMP. The Board may in its discretion invite additional employees who are in a position to influence long-term shareholder value to participate in the LTI plan.		
Opportunity	The LTI award is calculated as a percentage of the participant's FAR as at the grant date. The number of performance rights issued is the percentage of FAR divided by the share price. Performance is assessed over a three-year period and the LTI plan does not allow for retesting of performance measures in subsequent years. The following performance measures are considered the most appropriate measures of our long-term performance and provide a balanced internal and external view of shareholder returns.		
Performance measures	Total Shareholder Return (TSR)	Earnings Per Share (EPS)	Return on invested Capital (ROIC)
	The comparator group used for the TSR performance measure is the S&P/ASX 200 index. In assessing whether performance hurdles have been met, independent data is reviewed by the Board indicating TSR growth from the commencement of each grant and that of the companies in the comparator group. The level of TSR growth achieved is given a percentile ranking, having regard to our performance compared with the performance of the comparator group.	The EPS growth measure is based on achieving a nominal compound annual growth (CAGR) of 5 per cent per annum over the three-year period.	The ROIC measure is designed to measure how effectively we use funds (borrowed and owned) invested in our operations. ROIC equals (NPAT + Finance Cost adjusted for Tax) / (Average Equity + Average Debt)
Weighting and targets	Weighting 50%	Weighting 25%	Weighting 25%
	Threshold Performance 50th percentile - 35% vesting	Threshold Performance 2.5% CAGR - 0% vesting	Threshold Performance 4.60% - 50% vesting
	Target / Max performance 75th percentile - 100% vesting	Target / Max performance 5.0% CAGR - 100% vesting	Target / Max performance 4.80% - 100% vesting
	The vesting of each of the above KPIs will occur on a linear basis between the threshold and maximum ranges.		
Delivery mechanism	Commencing April 2015, the LTI award has been made in the form of performance rights, being rights to receive shares subject to continued employment and performance against the above measures. The Board retains the right to vary at its discretion the number of performance rights that vest.		
Clawback arrangements	Where, in the opinion of the Board, the performance measures applicable to an award have been satisfied as a result of the fraud, dishonesty or breach of obligations of the participant and, in the opinion of the Board, the performance measures would not otherwise have been satisfied, the Board may determine that the performance measures are not satisfied and may, subject to applicable laws, determine that any vested award be clawed back.		

Directors' report – Remuneration report (audited)**4 2017 Executive KMP Incentive Plans and Pay Outcomes (continued)***2014 LTI performance outcomes*

The Board assessed the 2014 LTI grant, which is the last of our previous cash based LTI grants.

Performance measures under the 2014 plan were relative TSR and EPS growth. In addition, the Managing Director's LTI award is also based on performance against ROIC and ICR measures. For the Managing Director to qualify for an award under both the ROIC and ICR measures in the 2014 award, a safety performance hurdle of zero fatalities for our employees in the 12-month period prior to vesting must be achieved.

The following table sets out the performance of the all KPIs under the 2014 grant of the LTI plan:

2014 Grant - LTI measures and weighting			Three-year performance outcomes			
Our strategic drivers	MD weighting	Other executive KMP weighting	Threshold		Target (100%)	Maximum
TSR	37.5%	50.0%				n/a
EPS	37.5%	50.0%				
ROIC	12.5%	n/a				
ICR	12.5%	n/a				

The assessed performance outcomes, and the weightings for the LTI measures set out above, resulted in the following vesting of 2014 LTI grant awards:

2014 Grant - Awarded vesting		
Opportunity	Managing Director	Other executive KMP
Per cent of target	70.6%	76.1%
Per cent of maximum	56.5%	60.9%

LTI delivery mechanism

While performance rights were granted under the 2015 and 2016 LTI grant, the 2014 LTI awards were granted under the previous cash-based LTI plan. Once the performance criteria have been satisfied, participants receive a cash award. Participants are then required (under the 2014 Plan Rules) to use the after-tax cash proceeds of this award to purchase AusNet Services shares on-market. These purchases must be conducted during an approved trading window and the shares must be held for at least 12 months. Reasonable brokerage costs incurred by the participants are reimbursed.

Directors' report – Remuneration report (audited)

5 Remuneration Governance

AusNet Services approach to remuneration governance is sound and comprehensive. Our approach is summarised as follows:

Clear roles allow for efficient decision-making

The Board and Committee Charters have clear roles for remuneration issues to be considered by management, the Remuneration Committee and the Board.

- The Board has developed and applies Remuneration Principles to guide its decision making on remuneration matters. These principles were last reviewed in January 2016.
- Management provides information and insights on contemporary remuneration practices and obtains remuneration information from external advisors to assist the Remuneration Committee.
- The Remuneration Committee is delegated to review and make recommendations to the Board for consideration and approval on matters of remuneration frameworks and structures, Non-executive remuneration, and Executive remuneration, including fixed and variable pay elements.
- The Board assesses the performance of the Managing Director and approves related reward outcomes.

Continuous development and monitoring of market practices

- Directors and Management actively seek opportunities to engage with peers.
- Directors regularly receive and review current remuneration market practices and emerging trends and assess their relevance to AusNet Services.

The use of external advisors to support informed and independent decision-making

- The Remuneration Committee formally appointed EY as its Remuneration Advisor in October 2015 and engages other external advisors as required.
- No remuneration recommendations were provided to the Remuneration Committee or Board by EY during the reporting period.
- Advice provided to the Remuneration Committee by EY during the reporting period focussed on overall market practices in relation to executive STI design, approach and frameworks. This advice included analysis and modelling of potential options and scenarios, which assisted the Board in reviewing and determining the executive STI framework for FY2018.
- EY provided advice in relation to market practice and benchmarking for the Managing Director, which assisted the Board in reviewing the Managing Director's fixed remuneration and variable pay reward mix.

Stakeholder engagement

- The Board regularly reviews its strategy for open and transparent engagement with shareholders and other stakeholders to inform remuneration governance and approaches.

Directors' report – Remuneration report (audited)**6 Statutory Remuneration Disclosures****Short-Term Incentive**

The percentage of the available STI that was paid, or that vested, in the financial years ended 31 March 2016 and 31 March 2017, and the percentage of target that was forfeited because the executive KMP did not meet the service or performance criteria, are set out below.

	FY2017 STI ^{1,2}						FY2016 STI		
	STI payable (\$) ^{4,5}	STI Deferred (\$) ⁶	Retention/ex-gratia payable (\$)	Total STI payable (\$)	Percentage of target		Paid (\$)	Percentage of target	
				Payable	Forfeited			Paid	Forfeited
Nino Ficca	629,460	314,730	n/a	944,190	96.8	3.2	628,502	115.7	0.0
John Azaris ³	40,282	-	n/a	40,282	36.0	64.0	246,854	114.4	0.0
Chad Hymas	154,399	-	n/a	154,399	91.5	8.5	264,817	133.5	0.0
John Kelso ³	40,592	-	n/a	40,592	45.0	55.0	92,579	58.4	41.6
Adam Newman ⁷	253,467	-	126,733	380,200	91.5	8.5	528,356	129.6	0.0
Alistair Parker	175,510	-	n/a	175,510	91.5	8.5	265,611	108.0	0.0
Susan Taylor ³	73,713	-	n/a	73,313	45.0	55.0	n/a	n/a	n/a
Mario Tieppo ⁷	164,767	-	212,680	377,447	98.6	1.4	179,770	108.0	0.0

- Incentive payments for the performance year ended 31 March 2017 have been approved and will be payable in June 2017.
- These payments include the STI uplift for Mr Newman for the executive retention plan in relation to FY2017. For Mr Tieppo, the executive retention plan payable relates to both FY2017 and FY2016.
- Mr Azaris, Mr Kelso and Ms Taylor were paid a pro-rata STI upon cessation of employment. Mr Azaris forfeited his retention plan amount in full. Pro-rata amount reflects payable in relation to period in which the employee was KMP.
- The Managing Director's target STI opportunity was increased by the Board from 50 per cent to 75 per cent of target, effective 1 April 2016.
- Mr Ficca's FY2016 STI was 57.8 per cent of FAR (115.7 per cent of target based on the previous level of opportunity); with other executive KMP average STI payments 43.5 per cent of FAR (108.8 per cent of target) in FY2016.
- One third of the Managing Director's FY2017 award will be deferred into share rights. STI is paid in cash for all other executives.
- Mr Newman received an additional award relating to his participation in the FY2017 Executive Retention Plan and Mr Tieppo received an award related to the achievement of key milestones attached to metering remediation program. Details are disclosed in section 1 of this report.

Directors' report – Remuneration report (audited)**6 Statutory Remuneration Disclosures (continued)****Long-Term Incentive**

The following table shows the value of grants subject to future performance testing, percentage payable or forfeited and future financial years that grants may vest and be paid. The grants made in 2015 and 2016 are still in progress and, as such, no percentage of these grants has been paid or forfeited as at the date of this report other than former KMP.

<i>Current KMP</i>	Percentage of maximum grant payable (%) ¹	Percentage of maximum grant forfeited (%)	Maximum total value of grant (\$) ²	Performance rights granted
2014 Grant - Cash-based LTI plans				
	Vesting date 31-Mar-17			
Nino Ficca	56.5	43.5	1,662,500	
Chad Hymas	60.9	39.1	281,250	
Adam Newman	60.9	39.1	433,022	
Alistair Parker	60.9	39.1	312,500	
Mario Tieppo	60.9	39.1	262,850	
Total granted 1 April 2014			2,952,122	
2015 Grant - Performance rights				
	Vesting date 31-Mar-18			
Nino Ficca	-	-	739,722	739,722
Chad Hymas	-	-	112,551	112,551
Adam Newman	-	-	231,163	231,163
Alistair Parker	-	-	139,450	139,450
Mario Tieppo	-	-	141,573	141,573
Total granted 1 April 2015			1,364,459	1,364,459
2016 Grant - Performance rights				
	Vesting date 31-Mar-19			
Nino Ficca	-	-	706,437	692,585
Chad Hymas	-	-	107,487	105,379
Adam Newman	-	-	220,222	215,904
Alistair Parker	-	-	133,175	130,564
Mario Tieppo	-	-	135,203	132,552
Total granted 1 April 2016			1,302,524	1,276,984
<i>Former KMP</i>	Percentage of maximum grant payable (%)	Percentage of maximum grant forfeited (%)	Maximum total value of grant (\$)	
2014 Grant - Cash-based LTI plans				
	Vesting date - 30 Sep 16			
John Azaris ³	50.0	50.0	274,471	
John Kelso ³	50.0	50.0	252,181	
Total granted 1 April 2014			526,652	
2015 Grant - Performance rights				
	Vesting date - 30 Sep 16			
John Azaris ³	37.5	62.5	146,882	
John Kelso ³	37.5	62.5	134,954	
Total granted 1 April 2015			281,836	
2016 Grant - Performance rights				
	Vesting date - 30 Sep 16			
John Azaris ³	12.5	87.5	139,587	
John Kelso ³	12.5	87.5	128,252	
Total granted 1 April 2016			267,839	

- These grants have been approved and will be payable in June 2017. In determining LTIs for the 1 April 2014 grant, the Board has not exercised any discretion in relation to the performance measures and outcomes payable under the LTI plan.
- For the grant of 1 April 2014, the amounts payable equated to 60.9 per cent of the maximum LTI, except for Mr Ficca whereby the amount payable equated to 56.5 per cent of the maximum LTI. For the performance rights granted on 1 April 2015 and 1 April 2016, the amounts represent the value of the performance rights on grant date. Refer to Note F.3 in the financial statements for further details.
- Mr Azaris and Mr Kelso ceased as KMP from 1 July 2016 and ceased as employees of the Company from 30 September 2016. As part of the termination the Board modified the long-term incentive plan to vest 75 per cent of the pro-rata participation in the 1 April 2014, 2015 and 2016 tranches of the LTI plan on 30 September 2016. The maximum total value of grant disclosed above is based on the original entitlement.

Directors' report – Remuneration report (audited)**6 Statutory Remuneration Disclosures (continued)****Executive KMP Statutory Remuneration**

The following table sets out the each element of our executive KMP's total reported remuneration, based on statutory remuneration disclosure requirements.

			Short-term		Post-employment	Equity based payments ³	Termination benefits	Other long-term benefits ^{4,5}	Total
	FY	Cash salary and fees ⁵	STI ¹	Other short-term benefits ^{2,5}	Super-annuation				
Nino Ficca	2017	1,112,677	944,190	120,292	125,593	1,016,843	-	216,763	3,536,358
	2016	905,478	628,502	85,778	104,792	880,542	-	58,646	2,663,738
Adam Newman	2017	575,720	380,200	62,226	25,000	308,602	-	18,179	1,369,927
	2016	604,228	528,356	58,142	25,096	298,471	-	18,860	1,533,153
Charles Popple	2017	-	-	-	-	-	-	-	-
	2016	396,690	-	-	-	-	-	-	396,690
Susan Taylor ⁶	2017	222,990	73,713	12,773	11,670	145,898	244,443	5,841	717,328
	2016	-	-	-	-	-	-	-	-
Total Directors	2017	1,911,387	1,398,103	195,291	162,263	1,471,343	244,443	240,783	5,623,613
	2016	1,906,396	1,156,858	143,920	129,888	1,179,013	-	77,506	4,593,581
John Azaris ⁷	2017	96,661	40,282	17,881	11,604	149,008	329,621	6,867	651,924
	2016	324,109	246,854	39,085	45,350	188,860	-	17,073	861,331
Chad Hymas	2017	382,492	154,399	69,169	25,000	193,164	-	54,569	878,793
	2016	277,528	264,817	33,161	25,096	144,717	-	12,248	757,567
John Kelso ⁸	2017	94,561	40,592	15,340	9,791	136,908	234,596	5,241	537,029
	2016	291,424	92,579	35,982	34,536	172,048	-	12,487	639,056
Alistair Parker ⁹	2017	390,732	175,510	47,078	32,510	209,785	-	25,614	881,229
	2016	366,576	265,611	44,922	24,176	179,302	-	12,739	893,326
Mario Tieppo	2017	362,011	164,767	43,332	23,467	181,687	-	119,708	894,972
	2016	374,521	179,770	38,797	25,096	143,699	-	115,146	877,029
Total Executive KMP	2017	1,326,457	575,550	192,800	102,372	870,552	564,217	211,999	3,843,947
	2016	1,634,158	1,049,631	191,947	154,254	828,626	-	169,693	4,028,309

Directors' report – Remuneration report (audited)

6 Statutory Remuneration Disclosures (continued)

Footnotes to table on previous page

1. FY2017 *STI* includes amounts in respect of performance for the year ended 31 March 2017. These amounts have been approved and will be payable in June 2017. A pro-rata *STI* payment was made to Mr Azaris and Mr Kelso upon termination at 90 per cent of target at the Board's discretion.
2. *Other short-term benefits* include car parking benefits and the accrual of annual leave entitlements. The allocation of the premium for Directors' and Officers' insurance is not included as under the terms of the current policy this information cannot be disclosed.
3. As the performance period over which the LTI awards vest is three years, the amount included in *Equity-based payments* is one-third of the amount estimated to be payable at the end of the performance period for each outstanding award. This estimated amount is based on certain assumptions regarding the achievement of performance targets, which are reviewed and adjusted annually. Any adjustments to previously recognised amounts, both positive and negative, are included in the current year. The actual amounts paid under these awards will not be known until the end of the performance period. pro rata LTI payment based on an estimated vesting of 75 per cent provided at the Board's discretion.
4. *Other long-term benefits* include the accrual of long service leave entitlements. For Mr Tieppo it also includes his executive retention plan.
5. The above table represents the accounting value of KMP remuneration, calculated in accordance with accounting standards. As a result, annual leave and long service leave entitlements are recognised as remuneration when they accrue rather than when they are taken. This has the impact of reducing the cash salary and fees remuneration disclosed in the table above when these leave entitlements are ultimately taken by the KMP. In addition, any changes to the value of leave entitlements (for example, because of changes in FAR or long service leave entitlements not vesting) are recognised as remuneration, either positive or negative, in the year that the change occurs. These accounting adjustments to remuneration values are reflected in the *Cash salary and fees*, *Other short-term benefits* and *Other long-term benefits* disclosed in the table above.
6. Termination benefits for Ms Taylor comprise of \$62,636 in lieu of notice and \$181,807 termination payment, both as per her service agreement. The total termination benefit of \$244,443 was paid in compliance with Part 2D.2, Division 2 of the *Corporations Act*.
7. Termination benefits for Mr Azaris comprise of \$110,886 in lieu of notice and \$218,735 termination payment, both as per his service agreement. The total termination benefit of \$329,621 was paid in compliance with Part 2D.2, Division 2 of the *Corporations Act*.
8. Termination benefits for Mr Kelso comprise of \$33,624 in lieu of notice and \$200,972 termination payment, both as per his service agreement. The total termination benefit of \$234,596 was paid in compliance with Part 2D.2, Division 2 of the *Corporations Act*.
9. Mr Parker became a Director of AusNet Services Holdings Pty Ltd during FY2017, however has been presented in the Executive KMP section for consistency.

Directors' report – Remuneration report (audited)**6 Statutory Remuneration Disclosures (continued)****Shareholdings of KMP**

The KMP of AusNet Services have disclosed relevant interests in shares as at 31 March 2017 as follows:

Name	Number of shares at 1 April 2016	Granted during the year as compensation	Acquisitions / (disposal)	Number of shares at 31 March 2017
Directors				
Charles Popple ¹	450,590	-	-	450,590
Susan Taylor ²	21,265	75,827	(97,092)	-
Executives				
Nino Ficca ³	1,613,183	374,000	-	1,987,183
John Azaris ⁴	85,600	81,831	-	167,431
Chad Hymas	117,944	65,732	9,063	192,739
John Kelso ⁴	131,410	77,500	259	209,169
Adam Newman ⁵	76,190	69,731	65,269	211,190
Alistair Parker	68,427	78,562	6,502	153,491
Mario Tieppo ⁶	14,300	62,100	-	76,400

1. Mr Popple retired 1 April 2016. The number of shares disclosed at 31 March 2017 represents the number held at the date that Mr Popple retired.
2. Ms Taylor resigned as a Director on 23 September 2016. The number of shares disclosed at 31 March 2017 represents the number held at the date that Ms Taylor resigned.
3. 319,850 shares held by immediate family members of Mr Ficca and 1,667,333 shares held by Mr and Mrs Ficca as Trustees for the Ficca Investment Trust.
4. Mr Azaris and Mr Kelso ceased as KMP on 1 July 2016. The number of shares disclosed at 31 March 2017 represents the number held at the date that Mr Azaris and Mr Kelso ceased to be KMP.
5. Shares held by Newman Family Trust for Mr Newman.
6. Shares held by immediate family members of Mr Tieppo.

Directors' report

Statutory disclosures

Meetings of Directors

The number of meetings of the Board of Directors and of each standing Board committee of AusNet Services Holdings Pty Ltd held during the year ended 31 March 2017, and the number of meetings attended by each Director are set out in the following table:

	Board of AusNet Services Holdings Pty Ltd	
	A	B
Nino Ficca	8	8
Susan Taylor	5	5
Adam Newman	7	8
Alistair Parker	2	3

A = Number of meetings attended.

B = Number of meetings held during the time the Director held office.

Indemnification and insurance of officers and auditors

During the financial year, we paid a premium to insure the Directors and Company Secretaries of the Australian-based subsidiaries and the Executive General Managers of AusNet Services. The Directors have not included details of the nature of the liabilities covered or the amount of the premium paid in respect of the insurance policy, as (in accordance with normal commercial practice) such disclosure is prohibited under the terms of the policy.

No insurance premiums are paid by us in regard to insurance cover provided to the auditor of the Group, KPMG. The auditor is not indemnified and no insurance cover is provided to the auditor.

Non-audit services

We may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the relevant company are important.

Details of the amounts paid or payable to the auditor, KPMG, for audit and non-audit services provided during the year are set out in Note F.1 of the financial report.

In accordance with the advice provided by the Audit and Risk Management Committee, the Directors are satisfied that the provision of non-audit services during the year by the auditor is compatible with the general standard of independence for auditors imposed by the *Corporations Act*. The Directors are satisfied for the following reasons:

- all non-audit services have been reviewed by the Audit and Risk Management Committee to ensure that they do not impact the impartiality and objectivity of the auditor; and
- none of the non-audit services undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants*.

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act* is set out on page 27.

Directors' report

Environmental regulation and climate change

We were subject to both Federal and State Government environmental legislation during the year. The most significant areas of environmental legislation affecting us in Victoria are those which regulate noise emissions, greenhouse gas emissions, the discharge of emissions to land, air and water, the management of oils, chemicals and dangerous goods, the disposal of wastes, and those which govern the assessment of land use including the approval of developments. The Directors are not aware of any breaches of legislation during the year which are material in nature.

Under the *National Greenhouse and Energy Reporting (NGER) Act 2007 (Cth)*, corporations that meet or exceed thresholds are required to report greenhouse gas emissions and energy usage by 31 October each year. We meet these thresholds and have lodged our current year's NGER reporting with the Clean Energy Regulator for the period from 1 July 2015 to 30 June 2016.

Significant changes in the state of affairs

Other than referred to above, in the opinion of the Directors, there were no significant changes in the state of affairs of the Group that occurred during the year under review.

Rounding of amounts

AusNet Services Holdings is a company of a kind referred to in Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to the 'rounding off' of amounts in the Directors' report. Amounts in the Directors' report have been rounded off in accordance with that Instrument to the nearest hundred thousand dollars unless otherwise stated.

This report is made in accordance with a resolution of the Directors.



Nino Ficca
Managing Director

Melbourne
15 May 2017



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

To the Directors of AusNet Services Holdings Pty Ltd

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 31 March 2017 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

Paul J McDonald
Partner

Melbourne

15 May 2017

Consolidated income statement

For the year ended 31 March 2017

		2017	2016
	Notes	\$M	\$M
Revenue	B.1	1,226.5	1,269.6
Use of system and associated charges		(110.2)	(109.7)
Employee benefits expenses		(193.8)	(173.3)
External maintenance and contractors' services		(82.5)	(86.4)
Materials		(39.0)	(36.3)
Information technology and communication costs		(45.0)	(37.9)
Operating lease rental expenses		(13.0)	(12.5)
Administrative expenses		(29.6)	(38.9)
Service level payments		(18.9)	(5.1)
Disposal of property, plant and equipment		(3.7)	(5.7)
Other costs		(51.5)	(46.3)
Total expenses excluding depreciation, amortisation, interest and tax		(587.2)	(552.1)
Earnings before interest, tax, depreciation and amortisation		639.3	717.5
Depreciation and amortisation	C.1, C.2	(309.1)	(290.5)
Profit from operating activities		330.2	427.0
Finance income	D.4	113.3	130.2
Finance costs	D.4	(314.8)	(325.8)
Net finance costs		(201.5)	(195.6)
Profit before income tax		128.7	231.4
Income tax (expense)/benefit	B.3	(38.3)	218.0
Profit for the year		90.4	449.4

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

Consolidated statement of comprehensive income

For the year ended 31 March 2017

	Notes	2017 \$M	2016 \$M
Profit for the year		90.4	449.4
Other comprehensive income			
Items that will not be reclassified to profit or loss in subsequent periods			
Movement in defined benefit fund	F.2	28.7	23.3
Income tax on movement in defined benefit fund	B.3	(8.6)	(7.0)
		<u>20.1</u>	<u>16.3</u>
Items that may be reclassified to profit or loss in subsequent periods			
Movement in hedge reserve		82.3	6.5
Income tax on movement in hedge reserve	B.3	(19.3)	(16.1)
		<u>63.0</u>	<u>(9.6)</u>
Other comprehensive income for the year, net of tax		<u>83.1</u>	<u>6.7</u>
Total comprehensive income for the year		<u>173.5</u>	<u>456.1</u>

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

Consolidated statement of financial position

As at 31 March 2017

	Notes	2017 \$M	2016 \$M
ASSETS			
Current assets			
Cash and cash equivalents		327.0	440.2
Receivables	B.2	263.2	363.4
Inventories		39.3	49.7
Derivative financial instruments	D.3	5.7	81.6
Other assets	B.2	18.5	22.6
Total current assets		653.7	957.5
Non-current assets			
Receivables		2,719.0	2,396.2
Property, plant and equipment	C.1	5,897.3	5,692.0
Intangible assets	C.2	492.6	497.4
Derivative financial instruments	D.3	306.0	476.3
Other assets		21.0	2.5
Total non-current assets		9,435.9	9,064.4
Total assets		10,089.6	10,021.9
LIABILITIES			
Current liabilities			
Payables and other liabilities	B.2	890.1	389.6
Provisions	B.2	68.6	69.6
Borrowings	D.2	398.4	762.0
Derivative financial instruments	D.3	10.3	18.6
Total current liabilities		1,367.4	1,239.8
Non-current liabilities			
Payables and other liabilities		67.0	141.9
Provisions	B.2	37.6	43.1
Borrowings	D.2	6,266.9	6,054.2
Derivative financial instruments	D.3	303.1	174.3
Deferred tax liabilities	B.3	228.4	144.5
Total non-current liabilities		6,903.0	6,558.0
Total liabilities		8,270.4	7,797.8
Net assets		1,819.2	2,224.1
EQUITY			
Contributed equity	D.5	1,063.3	1,063.9
Reserves		(16.3)	(80.5)
Retained profits		772.2	1,240.7
Total equity		1,819.2	2,224.1

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

Consolidated statement of changes in equity

For the year ended 31 March 2017

	Notes	Contributed equity \$M	Share based payment reserve (i) \$M	Hedge reserve (ii) \$M	Retained profits \$M	Total equity \$M
31 March 2017						
Balance as at 1 April 2016		1,063.9	0.3	(80.8)	1,240.7	2,224.1
Total comprehensive income for the year						
Profit for the year		-	-	-	90.4	90.4
Other comprehensive income		-	-	63.0	20.1	83.1
Total comprehensive income for the year						
		-	-	63.0	110.5	173.5
Transactions with owners, recorded directly in equity						
Dividends	D.6	-	-	-	(579.0)	(579.0)
Share based payment reserve	F.3	(0.6)	1.2	-	-	0.6
Total transactions with owners						
		(0.6)	1.2	-	(579.0)	(578.4)
Balance as at 31 March 2017						
		1,063.3	1.5	(17.8)	772.2	1,819.2
31 March 2016						
Balance as at 1 April 2015		640.0	-	(71.2)	775.0	1,343.8
Total comprehensive income for the year						
Profit for the year		-	-	-	449.4	449.4
Other comprehensive income		-	-	(9.6)	16.3	6.7
Total comprehensive income for the year						
		-	-	(9.6)	465.7	456.1
Transactions with owners, recorded directly in equity						
New shares issued	D.5	423.9	-	-	-	423.9
Share based payment reserve	F.3	-	0.3	-	-	0.3
Total transactions with owners						
		423.9	0.3	-	-	424.2
Balance as at 31 March 2016						
		1,063.9	0.3	(80.8)	1,240.7	2,224.1

- (i) The share based payment reserve represents the tax-effected fair value of the performance rights granted under the 2015 and 2016 grants of the long term incentive plan. This takes into account estimated vesting and service conditions as at 31 March 2017.
- (ii) The hedge reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments. These gains or losses are transferred to the income statement when the hedged item affects income, except for highly probable forecast purchases of an asset where the gains or losses are included in the initial measurement of that asset.

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

Consolidated statement of cash flows

For the year ended 31 March 2017

	2017	2016
	\$M	\$M
Cash flows from operating activities		
Profit for the year	90.4	449.4
Add back interest, tax, depreciation	548.9	268.1
Other non-cash items	2.7	(13.2)
Non-cash intercompany transactions	(56.0)	(56.6)
Working capital movement	9.0	11.6
Net interest paid (i)	(310.3)	(322.8)
Net cash inflow from operating activities	284.7	336.5
Cash flows from investing activities		
Payments for property, plant and equipment (i)	(543.7)	(474.1)
Proceeds from sale of property, plant and equipment	4.1	0.6
Net cash outflow from investing activities	(539.6)	(473.5)
Cash flows from financing activities		
Proceeds/(repayments) from related party loans	(163.9)	110.8
Proceeds from borrowings	987.7	1100.0
Repayments of borrowings	(682.1)	(1,373.4)
Net cash inflow/(outflow) from financing activities	141.7	(162.6)
Net decrease in cash and cash equivalents	(113.2)	(299.6)
Cash and cash equivalents at the beginning of the year	440.2	739.8
Cash and cash equivalents at the end of the year	327.0	440.2

- (i) Net finance costs include a credit of \$7.5 million (2016: \$10.5 million) for capitalised finance charges which is included in payments for property, plant and equipment.

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

Notes to the consolidated financial statements31 March 2017

Contents

Section A	Overview	34
Section B	Operating our business	
Note B.1	Segment results	35
Note B.2	Working capital	38
Note B.3	Taxation	40
Section C	Investing in our business	
Note C.1	Property, plant and equipment	43
Note C.2	Intangible assets	46
Note C.3	Impairment of non-current assets	47
Note C.4	Commitments	48
Section D	Financing our business	
Note D.1	Capital management	50
Note D.2	Borrowings	51
Note D.3	Financial risk management	52
Note D.4	Net finance costs	63
Note D.5	Equity	64
Note D.6	Dividends	64
Section E	Group Structure	
Note E.1	Subsidiaries	65
Note E.2	Parent entity information	66
Note E.3	Related party transactions	67
Section F	Other disclosures	
Note F.1	Remuneration of auditors	69
Note F.2	Defined benefit obligations	69
Note F.3	Share-based payments	72
Note F.4	Contingent liabilities and contingent assets	73
Note F.5	New accounting standards not yet adopted	74
Note F.6	Events occurring after the balance sheet date	74

Notes to the consolidated financial statements

31 March 2017

Section A Overview

We have included information in this report that we deem to be material and relevant to the understanding of the financial statements. Disclosure may be considered material and relevant if the dollar amount is significant due to size or nature, or the information is important to understand:

- our current year results;
- the impact of significant changes in our business; or
- aspects of our operations that are important to future performance.

(a) Basis of preparation

The consolidated general purpose financial report, prepared by a for-profit entity and presented in Australian dollars, represents the consolidated financial statements of AusNet Services Holdings Pty Ltd (the Company) and its subsidiaries. The consolidated group is collectively referred to as the Group, we, us or our. The ultimate Australian parent of the Company is AusNet Services Ltd, which is part of a consolidated group trading as AusNet Services. The financial statements were approved by the Board of Directors on 15 May 2017.

The financial report has been prepared:

- in accordance with Australian Accounting Standards and interpretations adopted by the Australian Accounting Standards Board and the *Corporations Act 2001* (Cth), as well as International Financial Reporting Standards and interpretations adopted by the International Accounting Standards Board;
- on a going concern basis, which contemplates the continuity of normal trading operations. The Group's current liabilities exceed current assets by \$713.7 million at 31 March 2017, primarily due to an intercompany payable resulting from the dividend payable to AusNet Holdings (Partnership) Limited Partnership. The Group is, and is expected to continue, trading profitably, generating positive operating cash flows, and successfully refinancing maturing debt. In addition, at 31 March 2017 the Group has available a total of \$525.0 million of undrawn but committed non-current bank debt facilities and \$327.0 million of cash;
- under the historical cost convention, except for certain financial assets and liabilities (including derivative financial instruments) measured at fair value; and
- with amounts rounded off to the nearest hundred thousand dollars, unless otherwise stated, in accordance with Instrument 2016/191 issued by the Australian Securities and Investments Commission.

The accounting policies applied by us in this financial report are the same as those applied by us in our consolidated financial report as at and for the year ended 31 March 2016. There have been no new accounting standards relevant to the Group adopted during the period.

For the year ended 31 March 2016, we have amended some categories of expenses to be consistent with how they are reviewed and analysed for internal management purposes.

(b) Critical accounting estimates and judgements

The preparation of financial statements in conformity with Australian Accounting Standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed throughout the financial statements located within the following notes:

- B.2 - Working capital
- B.3 - Taxation
- C.1 - Property, plant and equipment
- C.3 - Impairment of non-current assets
- D.3 - Financial risk management
- F.2 - Defined benefit obligations

Notes to the consolidated financial statements

31 March 2017

Section B Operating our business

This section highlights the performance of the Group for the year, including results by operating segment, details of income tax expense and related balances. In addition, this section provides information on the working capital used to generate the Group's trading performance and the liabilities incurred as a result.

Note B.1 Segment results

Segment information is based on the information that management uses to make decisions about operating matters and allows users to review operations through the eyes of management. We present our reportable segments and measure our segment results for each of our networks as well as our unregulated commercial energy services business.

Following an internal organisation restructure during the year our operating segments have been updated to reflect the way we manage our business. The 2016 financials have been restated to provide comparative information to the 2017 operating segments.

(a) Description of reportable segments

An operating segment is a component of the Group that engages in business activities from which it earns revenues and incurs expenses for which discrete financial information is available and whose operating results are regularly reviewed by the chief operating decision maker. The Group is organised into the following segments:

(i) Electricity distribution

The electricity distribution network carries electricity from the high voltage transmission network to end users, including metering. We charge retailers and some large customers regulated rates for the use of the electricity distribution network. The electricity distribution segment does not purchase or sell electricity. Our electricity distribution network covers eastern Victoria including the eastern metropolitan region of Melbourne.

(ii) Gas distribution

The gas distribution network carries natural gas to commercial and residential end users, including metering. We charge retailers and some large customers regulated rates for the use of the gas distribution network. The gas distribution segment does not purchase or sell gas. Our gas distribution network covers central and western Victoria.

(iii) Commercial energy services

The commercial energy services business consists of the emerging energy markets, metering services and asset intelligence services under one portfolio. The customers of this business are primarily operating in the utility and essential infrastructure sectors such as electricity, water, gas and rail companies.

Notes to the consolidated financial statements

31 March 2017

Note B.1 Segment results**(b) Reportable segment financial information**

	Electricity distribution	Gas distribution	Commercial energy services	Inter-segment eliminations	Consolidated
	\$M	\$M	\$M	\$M	\$M
2017					
Regulated revenue	825.9	215.6	-	-	1,041.5
Customer contributions	28.8	6	-	-	34.8
Service revenue	-	-	116.3	-	116.3
Other revenue	13.5	2.7	20.9	(3.2)	33.9
Total segment revenue	868.2	224.3	137.2	(3.2)	1,226.5
Segment expense before depreciation and amortisation	(400.8)	(60.1)	(129.5)	3.2	(587.2)
Segment result - EBITDA (i)	467.4	164.2	7.7	-	639.3
Depreciation and amortisation	(253.8)	(48.2)	(7.1)	-	(309.1)
Net finance costs					(201.5)
Income tax expense					(38.3)
Profit for the year					90.4
Capital expenditure	427.0	87.7	9.7		524.4
2016					
Regulated Revenue	928.9	180.2	-	-	1,109.1
Customer contributions	31.0	5.0	-	-	36.0
Service revenue	-	-	99.4	-	99.4
Other revenue	3.7	3.6	17.8	-	25.1
Total segment revenue	963.6	188.8	117.2	-	1269.6
Segment expense before depreciation and amortisation	(387.7)	(52.1)	(112.3)	-	(552.1)
Segment result - EBITDA (i)	575.9	136.7	4.9	-	717.5
Depreciation and amortisation	(229.3)	(55.9)	(5.3)	-	(290.5)
Net finance costs					(195.6)
Income tax benefit					218.0
Profit for the year					449.4
Capital expenditure	467.3	92.7	9.7		569.7

(i) Earnings before interest, tax, depreciation and amortisation.

Notes to the consolidated financial statements

31 March 2017

Note B.1 Segment results (continued)

(c) Notes to and forming part of segment information

(i) Regulated revenue

Regulated revenue includes revenue earned from the distribution of electricity and gas in accordance with the relevant regulatory determination, as well as revenue earned from alternative control services. Revenue is measured at the fair value of the consideration received net of the amount of Goods and Services Tax (GST) payable to the taxation authority. Regulated revenue is recognised as the services are rendered.

(ii) Customer contributions

Non-refundable contributions received from customers towards the cost of extending or modifying our networks are generally recognised as revenue and an asset respectively once control is gained of the contribution or asset and the customer is connected to the network. For unregulated customer projects, contributions received are recognised as revenue on a straight line basis over the term of the connection agreement.

Customer contributions of cash are measured with reference to the cash contribution received and customer contributions of assets are measured at the fair value of the assets contributed at the date we gain control of the asset. Fair value is determined with reference to the depreciated replacement cost of the asset, unless another measure of fair value is considered more appropriate.

(iii) Service revenue

Service revenue is recognised as the services are rendered. This includes revenue earned from specialist utility related solutions, in particular metering, monitoring and asset inspection services.

(iv) Other revenue

Other revenues primarily include material sales, rental income and Government grants. Government grants are recognised initially as deferred income at fair value when there is reasonable assurance that they will be received and we will comply with the conditions associated with the grant, and are then recognised in the income statement as other income on a systematic basis over the useful life of the assets associated with the grant.

(v) Allocation to segments

Segment revenues and expenses are those that are directly attributable to a segment and the relevant portion that can be allocated to the segment on a reasonable basis. The Cost Allocation Methodology as approved by the Australian Energy Regulator (AER) is used as the basis for allocating expenses to the relevant segment.

Segment revenues, expenses and results include charges between the electricity distribution and commercial energy services segments. These transactions are eliminated on consolidation.

Notes to the consolidated financial statements

31 March 2017

Note B.2 Working Capital

Working capital are the short term assets and liabilities that are utilised as part of the day-to-day operations of the Group and are not used for investing purposes.

Key estimates and judgements - Accrued revenue

Revenue accrual estimates are made to account for the unbilled period between the end user's last billing date and the end of the accounting period. The accrual relies on detailed analysis of customers' historical consumption patterns, and takes into account base usage and sensitivity to prevailing weather conditions. The results of this analysis are applied for the number of days and weather conditions over the unbilled period.

The accrual for solar rebates paid to retailers is calculated by applying the average rebate per day (based on the amount billed) to the number of unbilled days at month end.

	Assets		Liabilities	
	2017	2016	2017	2016
	\$M	\$M	\$M	\$M
Accounts receivable/payable	42.2	19.6	(15.1)	(45.9)
Mickleham bushfire settlement	5.0	-	(5.0)	-
Related party receivables/payables	113.1	230.4	(702.9)	(167.2)
Accrued revenue/accrued expenses	102.0	112.7	(85.5)	(112.2)
Customer deposits	-	-	(22.4)	(20.4)
Deferred revenue	-	-	(8.5)	(6.9)
Other receivables/payables	0.3	0.2	(11.8)	(1.2)
Interest receivables/payables	0.6	0.5	(38.9)	(35.8)
Total current receivables/payables	263.2	363.4	(890.1)	(389.6)
Current other assets	18.5	22.6	-	-
Current provisions	-	-	(68.6)	(69.6)
Working capital	281.7	386.0	(958.7)	(459.2)

(a) Accounts receivable

Current and non-current receivables are initially recognised at the fair value of the amounts to be received and are subsequently measured at amortised cost, less any allowance for impairment.

Collectability of receivables is reviewed on an ongoing basis. Debts that are known to be uncollectable are written off. An allowance for impairment is established when there is objective evidence that we will not be able to collect all amounts due according to the original terms of the receivables.

Accounts receivable are non-interest bearing and the average credit period on sales of transmission, distribution and specialist utility services is ten business days.

The ageing of accounts receivable as at reporting date was:

	Gross	Allowance	Gross	Allowance
	2017	2017	2016	2016
	\$M	\$M	\$M	\$M
Not past due	35.7	-	15.0	-
0 - 30 days	2.4	-	1.1	-
31 - 60 days	0.7	-	0.3	-
61 - 90 days	-	-	1.3	-
Greater than 90 days	3.5	(0.1)	2.0	(0.1)
Total	42.3	(0.1)	19.7	(0.1)

Notes to the consolidated financial statements

31 March 2017

Note B.2 Working Capital (continued)**(a) Accounts receivable (continued)**

Of those debts that are past due, the majority are receivable from high credit quality counterparties. Receivables relating to regulated revenue streams (which account for approximately 84.9 per cent of revenues) are owed by retailers and distributors in the industry. There are strict regulatory requirements regarding who can obtain a retail or distribution licence and the Essential Services Commission has minimum prudential requirements which must be met before a participant can be registered as a distributor. The Australian Energy Market Operator (AEMO) also has high prudential requirements for retailers who participate in the market. Retailers must provide guarantees as requested by AEMO to minimise the risk of exposure by other participants to any defaults.

(b) Trade and other payables

These amounts represent liabilities for goods and services provided to us prior to the end of financial year which are unpaid. Trade and other payables are stated at cost, are unsecured and are usually payable within 30 days of end of month.

(c) Provisions

	2017	2016
	\$M	\$M
Current provisions		
Employee benefits (i)	53.8	57.5
Sundry provisions (ii)	5.0	11.4
Redundancy provision	4.9	0.2
Environmental provision (iii)	4.9	0.5
Total current provisions	68.6	69.6
Non-current provisions		
Employee benefits (i)	5.9	4.4
Environmental provision (iii)	27.8	30.3
Make good provision	3.9	1.5
Defined benefit funds	-	6.9
Total non-current provisions	37.6	43.1
Total provisions	106.2	112.7

- (i) Employee benefits provisions represent provisions for annual and long service leave for our employees as well as provisions for employee bonuses. Liabilities for annual leave and long service leave are measured at the present value of expected future payments for services provided by employees up to the reporting date, including on-costs. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using interest rates on corporate bonds with a term to maturity and currency that match, as closely as possible, the estimated future cash outflows.
- (ii) Sundry provisions include uninsured losses, make good provisions and cross boundary charges. Prior year included bushfire litigation cost provision that was fully utilised in FY17.
- (iii) The environmental provision represents an estimate of the costs of rehabilitating sites, including the estimated costs to remediate soil and water contamination on gas sites which were previously used as coal gas production facilities. The provision is based on the estimated costs and timing of remediation/refurbishment, taking into account current legal requirements, the estimated extent of the contamination, the nature of the site and surrounding areas, and the technologies and methods available.

Notes to the consolidated financial statements

31 March 2017

Note B.3 Taxation**Key estimates and judgements - Income taxes**

The tax expense and deferred tax balances assume certain tax outcomes and values of assets in relation to the application of tax legislation as it applies to the Group. Judgement is required in determining the provisions for income taxes and in assessing whether deferred tax balances are to be recognised in the statement of financial position. Changes in tax legislation may affect the amount of provision for income taxes and deferred tax balances recognised.

(a) Effective tax rate reconciliation

	2017	2016
	\$M	\$M
Profit before income tax	128.7	231.4
Tax at the Australian tax rate of 30.0% (2016: 30.0%)	38.6	69.4
Tax effect of amounts which are not (taxable)/deductible in calculating taxable income:		
Impact of entry into new tax consolidated group (i)	-	(287.9)
Prior year (over)/under provisions	(0.1)	0.8
Sundry items	(0.2)	(0.3)
Income tax expense/(benefit)	38.3	(218.0)
Consists of:		
Current tax	(16.9)	24.2
Prior year (over)/under provision – current tax	(1.1)	-
Deferred tax	55.3	(243.1)
Prior year under provision – deferred tax	1.0	0.9
Income tax expense/(benefit)	38.3	(218.0)

Current and deferred tax is recognised as an expense or income in the income statement, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised directly in equity, or where it arises from the initial accounting for a business combination, in which case it is taken into account in the determination of goodwill. Both our current income tax and deferred tax are calculated using tax rates that have been enacted or substantively enacted at reporting date.

Our effective tax rate for the year ended 31 March 2016 diverged from the prima facie tax rate of 30 per cent, due to the following:

- (i) Under the corporate structure adopted 18 June 2015, AusNet Services Ltd formed a single tax consolidated group that replaced the previous two tax consolidated groups of AusNet Services (Distribution) Ltd and AusNet Services (Transmission) Ltd. As a result of this change:
- the tax bases of the assets of the AusNet Services (Distribution) Ltd tax consolidated group were reset with a valuation uplift of \$976.3 million recognised. As a result, deferred tax liabilities were reduced by \$292.9 million (being the tax effect of the valuation uplift); and
 - the change to a new tax consolidated group required the reversal of historical deferred tax on derivative financial instruments (\$4.9 million).

Notes to the consolidated financial statements

31 March 2017

Note B.3 Taxation (continued)**(b) Current tax**

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by the reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

(c) Deferred tax

	Deferred tax assets / (Deferred tax liabilities)				
	1 April 2016	Prior year under/overs	(Charged)/ credited to income statement	Charged/ (credited) directly in equity	31 March 2017
	\$M	\$M	\$M	\$M	\$M
Employee benefits	18.7	(0.2)	(0.6)	-	17.9
Other accruals and provisions	39.2	1.4	3.6	0.3	44.5
Derivative financial instruments and fair value adjustments on borrowings	(39.5)	-	19.7	(19.3)	(39.1)
Defined benefit fund	2.1	1.6	(1.0)	(8.6)	(5.9)
Intangibles	(26.3)	-	(0.4)	-	(26.7)
Property, plant and equipment	(138.7)	(3.8)	(76.6)	-	(219.1)
Net deferred tax liabilities	(144.5)	(1.0)	(55.3)	(27.6)	(228.4)

	Deferred tax assets / (Deferred tax liabilities)				
	1 April 2015	Prior year under/overs	(Charged)/ credited to income statement	Charged/ (credited) directly in equity	31 March 2016
	\$M	\$M	\$M	\$M	\$M
2016					
Employee benefits	15.4	0.2	3.1	-	18.7
Other accruals and provisions	37.1	(0.8)	2.9	-	39.2
Derivative financial instruments and fair value adjustments on borrowings	38.5	-	(61.9)	(16.1)	(39.5)
Defined benefit fund	8.0	-	1.1	(7.0)	2.1
Intangibles	(4.2)	-	(22.1)	-	(26.3)
Property, plant and equipment	(458.4)	(0.3)	320.0	-	(138.7)
Net deferred tax liabilities	(363.6)	(0.9)	243.1	(23.1)	(144.5)

Notes to the consolidated financial statements

31 March 2017

Note B.3 Taxation (continued)

(c) Deferred tax (continued)

Deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. Deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination), which affects neither taxable income nor accounting profit. Furthermore, a deferred tax liability is not recognised in relation to taxable temporary differences arising from goodwill.

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

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and we intend to settle our tax assets and liabilities on a net basis.

(i) Tax consolidation

AusNet Services Ltd is the head entity in a tax consolidated group comprising itself and its wholly owned subsidiaries.

The current and deferred tax amounts for the tax consolidated group are allocated among entities in the group using the stand alone taxpayer method.

Members of the tax consolidated group have entered into a tax funding arrangement which sets out the funding obligations of members of the tax consolidated group in respect of tax amounts. The tax funding arrangement requires payments to/(from) the head entity equal to the current tax liability/(asset) calculated under the stand alone taxpayer method and any deferred tax asset relating to tax losses assumed by the head entity. Members of the tax consolidated group have also entered into a valid tax sharing agreement under the tax consolidation legislation which set out the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations and the treatment of entities leaving the tax consolidated group.

The head entity recognises deferred tax assets arising from unused tax losses of its tax consolidated group to the extent that it is probable that future taxable profits of the tax consolidated group will be available against which the assets can be utilised. Any subsequent period adjustments to deferred tax assets arising from unused tax losses assumed from subsidiaries are recognised by the head entity only.

Any current tax liabilities (or assets) and deferred tax assets arising from unused tax losses assumed by each head entity from the subsidiaries in the tax consolidated group are recognised in conjunction with any tax funding arrangement amounts.

Notes to the consolidated financial statements

31 March 2017

Section C Investing in our business

This section highlights the investments made by us into our non-current asset base, including the core network assets, and provides a summary of our impairment assessment.

Note C.1 Property, plant and equipment

Key estimates and judgements - Useful life assessments

Management judgement is applied to estimate service lives and residual values of our assets and these are reviewed annually. If service lives or residual values need to be modified, the depreciation expense changes as from the date of reassessment until the end of the revised useful life (for both the current and future years). This assessment includes consideration of the regulatory environment and technological developments.

Items of property, plant and equipment are stated at historical cost less depreciation. The cost of contributed assets is their fair value at the date we gain control of the asset.

Historical cost includes all expenditure that is directly attributable to the acquisition of the asset, including an appropriate allocation of overheads and capitalised borrowing costs. Cost may also include transfers from the hedge reserve of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to us and the cost of the item can be measured reliably.

Items of plant and equipment under construction are recognised as capital work 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 capital work in progress to the relevant asset class and depreciation of the asset commences.

Maintenance and repair costs and minor renewals are charged as expenses as incurred, except where they relate to the replacement of an asset, in which case the costs are capitalised and depreciated, and the replaced item is derecognised.

Depreciation is recognised on property, plant and equipment, including freehold buildings but excluding land and easements. Depreciation is calculated on a straight line basis so as to write off the net cost of each asset over its estimated useful life to its estimated residual value. The estimated useful lives, residual values and depreciation methods are reviewed annually, and where changes are made, their effects are accounted for on a prospective basis.

Notes to the consolidated financial statements

31 March 2017

Note C.1 Property, plant and equipment (continued)

	Freehold land	Buildings	Easements	Electricity distribution network	Gas distribution network	Other plant and equipment	Capital work in progress	Total
	\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M
Useful life (years)	Indefinite	40-99	Indefinite	5-70	15-80	3-12	n/a	
2017								
Carrying amount as at 1 April 2016	24.3	59.8	1.1	3,745.3	1,462.5	147.8	251.2	5,692.0
Additions	-	-	-	-	-	-	481.7	481.7
Transfers	-	5.1	0.1	371.2	83.2	96.0	(555.6)	-
Disposals	-	(0.1)	-	(4.8)	(2.2)	(1.0)	-	(8.1)
Depreciation expense	-	(1.2)	-	(164.6)	(39.5)	(63.0)	-	(268.3)
Carrying amount as at 31 March 2017	24.3	63.6	1.2	3,947.1	1,504.0	179.8	177.3	5,897.3
Cost	24.3	71.6	1.2	5,766.8	2,056.1	529.1	177.3	8,626.4
Accumulated depreciation	-	(8.0)	-	(1,819.7)	(552.1)	(349.3)	-	(2,729.1)
Carrying amount as at 31 March 2017	24.3	63.6	1.2	3,947.1	1,504.0	179.8	177.3	5,897.3

Notes to the consolidated financial statements

31 March 2017

Note C.1 Property, plant and equipment (continued)

	Freehold land	Buildings	Easements	Electricity distribution network	Gas distribution network	Other plant and equipment	Capital work in progress	Total
	\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M
Useful life (years)	Indefinite	40-99	Indefinite	5-70	15-80	3-12	n/a	
2016								
Carrying amount as at 1 April 2015	24.4	49.9	1.1	3,530.5	1,415.5	184.3	251.6	5,457.3
Additions	-	-	-	-	-	-	492.0	492.0
Transfers	-	10.9	-	370.0	89.3	22.2	(492.4)	-
Disposals	(0.1)	-	-	(2.4)	(3.6)	(0.1)	-	(6.2)
Depreciation expense	-	(1.0)	-	(152.8)	(38.7)	(58.6)	-	(251.1)
Carrying amount as at 31 March 2016	24.3	59.8	1.1	3,745.3	1,462.5	147.8	251.2	5,692.0
Cost	24.3	66.6	1.1	5,508.0	1,978.0	452.0	251.2	8,281.2
Accumulated depreciation	-	(6.8)	-	(1,762.7)	(515.5)	(304.2)	-	(2,589.2)
Carrying amount as at 31 March 2016	24.3	59.8	1.1	3,745.3	1,462.5	147.8	251.2	5,692.0

Notes to the consolidated financial statements

31 March 2017

Note C.2 Intangible assets

	Distribution licences (i) \$M	Goodwill (ii) \$M	Software (iii) \$M	Other intangible assets \$M	Total \$M
	Indefinite	Indefinite	3-10	3-10	
Year ended 31 March 2017					
Carrying amount as at 1 April 2016	354.5	12.1	129.8	1.0	497.4
Additions	-	-	36.0	-	36.0
Amortisation expense	-	-	(40.5)	(0.3)	(40.8)
Carrying amount as at 31 March 2017	354.5	12.1	125.3	0.7	492.6
Cost	354.5	12.1	402.4	4.0	773.0
Accumulated amortisation	-	-	(277.1)	(3.3)	(280.4)
Carrying amount as at 31 March 2017	354.5	12.1	125.3	0.7	492.6
Year ended 31 March 2016					
Carrying amount as at 1 April 2015	354.5	12.1	91.1	1.4	459.1
Additions	-	-	77.7	-	77.7
Amortisation expense	-	-	(39.0)	(0.4)	(39.4)
Carrying amount as at 31 March 2016	354.5	12.1	129.8	1.0	497.4
Cost	354.5	12.1	377.7	4.0	748.3
Accumulated amortisation	-	-	(247.9)	(3.0)	(250.9)
Carrying amount as at 31 March 2016	354.5	12.1	129.8	1.0	497.4

(i) Distribution licences

The distribution licences held entitle us to distribute electricity and gas within our licensed region. Distribution licences are stated at cost and are considered to be indefinite life intangible assets, which are not amortised. The distribution licences are tested for impairment annually and are carried at cost less any accumulated impairment losses.

The distribution licences are considered to have an indefinite life for the following reasons:

- the licences have been issued in perpetuity provided we comply with certain licence requirements;
- we monitor our performance against those licence requirements and ensure that they are met; and
- we intend to, and are able to continue to, maintain the networks for the foreseeable future.

Notes to the consolidated financial statements

31 March 2017

Note C.3 Impairment of non-current assets (continued)

(ii) Goodwill

Goodwill arising in a business combination is recognised as an asset at the date that control is acquired (the acquisition date). Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition date amounts of the identifiable assets acquired and the liabilities assumed.

If, after reassessment, our interest in the fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of our previously held equity interest in the acquiree (if any), the excess is recognised immediately in the income statement as a gain.

Goodwill is not amortised but is reviewed for impairment at least annually.

(iii) Software

Computer software, developed internally or acquired externally, is initially measured at cost and includes development expenditure. Subsequently, these assets are carried at cost less accumulated amortisation and impairment losses. Software assets are amortised on a straight-line over their estimated useful lives.

Note C.3 Impairment of non-current assets

At each reporting date we review the carrying amounts of our tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. An impairment loss occurs when an asset's carrying amount exceeds its recoverable amount. 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, we estimate the recoverable amount of the cash generating unit (CGU) to which the asset belongs. A CGU is the smallest group of assets that generate largely independent cash inflows.

Intangible assets with indefinite useful lives, including goodwill, are tested for impairment annually regardless of whether there is an indication that the asset or related CGU may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing fair value less costs to sell, the estimated future post tax cash flows are discounted to their present value using a post-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. The impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to the other assets of the CGU pro-rata on the basis of the carrying amount of each asset in the CGU. An impairment loss is recognised in the income statement immediately.

Key estimates and judgements - Determination of CGUs and estimated recoverable amount of CGUs

We have applied significant judgement in determining our CGUs. In particular, we have determined that the electricity metering assets under the electricity distribution CGU as the metering assets are required, together with the rest of the electricity distribution network, in order to provide a network service to customers. As a result, the metering assets are tested for impairment together with the electricity distribution regulated network assets and cash flows.

Key estimates and judgements have also been applied in the measurement of recoverable amount, the details of which are provided below.

Notes to the consolidated financial statements

31 March 2017

Note C.3 Impairment of non-current assets (continued)

The following CGUs have significant amounts of intangible assets with an indefinite life:

	Cash flow	Post tax	Terminal	Carrying value	
	projection	discount	growth	2017	2016
	period (i)	rate (ii)	rate (iii)		
	Years	%	%	\$M	\$M
CGU					
Electricity distribution (distribution licence)	20	5.0	2.5	117.2	117.2
Gas distribution (distribution licence)	20	5.0	2.5	237.3	237.3
Asset Solutions business (goodwill)	5	10.2	2.5	11.8	11.8

Recoverable amount is the higher of fair value less costs to sell and value in use.

- (i) Regulated cash flow forecasts are based on allowable returns on electricity and gas distribution assets as set out in the Victorian Electricity Supply Industry Tariff Order and the Victorian Gas Industries Tariff Order respectively, together with other information included in our five year forecast. Cash flows after that period are based on an extrapolation of the forecast, taking into account inflation and expected customer connection growth rates. It is considered appropriate to use cash flows after our five year forecast period considering the long term nature of the Group's activities.
- (ii) The Discount rate represents the post tax discount rate applied to the cash flow projections. The discount rate reflects the market determined risk adjusted discount rate that is adjusted for specific risks relating to the CGU.
- (iii) Terminal value growth rate represents the growth rate applied to extrapolate the Group's cash flows beyond the five year forecast period. These growth rates are based on our expectation of the CGUs' long term performance in their markets.

Appropriate terminal values were calculated using a range of both RAB multiples and market earnings before interest, tax, depreciation and amortisation multiples. Fair value less costs to sell is measured using inputs that are not based on significant observable market data. Therefore, they are considered to be level three within the fair value hierarchy as per AASB 13 *Fair Value Measurement*.

Note C.4 Commitments**(a) Capital commitments**

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

	2017	2016
	\$M	\$M
Property, plant and equipment	209.2	290.6

Notes to the consolidated financial statements

31 March 2017

Note C.4 Commitments (continued)**(b) Lease commitments**

Our leases relate to premises, vehicles, network land and access sites under non-cancellable operating leases. The leases have varying terms, escalation clauses and renewal rights. On renewal, the terms of the leases are renegotiated.

Operating lease payments are recognised as an expense on a straight line basis over the lease term unless another systematic basis is more representative of the time pattern of the benefit.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefits of incentives are recognised as a reduction of rental expense on a straight line basis over the term of the lease, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. We do not have any finance lease arrangements.

Commitments in relation to leases contracted for at the reporting date but not recognised as liabilities are as follows:

	2017	2016
	\$M	\$M
Payable:		
Within one year	11.2	12.0
Later than one year, but no later than five years	19.2	21.1
Later than five years	7.6	7.7
	38.0	40.8
Representing:		
Non-cancellable operating leases	38.0	40.8

Notes to the consolidated financial statements

31 March 2017

Section D Financing our business

This section provides information relating to our capital structure and our exposure to financial risks, how they affect the Group's financial position and performance, and how those risks are managed.

Note D.1 Capital management

Our capital structure consists of debt and equity. We determine the appropriate capital structure in order to finance the current and future activities of the Group. We review our capital structure and dividend policy regularly and do so in the context of our ability to continue as a going concern, to invest in opportunities that grow the business and to enhance shareholder value.

Our policy is to target an 'A' range credit rating and a capital structure appropriate to generate desired shareholder returns to ensure a low cost of capital.

An important credit metric which assists management to monitor our capital structure is the net debt to Regulated and Contracted Asset Base (R&CAB) ratio, determined as indebtedness as a percentage of the R&CAB. Indebtedness is debt at face value (net of cash) excluding any derivative financial instruments. The R&CAB consists of the following items:

- Regulated Asset Base (RAB), which is subject to some estimation as the AER ultimately determines the RAB of each network; and
- The value of contracted network assets whose revenues and returns are set through a negotiated or competitive process.

The movement of this metric over time demonstrates how the business is funding its capital expenditure in terms of debt versus income generating assets. We target a net debt to R&CAB ratio of less than 75 per cent.

In addition, there are other important credit metrics that we regularly monitor. These include Funds from Operations (FFO) to debt and Interest cover.

The net debt to R&CAB ratio as at reporting date was as follows:

	2017	2016
	%	%
Net debt to R&CAB	67.9	67.2

This ratio does not include equity credits in relation to \$705 million of hybrid securities.

Note D.2 Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost, except as detailed below. Any difference between the proceeds (net of transaction costs) and redemption amount is recognised in the income statement over the period of the borrowings using the effective interest rate method.

Borrowings which are part of a fair value hedge relationship are recognised at amortised cost, adjusted for the gain or loss attributable to the hedged risk. The gain or loss attributable to the hedged risk is recorded in the income statement together with any changes in the fair value of derivative financial instruments that are designated and qualify as fair value hedges.

Borrowings are classified as current liabilities unless we have an unconditional right to defer settlement of the liability for at least 12 months after the reporting date or have the sole discretion to refinance or roll over the liability for at least 12 months after the reporting date under an existing loan facility.

Notes to the consolidated financial statements

31 March 2017

Note D.2 Borrowings (continued)

	Maturity date	Carrying Value		Face Value (i)	
		2017 \$M	2016 \$M	2017 \$M	2016 \$M
Current borrowings					
Domestic medium term notes	Sep 2017	305.4	-	300.0	-
Swiss franc (CHF) senior notes		-	340.9	-	271.7
Bank debt facilities	Apr 2017	93.0	-	93.0	-
US dollar (USD) senior notes		-	421.1	-	410.4
Total current borrowings		398.4	762.0	393.0	682.1
Non-current borrowings					
US dollar (USD) senior notes	2026	103.3	-	107.0	-
Swiss franc (CHF) senior notes	2019	368.4	385.6	283.2	283.2
Domestic medium term notes	2020-2027	1,512.0	1,418.7	1,454.7	1,322.0
Pound sterling (GBP) senior notes	2018	438.4	514.1	537.5	537.5
Floating rate notes	2020	99.8	99.7	100.0	100.0
Euro (EUR) senior notes	2020-2027	2,020.3	2,202.2	2,078.3	2,078.3
Hong Kong dollar (HKD) senior notes	2020-2028	702.0	527.2	641.7	435.0
Japanese yen (JPY) senior notes	2024	62.3	62.0	62.6	62.6
Norwegian kroner (NOK) senior notes	2027-2029	298.4	162.9	319.4	159.7
US dollar (USD) hybrid securities (ii)	2076	473.8	488.3	505.7	505.7
Singapore dollar (SGD) hybrid securities (ii)	2076	188.2	193.5	199.6	199.6
Total non-current borrowings		6,266.9	6,054.2	6,289.7	5,683.6
Total borrowings		6,665.3	6,816.2	6,682.7	6,365.7
less: cash and cash equivalents		327.0	440.2	327.0	440.2
Net debt		6,338.3	6,376.0	6,355.7	5,925.5

(i) Face value represents the principal amount that has to be repaid on maturity, excluding any adjustments for loan fees, discounts and interest cash flows. Foreign currency debt is translated at hedged FX rates, with 100 per cent of the debt hedged for foreign currency risk on draw down.

(ii) The first call date for hybrid securities is September 2021.

(a) Foreign currency translation

All foreign currency transactions including foreign currency borrowings, are accounted for using the exchange rate at the date of the transaction. At balance date, monetary items denominated in foreign currencies, including foreign currency borrowings, are translated at the exchange rate existing at that date. Resultant exchange differences are recognised in the income statement for the year, except for exchange differences for qualifying cash flow hedges which are recognised in other comprehensive income.

The foreign currency risk associated with our foreign currency borrowings is hedged through the use of cross currency swaps. Refer to Note D.3.

Notes to the consolidated financial statements

31 March 2017

Note D.2 Borrowings (continued)

(b) Fair values of financial instruments

We have a number of financial assets and liabilities which are not measured at fair value in the consolidated statement of financial position. With the exception of borrowings outlined above, the carrying amounts of these items are considered to be a reasonable approximation of their fair value at 31 March 2017. The fair value of total borrowings as at 31 March 2017 was \$7,297.8 million (2016: \$7,463.1 million).

(c) Financial covenants

The terms of certain financing arrangements contain financial covenants that require maintenance of specified interest coverage ratios and gearing ratios. However, these covenants only apply if there are adverse changes in credit ratings. In addition, there are change of control and/or ownership and cross default provisions. We monitor and report compliance with our financial covenants on a monthly basis. There have been no breaches during the year.

(d) Other bank guarantees

Certain entities are required to provide bank guarantees in the form of tender bid bonds or performance bonds for contractual obligations. The subsidiaries have guarantee facilities with a number of institutions amounting to \$23.2 million, of which \$3.5 million was provided to third parties at 31 March 2017 (2016: \$4.6 million).

Note D.3 Financial risk management

Our activities expose us to a number of financial risks, including:

- Interest rate risk – the risk that we suffer financial loss due to an adverse movement in interest rates on our borrowings or the impact changes in interest rates have on our regulated revenues.
- Currency risk – the risk that we suffer financial loss due to adverse exchange rate movements on our foreign currency denominated borrowings.
- Liquidity risk – the risk that an unforeseen event occurs which will result in us not being able to meet our payment obligations in an orderly manner.
- Credit risk – the risk that one or more of our counterparties will default on its contractual obligations resulting in financial loss to us and arises from our financial assets, comprising cash and cash equivalents, trade and other receivables and derivative financial instruments.

We manage our exposure to these risks in accordance with our Treasury Risk Policy which is approved by the Board. The policy is reviewed by the Audit and Risk Committee periodically. Any material changes are submitted to the Board for approval.

The objective of the Treasury Risk Policy is to document our approach to treasury risk management and to provide a framework for ongoing evaluation and review of risk management techniques. The policy provides an analysis of each type of risk to which we are exposed and the objective of and techniques for managing the risk, including identifying and reporting risks to management and the Board.

Our treasury team evaluates and hedges financial risks in close co-operation with the Group's operating units. The Treasury Risk Policy provides written principles for overall risk management, as well as written policies covering specific areas, such as mitigating risks, the use of derivative financial instruments and investing excess liquidity.

Notes to the consolidated financial statements

31 March 2017

Note D.3 Financial risk management (continued)

The Treasury Risk Policy operates in conjunction with several other AusNet Services policies, including:

- The Authority Manual which sets out the approvals required for such things as investment of surplus funds, execution of hedging transactions, borrowings and issue of guarantees and indemnities;
- The 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;
- The Refinancing and Hedging Strategy which sets out the refinancing and hedging strategies over the relevant financial period; and
- The AusNet Services Credit Metrics Policy which sets out target ranges for the key credit metrics that determine the Group's credit strength, such as the percentage of debt to the value of the R&CAB at balance date.

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

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

(a) Interest rate risk

We are exposed to the risk of movements in interest rates on our borrowings. In addition, our regulated revenues for the distribution businesses are directly impacted by changes in interest rates. 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 AER use a Trailing Average Portfolio approach to settling the weighted average cost of capital. This approach assumes that 10 per cent of the debt for each network is refinanced each year. As such the average cost of capital is reset each year to take into account this assumed refinancing.

The objective of hedging activities carried out by us in relation to interest rate risk is to minimise the exposure to changes in interest rates by aligning the actual cost of debt with the cost of debt assumed by the regulator. The exposure is managed by maintaining the percentage of fixed rate debt to total debt at a level between 90 per cent and 100 per cent for the relevant business. We therefore consider net interest rate exposure, after hedging activities, to be minimal for the Group. The percentage of fixed rate debt to total debt (on a net debt basis) as at 31 March 2017 was 98.3 per cent (2016: 99.8 per cent).

We utilise interest rate swaps to manage our exposure to cash flow interest rate risk and achieve the targeted proportion of fixed rates on our debt portfolio. Under interest rate swaps, we agree to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable us to mitigate the risk of changing interest rates on debt held.

As at reporting date, we had the following financial assets and liabilities exposed to interest rate risk. The values disclosed below are the principal amounts, which differ from the carrying values and as such do not agree to the statement of financial position.

	2017	2016
	\$M	\$M
Financial assets		
Related party receivables (i)	2,545.6	2,396.2
Fixed rate instruments	231.1	380.0
Floating rate instruments	91.0	50.0
Financial liabilities (ii)		
Fixed rate instruments	(6,254.9)	(6,047.8)
Floating rate instruments	(427.8)	(317.8)

- (i) As the common funding vehicle, the Company lends funds to other entities within the AusNet Services Group, including the Transmission business. Related party interest is charged based on the weighted average interest rate of Company's borrowings for the relevant regulated business. The interest rate is reset quarterly.

Notes to the consolidated financial statements

31 March 2017

Note D.3 Financial risk management (continued)**(a) Interest rate risk (continued)**

- (ii) The financial liabilities above include the impact of derivative financial instruments used to manage the interest rate and foreign currency exposures on those liabilities. Therefore, they represent the post hedge position. It should be noted that some fixed rate borrowings (post hedge) as at reporting date are only fixed for a portion of their term. This is because the maturity profile of borrowings differs from the AER's assumed refinancing profile of the regulated businesses. The remaining portion of this debt will be fixed when the AER resets the cost of debt to cover these periods.

Our exposure to changes in interest rates is limited to exposures denominated in Australian dollars due to our policy of mitigating interest rate risk exposure on foreign currency debt. As a result, the sensitivity analysis below has only been performed based on movements in Australian interest rates. As at reporting date, if Australian interest rates had increased and decreased by 0.80 per cent as at 31 March 2017 (2016: 0.89 per cent), with all other variables held constant, post tax profit and equity would have increased/(decreased) as follows:

	Net profit after tax		Equity after tax (hedge reserve)	
	2017	2016	2017	2016
	\$M	\$M	\$M	\$M
Increase in Australian interest rates with all other variables held constant	0.7	4.2	293.4	242.7
Decrease in Australian interest rates with all other variables held constant	(1.4)	(2.2)	(315.8)	(255.3)

The judgements of reasonably possible movements were determined using statistical analysis of the 95th percentile best and worst expected outcomes having regard to actual historical interest rate data over the previous five years based on the three month bank bill swap rate. We consider that past movements are a transparent basis for determining reasonably possible movements in interest rates.

Due to our interest rate risk management policies, the exposure to cash flow and foreign currency interest rate risk at any point in time is minimal. Therefore, the impact of a reasonably possible movement in interest rates on net profit after tax is minimal. The impact on equity is due to the valuation change of derivative financial instruments in cash flow hedges. This amount in the hedge reserve is transferred to the income statement when the underlying hedged transaction affects income in order to reflect the hedged position.

(b) Currency risk

We are exposed to currency risk due to funding activities in offshore debt markets as a means of providing cost effective and efficient funding alternatives, as well as a result of undertaking certain transactions denominated in foreign currencies. Exchange rate exposures are managed within approved policy parameters. The objective of our currency risk management program is to eliminate all foreign exchange risk on funding activities and material foreign exchange related transaction risk by utilising various hedging techniques as approved by the Board. Therefore we consider our currency risk exposure to be minimal.

Notes to the consolidated financial statements

31 March 2017

Note D.3 Financial risk management (continued)**(c) Derivative financial instruments used to hedge interest rate and currency risks***(i) Accounting for financial instruments*

The Group designates derivative financial instruments as either fair value hedges or cash flow hedges:

	Fair value hedges	Cash flow hedges
Objective of the hedge	To mitigate the exposure to changes in fair value of certain borrowings. Fair value hedges are generally fixed rate designated for the terms of borrowings that fall outside of the price review periods for the regulated businesses.	To mitigate the variability in cash flows attributable to variable interest rate and/or foreign currency movements on borrowings or highly probable forecast transactions.
Treatment of changes in fair value of qualifying hedges	Recognised immediately in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.	The effective portion is recognised directly in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the income statement. Amounts accumulated in the hedge reserve are recycled in the income statement when the hedged item affects the income statement (generally when the forecast transaction that is hedged takes place). However, when the forecast transaction results in the recognition of a non-financial asset, the gains and losses are transferred from the hedge reserve and included in the measurement of the initial carrying amount of the asset.
Documentation of the hedge relationship	To ensure derivative financial instruments qualify for hedge accounting we document, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as our risk management objectives and strategy for undertaking various hedge transactions. We also document our assessment, both at hedge inception and on an ongoing basis, of whether the derivative financial instruments that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.	
Discontinuation of hedge accounting	Hedge accounting is discontinued when the hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting.	
	After discontinuation, the previously hedged asset or liability is no longer revalued for changes in fair value.	At that time, any cumulative gain or loss existing in the hedge reserve remains in hedge reserve and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in the hedge reserve is immediately recognised in the income statement.

Notes to the consolidated financial statements

31 March 2017

Note D.3 Financial risk management (continued)**(c) Derivative financial instruments used to hedge interest rate and currency risks (continued)***(ii) Measurement and classification*

We classify our derivative financial instruments between current and non-current based on the maturity date of the instrument. As a result, derivative financial instruments are classified as non-current, except for those instruments that mature in less than 12 months, which are classified as current.

At reporting date, our derivative financial instrument positions are as detailed below:

	Interest rate swaps	Forward foreign currency contracts	Cross- currency swaps	Total net derivative financial instruments
	\$M	\$M	\$M	\$M
2017				
Current assets	5.7	-	-	5.7
Non-current assets	114.1	-	191.9	306.0
Current liabilities	(10.1)	(0.2)	-	(10.3)
Non-current liabilities	(81.5)	(0.5)	(221.1)	(303.1)
Total derivative financial instruments	28.2	(0.7)	(29.2)	(1.7)
Consists of:				
- fair value hedges	73.3	-	(197.7)	(124.4)
- cash flow hedges	(44.7)	(0.7)	168.5	123.1
- not in a hedge relationship	(0.4)	-	-	(0.4)
Total derivative financial instruments	28.2	(0.7)	(29.2)	(1.7)
2016				
Current assets	2.4	0.1	79.1	81.6
Non-current assets	104.4	-	371.9	476.3
Current liabilities	(18.1)	(0.5)	-	(18.6)
Non-current liabilities	(123.4)	(0.4)	(50.5)	(174.3)
Total derivative financial instruments	(34.7)	(0.8)	400.5	365.0
Consists of:				
- fair value hedges	93.7	-	90.1	183.8
- cash flow hedges	(128.4)	(0.8)	311.4	182.2
- not in a hedge relationship	-	-	(1.0)	(1.0)
Total derivative financial instruments	(34.7)	(0.8)	400.5	365.0

Notes to the consolidated financial statements

31 March 2017

Note D.3 Financial risk management (continued)**(c) Derivative financial instruments used to hedge interest rate and currency risks (continued)***(ii) Measurement and classification (continued)*

Derivative financial instruments are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognised in the income statement immediately unless the derivative financial instrument is designated and effective as a hedging instrument, in which case the timing of the recognition in the income statement depends on the nature of the hedge relationship.

Credit risk is included in the fair value of derivative financial instruments based on a bilateral credit risk adjustment obtained using credit default swap curves. 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 asset and liability positions as at the reporting date. The difference between the fair value of derivatives and their transaction price at inception due to credit valuation adjustments is recognised progressively over the period to maturity. The unamortised value of the deferred credit risk adjustment for derivative financial instruments as at 31 March 2017 is \$35.2 million (2016: \$40.3 million).

Key estimates and judgements - Fair value of derivative financial instruments

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

Derivative financial instruments are recognised at fair value and are measured using market observable data, and where appropriate, are adjusted for credit risk, liquidity risk and currency basis risk. Therefore, they are deemed level two within the fair value hierarchy as per AASB 13 *Fair Value Measurement*.

The fair value of derivative financial instruments is determined using valuation techniques and available market observable data as well as market corroboration based on active quotes. These include industry standard interest rates, foreign exchange and currency basis yield curves sourced directly from Bloomberg. Appropriate transaction costs and risk premiums are included in the determination of net fair value.

(iii) Offsetting derivative financial instruments

Derivative assets and liabilities are presented on a gross basis. Certain derivative assets and liabilities are subject to enforceable master netting arrangements with individual counterparties if they were subject to default. Notwithstanding that these financial assets and liabilities do not meet the criteria for being presented on a net basis, if these netting arrangements were applied to the derivative portfolio as at 31 March 2017, derivative assets and liabilities would be reduced by \$163.7 million respectively (2016: \$172.4 million). Refer to the below table:

	Gross amounts in the financial statements	Amounts subject to master netting arrangements	Net amount
	\$M	\$M	\$M
2017		-	
Derivative financial assets	311.7	(163.7)	148.0
Derivative financial liabilities	(313.4)	163.7	(149.7)
	(1.7)	-	(1.7)
2016			
Derivative financial assets	557.9	(172.4)	385.5
Derivative financial liabilities	(192.9)	172.4	(20.5)
	365.0	-	365.0

Notes to the consolidated financial statements

31 March 2017

Note D.3 Financial risk management (continued)**(c) Derivative financial instruments used to hedge interest rate and currency risks (continued)***(iv) Cash flow hedges*

The following table summarises movements in the hedged items and hedging instruments that are designated in cash flow hedges:

	Change in value of hedged item used to measure ineffectiveness (i)	Change in value of hedging instrument used to measure ineffectiveness (i)	Nominal amounts of hedging instruments (i)
	\$M	\$M	\$M
Interest rate risk	(76.8)	70.3	14,014.7
Foreign currency risk – debt	133.3	(129.5)	2,711.4
Foreign currency risk – capital expenditure	(0.2)	0.2	124.4

- (i) Nominal amounts represent the total principal in each hedging instrument (derivative) in cash flow hedges. For hedging purposes derivatives are split into multiple hedging components becoming hedging instruments in each hedge relationship. The nominal amounts in the table above are based on these multiple hedging components. The nominal value for all external derivatives in both cash flow hedges and fair value hedges is \$14,815.5 million.

The following movements have occurred in the cash flow hedge reserve during the year, net of income tax:

	2017	2016
	\$M	\$M
Opening balance of cash flow hedge reserve	(80.8)	(71.2)
Amounts recognised in other comprehensive income, net of income tax:		
Changes in fair value of cash flow hedges (excluding foreign currency spreads)	(24.6)	(68.8)
Amounts reclassified to interest expense for effective hedges	73.3	77.5
Changes in foreign currency basis spreads	8.9	(4.2)
Tax effect of derivatives step up	5.4	(14.1)
Total amounts recognised in other comprehensive income, net of income tax	63.0	(9.6)
Closing balance of cash flow hedge reserve	(17.8)	(80.8)

The following table summarises our cash flow hedges:

	2017	2016
	\$M	\$M
Highly probable forecast asset purchase:		
Less than 1 year	(0.2)	(0.4)
1 – 2 years	(0.2)	(0.1)
2 – 5 years	(0.3)	(0.2)
	(0.7)	(0.7)
Borrowings:		
Less than 1 year	(80.7)	(78.2)
1 – 2 years	(59.3)	(43.0)
2 – 5 years	(44.3)	(56.1)
Greater than 5 years	(145.4)	(157.7)
	(329.7)	(335.0)

Notes to the consolidated financial statements

31 March 2017

Note D.3 Financial risk management**(c) Derivative financial instruments used to hedge interest rate and currency risks (continued)***(iv) Cash flow hedges (continued)*

These amounts will impact the income statement in the same period as cash flows are expected to occur, with the exception of hedges of highly probable forecast transactions which will impact the income statement as the underlying asset is utilised.

(v) Fair value hedges

The following table summarises the hedged items included in fair value hedges and their impact on the financial statements:

	Carrying amount of the hedged item \$M	Accumulated amount of fair value adjustments on hedged items \$M	Gain/(loss) on remeasurement of hedged item \$M	Gain/(loss) on remeasurement of hedging instruments \$M	Nominal amounts of hedging instruments (i) \$M
AUD denominated borrowings	(2,010.3)	(71.0)	22.2	(22.0)	1,185.0
Foreign currency denominated borrowings	(4,655.0)	63.4	315.3	(296.3)	7,862.4

- (i) Nominal amounts represent the total principal in each hedging instrument (derivative) in fair value hedges. For hedging purposes derivatives are split into multiple hedging components becoming hedging instruments in each hedge relationship. The nominal amounts in the table above are based on these multiple hedging components. The nominal value for all external derivatives in both fair value hedges and cash flows total \$14,815.5 million.

(d) Liquidity risk

We manage 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. These practices are governed by our liquidity management policies, which include Board approved guidelines covering the maximum volume of long term debt maturing in any one year, the minimum number of years over which debt maturities are to be spread and the timing of refinancing. In addition, short term bank debt and commercial papers must not represent more than an agreed percentage of the total debt portfolio.

The liquidity management policies ensure that we have a well-diversified portfolio of debt, in terms of maturity and source, which significantly reduces reliance on any one source of debt in one particular year. In addition, our investment grade credit rating ensures ready access to both domestic and offshore capital markets.

Financing facilities will be put in place at least six months before maturity of the debt being replaced or in the case of new debt at least six months before funding is required. "In place" is defined as meaning all documentation has been completed and settlement has occurred or if settlement has not occurred (e.g. committed but undrawn bank debt facilities) funding is committed and is not subject to a material adverse change in the market.

(i) Contractual cash flows

Liquidity risk is managed by us based on net contracted and forecast inflows and outflows from operating, financing and investing activities. The following table summarises the contractual cash flows of our non-derivative and derivative financial assets and liabilities based on the remaining earliest contractual maturities. The contractual cash flows are based on undiscounted principal and interest commitments, and foreign exchange rates at the reporting date.

Notes to the consolidated financial statements

31 March 2017

Note D.3 Financial risk management (continued)**(d) Liquidity risk (continued)***(i) Contractual cash flows (continued)*

2017	Notes	Principal at face value \$M	Carrying amount \$M	Total contractual cash flows \$M	Less than 1 year \$M	1 – 2 years \$M	2 – 5 years \$M	Greater than 5 years \$M
Financial assets								
Non-derivative financial assets								
Cash and cash equivalents		327.0	327.0	327.0	327.0	-	-	-
Accounts and other receivables	B.2	2,982.2	2,982.2	2,982.2	263.2	-	-	2,719.0
Derivative financial assets								
Interest rate swaps			119.8	189.9	8.7	13.2	74.3	93.7
Cross-currency swaps			191.9	(27.7)	(19.1)	(20.6)	52.3	(40.3)
Forward foreign currency contracts			-					
- Inflow				1.8	1.8	-	-	-
- Outflow				(1.8)	(1.8)	-	-	-
				3,620.9	3,471.4	579.8	(7.4)	126.6
								2,772.4
Financial liabilities								
Non-derivative financial liabilities								
Trade and other payables	B.2	859.2	859.2	859.2	859.2	-	-	-
Bank debt facilities		93.0	93.0	93.0	93.0	-	-	-
Domestic medium term notes		1,754.7	1,817.4	2,260.3	382.7	80.8	779.2	1,017.6
Floating rate notes		100.0	99.8	111.0	3.4	3.6	104.0	-
USD senior notes		107.0	103.3	135.6	3.4	3.4	10.3	118.5
GBP senior notes		537.5	438.4	470.0	29.3	440.7	-	-
CHF senior notes		283.2	368.4	371.5	4.0	4.0	363.5	-
HKD senior notes		641.7	702.0	909.9	23.1	23.2	245.2	618.4
JPY senior notes		62.6	62.3	65.0	0.8	0.8	2.5	60.9
EUR senior notes		2,078.3	2,020.3	2,255.4	43.0	43.0	810.6	1,358.8
NOK senior notes		319.4	298.4	405.6	7.6	9.7	29.1	359.2
USD hybrid securities (i)		505.7	473.8	618.8	28.3	28.3	562.2	-
SGD hybrid securities (i)		199.6	188.2	234.1	10.3	10.3	213.5	-
Derivative financial liabilities								
Interest rate swaps			91.6	101.8	29.8	18.9	17.6	35.5
Cross-currency swaps			221.1	657.3	21.2	134.2	181.9	320.0
Forward foreign currency contracts			0.7					
- Inflow				(13.1)	(5.0)	(3.8)	(4.3)	-
- Outflow				13.8	5.3	4.0	4.5	-
				7,837.9	9,549.2	1,539.4	801.1	3,319.8
								3,888.9
Net cash outflow					(6,077.8)	(959.6)	(808.5)	(3,193.2)
								(1,116.5)

(i) The table above assumes that the Group will exercise the first call date in September 2021.

Notes to the consolidated financial statements

31 March 2017

Note D.3 Financial risk management (continued)**(d) Liquidity risk (continued)***(i) Contractual cash flows (continued)*

2016	Notes	Principal at face value \$M	Carrying amount \$M	Total contractual cash flows \$M	Less than 1 year \$M	1 – 2 years \$M	2 – 5 years \$M	Greater than 5 years \$M	
Financial assets									
Non-derivative financial assets									
Cash and cash equivalents		440.2	440.2	440.2	440.2	-	-	-	
Accounts and other receivables	B.2	2,759.6	2,759.6	2,759.6	363.4	-	-	2,396.2	
Derivative financial assets									
Interest rate swaps			106.8	123.5	32.6	21.2	48.3	21.4	
Cross-currency swaps			451.0	(146.6)	22.6	(35.3)	26.1	(160.0)	
Forward foreign currency contracts			0.1						
- Inflow				12.8	10.6	0.2	1.3	0.7	
- Outflow				(12.7)	(10.5)	(0.2)	(1.3)	(0.7)	
				3,757.7	3,176.8	858.9	(14.1)	74.4	2,257.6
Financial liabilities									
Non-derivative financial liabilities									
Trade and other payables	B.2	411.9	411.9	411.9	362.3	49.6	-	-	
Domestic medium term notes		1,322.0	1,418.7	1,714.2	84.6	364.0	749.8	515.8	
Floating rate notes		100.0	99.7	115.5	3.8	3.6	108.1	-	
USD senior notes		410.4	421.1	425.5	425.5	-	-	-	
GBP senior notes		537.5	514.1	569.1	33.4	33.4	502.3	-	
CHF senior notes		554.9	726.5	734.9	348.8	4.2	381.9	-	
HKD senior notes		435.0	527.2	666.8	16.8	16.9	163.5	469.6	
JPY senior notes		62.6	62.0	64.9	0.8	0.8	2.4	60.9	
EUR senior notes		2,078.3	2,202.2	2,446.1	45.7	45.7	880.4	1,474.3	
NOK senior notes		159.7	162.9	221.3	5.6	5.6	16.9	193.2	
USD hybrid securities		505.7	488.3	644.7	28.2	28.2	84.5	503.8	
SGD hybrid securities		199.6	193.5	252.4	10.7	10.7	32.0	199.0	
Derivative financial liabilities									
Interest rate swaps			141.5	173.9	52.5	29.8	31.5	60.1	
Cross-currency swaps			50.5	186.3	3.0	2.4	99.8	81.1	
Forward foreign currency contracts			0.9						
- Inflow				(46.5)	(37.7)	(3.2)	(5.6)	-	
- Outflow				47.6	38.4	3.4	5.8	-	
				7,421.0	8,628.6	1,422.4	595.1	3,053.3	3,557.8
Net cash outflow				(5,451.8)	(563.5)	(609.2)	(2,978.9)	(1,300.2)	

Notes to the consolidated financial statements

31 March 2017

Note D.3 Financial risk management (continued)**(d) Liquidity risk (continued)***(ii) Financing facilities*

We target a minimum net liquidity, defined as available short term funds and committed financing facilities. As at reporting date, we had the following committed financing facilities available:

	2017	2016
	\$M	\$M
Financing facilities (face value)		
Unsecured bank overdraft facility, reviewed annually and payable at call:		
- Amount used	-	-
- Amount unused	2.5	2.5
	<u>2.5</u>	<u>2.5</u>
Unsecured working capital facility, reviewed annually:		
- Amount used	93.0	-
- Amount unused	7.0	100.0
	<u>100.0</u>	<u>100.0</u>
Unsecured bank loan facility with various maturity dates and which may be extended by mutual agreement:		
- Amount used	-	-
- Amount unused	525.0	775.0
	<u>525.0</u>	<u>775.0</u>
Total financing facilities	<u>627.5</u>	<u>877.5</u>

(e) Credit risk

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

We have adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults (refer to Note B.2). Our exposure and the credit ratings of our counterparties are continuously monitored and the aggregate values of transactions concluded are spread amongst approved counterparties.

In accordance with the Treasury Risk Policy, treasury counterparties each have an approved limit based on the lower of Standard & Poor's or Moody's credit rating. Counterparty limits are reviewed and approved by the Audit and Risk Management Committee and any changes to counterparties or their credit limits must be approved by the Chief Financial Officer and the Managing Director and must be within the parameters set by the Board as outlined in the Treasury Risk Policy.

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies. At balance date we had \$221.1 million on term deposit and \$255.7 million of cross currency and interest rate swaps with 'A' rated or higher Australian and international banks.

Credit risk is included in the fair value of derivative financial instruments based on a bilateral credit risk adjustment obtained using credit default swap curves. The difference between the fair value of derivatives and their transaction price at inception due to credit valuation adjustments is recognised progressively over the period to maturity.

Notes to the consolidated financial statements

31 March 2017

Note D.3 Financial risk management (continued)**(e) Credit risk (continued)**

Except as detailed in the following table, the carrying amount of financial assets recorded in the financial statements, net of any allowances for losses, represents our maximum exposure to credit risk. The values disclosed below represent the market values in the event of early settlement (in the money market values), which differ from the carrying values and as such do not agree to the statement of financial position. The values below exclude any offsetting financial liabilities with the particular counterparty.

	2017	2016
	\$M	\$M
Financial assets and other credit exposures		
Cross currency swaps	193.6	433.9
USD interest rate swaps	-	3.1
AUD interest rate swaps	184.4	147.6

Note D.4 Net finance costs

	2017	2016
	\$M	\$M
Finance income		
Interest income	5.3	8.7
Interest income – related parties	108.0	121.5
Total finance income	<u>113.3</u>	<u>130.2</u>
Finance costs		
Interest expense	327.3	338.9
Other finance charges – cash	3.2	2.8
Other finance charges – non-cash	6.3	5.1
(Gain)/loss on fair value hedges	(19.1)	3.7
Loss on transactions not in a hedge relationship	(0.7)	1.1
Loss/(gain) on ineffective portion of cash flow hedges	2.7	(18.2)
Unwind of discount on provisions	2.5	2.3
Defined benefit net interest expense	0.1	0.6
Capitalised finance charges	(7.5)	(10.5)
Total finance costs	<u>314.8</u>	<u>325.8</u>
Net finance costs	<u>201.5</u>	<u>195.6</u>

Finance income comprises interest income on funds invested and interest on intercompany loans. Interest income is recognised as it accrues, taking into account the effective yield on the financial asset.

Finance costs comprise interest expense on borrowings, foreign exchange gains/losses, gains/losses on hedging instruments that are recognised in the income statement, unwinding of discount on provisions and the net interest cost in respect of defined benefit obligations. All borrowing costs are recognised in the income statement using the effective interest rate method, other than borrowing costs directly attributable to a qualifying asset which are capitalised into the cost of that asset.

The capitalisation rate used to determine the amount of borrowing costs to be included in the cost of qualifying assets is the average interest rate of 4.8 per cent (2016: 4.5 per cent) applicable to our outstanding borrowings at the end of the period.

Notes to the consolidated financial statements

31 March 2017

Note D.5 Equity

	Notes	2017 Shares	2016 Shares
Share capital			
Ordinary shares – fully paid (million)	(a), (b)	1,063.3	1,063.3

(a) Ordinary shares

Ordinary shares authorised and issued have no par value. Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of AusNet Services Holdings Pty Ltd in proportion to the number of and amounts paid on the shares issued. Holders of ordinary shares are entitled to one vote on a show of hands or one vote for each ordinary share held on a poll at shareholders' meetings.

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from proceeds.

(b) Movement in ordinary share capital

Date	Details	Number of shares	\$M
1 April 2016	Opening balance	1,063,361,942	1,063.9
31 March 2017	Reclassification of FY2007 share based reserve	-	(0.6)
31 March 2017	Closing balance	1,063,361,942	1,063.3
1 April 2015	Opening balance	639,486,731	640.0
31 May 2015	Share issue (i)	423,875,211	423.9
31 March 2016	Closing balance	1,063,361,942	1,063.9

(i) Additional equity was injected into AusNet Services Holdings Pty Ltd to establish the settlement of outstanding intercompany tax balances the upon the restructure of the AusNet Services Group on 18 June 2015.

Note D.6 Dividends

The following dividends were approved by AusNet Services Holdings Pty Ltd during the current financial year. No dividends were approved or paid in the prior year.

Dividend	Paid by	Date declared	Cents per share	Total dividend \$M
FY17 dividend	AusNet Services Holdings Pty Ltd	31 March 2017	54.446	579.0
Total dividend			54.446	579.0

Notes to the consolidated financial statements

31 March 2017

Section E Group Structure

The following section provides information on our structure and how this impacts the results of the Group as a whole, including details of controlled entities and related party transactions.

Note E.1 Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group 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. In assessing control, potential voting rights that are presently exercisable or convertible are taken into account.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group and are deconsolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between entities within the Group are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred.

The Group's financial statements incorporate the assets, liabilities and results of the following subsidiaries:

Name of entity	Country of incorporation	Class of shares	Equity holding	
			2017 %	2016 %
AusNet Services Holdings Pty Ltd	Australia	Ordinary		
AusNet Electricity Services Pty Ltd	Australia	Ordinary	100.0	100.0
AusNet Asset Services Pty Ltd	Australia	Ordinary	100.0	100.0
AusNet (No. 8) Pty Ltd	Australia	Ordinary	100.0	100.0
AusNet (No. 9) Pty Ltd	Australia	Ordinary	100.0	100.0
AusNet Gas Services Pty Ltd	Australia	Ordinary	100.0	100.0
Select Solutions Group Pty Ltd	Australia	Ordinary	100.0	100.0

Notes to the consolidated financial statements

31 March 2017

Note E.2 Parent entity information**(a) Statement of financial position**

	2017	2016
	\$M	\$M
Current assets	242.5	144.9
Non-current assets	10,984.9	10,537.7
Total assets	11,227.4	10,682.6
Current liabilities	1,030.4	294.6
Non-current liabilities	7,851.3	7,512.6
Total liabilities	8,881.7	7,807.2
Contributed equity	1,063.3	1,063.9
Reserves	2.8	(78.1)
Retained profits	1,279.6	1,889.6
Total equity	2,345.7	2,875.4

(b) Statement of comprehensive income

	2017	2016
	\$M	\$M
Profit for the year	31.0	27.0
Total comprehensive income for the year	111.9	20.5

(c) Contingent liabilities

The Directors are not aware of any contingent liabilities of the parent entity as at 31 March 2017 (2016: \$0).

Notes to the consolidated financial statements

31 March 2017

Note E.3 Related party transactions**(a) Major shareholders**

The immediate parent of the Company is AusNet Holdings (Partnership) Limited Partnership. The ultimate parent of the Company is AusNet Services Limited, a company incorporated in Australia, which is part of a listed group trading as AusNet Services.

AusNet Services Ltd has two shareholders with significant investment and board representation, being Singapore Power International Pte Ltd (SPI) and State Grid Corporation of China (State Grid). SPI's ultimate parent is Temasek Holdings (Private) Ltd (Temasek). State Grid has a controlling stake in Jemena Asset Management Pty Ltd (referred to as Jemena).

Under applicable accounting standards, Temasek and its subsidiaries (including SPI) and State Grid and its subsidiaries (including Jemena) are considered to be related parties of AusNet Services. These entities are not considered related parties under the *Corporations Act 2001*.

(i) Operational agreement with Jemena

On 29 September 2016, we entered into an agreement with the Jemena Group on a number of operational arrangements. We provide metering services, technical services and vegetation management services to the electricity and gas networks owned and managed by Jemena. The agreement related to the services performed on Jemena's gas network expires 29 September 2017 whereas the agreement related to the services performed on Jemena's electricity network expires 31 December 2019.

To ensure continued capital investment and network growth, Zinfra was appointed a delivery partner on our capital portfolio. These agreements have a term for two years with an option to extend for one year.

(b) Key management personnel

	2017	2016
	\$	\$
Short-term employee benefits	5,599,588	6,082,910
Post-employment benefits	264,635	284,142
Equity-based payments	2,341,895	2,007,639
Other long-term benefits	452,782	247,199
Termination benefits	808,660	-
	9,467,560	8,621,890

The Remuneration Report contained in the Directors' report contains details of the remuneration paid or payable to each member of the Groups' key management personnel for the year ended 31 March 2017.

Notes to the consolidated financial statements

31 March 2017

Note E.3 Related party transactions (continued)**(c) Transactions with related parties**

We engage in a wide variety of transactions with entities in the Temasek Group in the normal course of business on terms similar to those available to other customers. Such transactions include but are not limited to telecommunication services and leasing of properties. These related party transactions are carried out on terms negotiated between the parties which reflect an arm's length basis. As a result, transactions with Temasek interests other than the Singapore Power Group have been excluded from the disclosures below.

We also provide electricity distribution and electricity transmission services to Jemena. AusNet Services earns a regulated return from the provision of these services as these services are regulated by the AER.

The following transactions occurred with related parties within the Singapore Power, State Grid and AusNet Services groups for the entire financial year:

	2017	2016
	\$'000	\$'000
Sales of goods and services		
Regulated revenue (i)	3,407	4,976
Excluded services revenue	16,457	20,354
Service revenue	-	3
Purchases of goods and services		
Other expenses	1,651	426
Property, plant and equipment	39,163	28,446
Dividends	579,074	-

(i) Represents revenues from the provision of electricity distribution services which are regulated by the AER.

The following balances are outstanding at the reporting date in relation to transactions with related parties within the Singapore Power and State Grid groups:

	2017	2016
	\$'000	\$'000
Current receivables (sale of goods and services)		
Other related parties (i)	113,092	230,371
Non-current receivables (loans)		
Other related parties	2,854,314	2,618,003
Current payables and other liabilities (purchase of goods)		
Singapore Power entities	-	22
Other related parties	702,889	167,162
Non-current payables (loans)		
Other related parties	135,278	271,370

No allowance for impairment loss has been raised in relation to any outstanding balances due from related parties.

(i) Includes outstanding amounts from the provision of electricity distribution services which are regulated by the AER.

Notes to the consolidated financial statements

31 March 2017

Section F Other disclosures

This section includes other information to assist in understanding the financial performance and position of the Group, or items required to be disclosed in order to comply with accounting standards and other pronouncements.

Note F.1 Remuneration of auditors

During the year the following fees were paid or payable for services provided by KPMG and its related practices:

	2017	2016
	\$'000	\$'000
Audit and review services		
Audit and review of financial statements	1,129	1,284
Audit of regulatory returns (i)	324	421
Total remuneration for audit services	1,453	1,705
Other services		
Other assurance, taxation and advisory services	189	230
Total remuneration for other services	189	230
Total remuneration of auditors	1,642	1,935

- (i) It is our policy to employ KPMG to perform the audit of regulatory returns as these returns represent an extension of statutory audit services and need to be performed by the same audit firm to gain efficiencies and effectiveness in performing these audits.

Note F.2 Defined benefit obligations

We make contributions to an Equipsuper defined benefit superannuation plan that provide defined benefit amounts to employees or their dependants upon retirement, death, disablement or withdrawal. Benefits are mostly in the form of a lump sum based on the employee's final average salary, although, in some cases, defined benefit members are also eligible for pension benefits.

The defined benefit sections of the Equipsuper plan is closed to new members. All new members receive defined contribution, accumulation style benefits.

The defined benefit superannuation plan is administered by a trust that is legally separated from the Group. The trustees consist of both employee and employer representatives and an independent chair, all of whom are governed by the scheme rules. The trustees are responsible for the administration of plan assets and for the definition of plan strategy.

	2017	2016
	\$M	\$M
Total amount included in the statement of financial position in respect of the defined benefit plans is as follows:		
Present value of defined benefit obligations	(165.2)	(183.4)
Fair value of plan assets	185.0	176.5
Net asset/(liability) arising from defined benefit obligations	19.8	(6.9)
Amounts recognised in the income statement in respect of the defined benefit plans are as follows:		
Current service cost	4.9	6.0
Net interest cost on defined benefit obligation	0.1	0.6
Total	5.0	6.6
Remeasurement gains recognised during the year in OCI	28.7	23.3

Notes to the consolidated financial statements

31 March 2017

Note F.2 Defined benefit obligations (continued)

Each year we engage an independent actuary to perform an actuarial review of the AusNet Electricity Services Pty Ltd defined benefit fund.

Our net obligation in respect of the defined benefit superannuation fund is calculated by estimating the amount of future benefits that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value and recognised after deducting the fair value of any plan assets.

The discount rate is the yield at the balance date on corporate bonds that have maturity dates approximating the terms of our obligations. A qualified actuary performs the calculation using the projected unit credit method.

Remeasurements comprise actuarial gains and losses and the return on plan assets (excluding interest). They are recognised in full directly in retained profits in the period in which they occur and are presented in other comprehensive income.

When the calculation of the net obligation results in a benefit to the Group, the recognised asset is limited to the net total of any unrecognised actuarial losses and past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan.

We expect to make contributions to the defined benefit plan during the next financial year at a consistent level to FY2017. The Target Funding method is used to determine the contribution rates. Under the Target Funding method, the employer contribution rate is set at a level which is expected to result in the plans' assets equalling 105 per cent of the plans' liabilities within five years. The defined benefit superannuation plan exposes us to additional actuarial, interest rate and market risk.

(a) Movement in defined benefit obligation

	2017	2016
	\$M	\$M
Movements in the present value of the defined benefit obligations were as follows:		
Opening defined benefit obligation	183.4	209.6
Current service cost	4.9	6.0
Interest cost	6.0	5.4
Contributions by plan participants	1.9	1.8
Actuarial gain	(14.1)	(29.2)
Benefits, taxes and premiums paid	(16.9)	(10.2)
Closing defined benefit obligations	165.2	183.4

Movements in the fair value of plan assets were as follows:

Opening fair value of plan assets	176.5	183.1
Interest income	5.9	4.8
Actual return on fund assets less interest income	14.6	(5.9)
Contributions from the employer	3.0	2.9
Contributions by plan participants	1.9	1.8
Benefits, taxes and premiums paid	(16.9)	(10.2)
Closing fair value of plan assets	185.0	176.5

The actual return on plan assets was a gain of \$20.5 million (2016: loss of \$1.1million).

Notes to the consolidated financial statements

31 March 2017

Note F.2 Defined benefit obligations (continued)**(b) Analysis of plan assets**

Plan assets can be broken down into the following major categories of investments:

	2017	2016
	%	%
Investments quoted in active markets:		
Australian equities	29	28
International equities	19	22
Fixed interest securities	12	13
Unquoted investments:		
Property	9	10
Growth alternative	10	10
Defensive alternative	12	10
Cash	9	7
	100	100

Plan assets do not comprise any of the Group's own financial instruments or any assets used by Group companies.

(c) Actuarial assumptions

The following were the principal actuarial assumptions at the reporting date (expressed as weighted averages).

	Defined benefit expense		Defined benefit obligation	
	2017	2016	2017	2016
	%	%	%	%
Key assumptions				
Discount rate	3.5	2.7	4.1	3.5
Expected salary increase rate	3.8	4.5	3.8	3.8

As at 31 March 2017, the weighted average duration of the defined benefit obligation was 8 years (2016: 9 years).

Key estimates and judgements – Defined benefit plans

A number of estimates and assumptions are used in determining defined benefit assets, obligations and expenses. These estimates include salary increases, future earnings and rates of return. Any difference in estimates will be recognised in other comprehensive income and not through the income statement.

The net liability from defined benefit obligations recognised in the consolidated statement of financial position will be affected by any significant movement in investment returns and/or interest rates.

Notes to the consolidated financial statements

31 March 2017

Note F.2 Defined benefit obligations (continued)**(d) Sensitivity analysis**

Changes in the relevant actuarial assumptions as at reporting date, with all other variables held constant, would result in an increase/(decrease) in the value of the defined benefit obligation as shown below:

	Increase \$M	Decrease \$M
Defined benefit obligation		
Discount rate (0.5 per cent movement)	(7.9)	8.6
Expected salary increase rate (0.5 per cent movement)	7.1	(6.8)

When calculating the above sensitivity analysis the same method has been applied as when calculating the defined benefit liability recognised in the consolidated statement of financial position.

(e) Defined contribution expense

During the year, we contributed \$14.8 million of defined contribution benefit to employees (2016: \$14.2 million).

Note F.3 Share-based payments

We provide benefits to some of our employees (including key management personnel) in the form of share-based payments, whereby employees render services in exchange for shares or rights over shares (equity settled transactions).

The cost of equity settled transactions is recognised over the period in which the conditions are fulfilled (the vesting period), ending on the date that relevant employees become entitled to the award (the vesting date). At each subsequent reporting date until vesting, the cumulative charge to the income statement is in accordance with the vesting conditions.

(a) Long term incentive plan

We have a Long Term Incentive Plan (LTIP) for executives and other senior management identified by the Board. The plan is based on the grant of performance rights that vest into shares at no cost to the employee subject to performance hurdles (refer to the Remuneration Report for further detail). Settlement of the performance rights is made in ordinary shares purchased on market.

If the employee is no longer employed by us during the performance period, the granted performance rights may be forfeited at the Board's discretion.

Prior to 1 April 2015, our Long Term Incentive Plan grants were cash based and were accounted for as employee provisions. The Group has the following grants outstanding as at 31 March 2017.

Plan	Period	Grant date	Vesting date	PRs granted	Value of PRs at grant date
LTIP 2017	1/4/16-31/3/19	1 April 2016	31 March 2019	\$1,203,155	\$1,227,218
LTIP 2016	1/4/15-31/3/18	1 April 2015	31 March 2018	\$1,103,330	\$1,103,330

Notes to the consolidated financial statements

31 March 2017

Note F.3 Share-based payments (continued)*(a) Long term incentive plan (continued)*

The fair value of each performance right is estimated on the grant date using the Black-Scholes model. This model used the following inputs for each tranche of rights:

	LTIP	
	2017	2016
Share price at grant date	\$1.56	\$1.48
Exercise price	\$0.0	\$0.0
Expected volatility	20%	20%
Risk-free interest rate	1.61%	2.05%
Dividend yield	6.00%	6.00%
Expected life of performance rights	36 months	36 months

The expected volatility is based on the Group's historical volatility and is designed to be indicative of future trends, which may not reflect actual volatility.

Reconciliation of equity rights issue:

	FY17 Grant	FY16 Grant	FY17 Total	FY16 Total
Opening balance		1,059,722	1,059,722	-
Granted during the year	1,203,155	-	1,203,155	1,103,330
Forfeited during the year	(125,441)	(98,719)	(224,160)	(43,608)
Modified during the year (i)	(20,956)	-	(20,956)	-
Vested during the year	-	-	-	-
Closing balance	1,056,758	961,003	2,017,761	1,059,722

(i) Following a restructure of the executive leadership team in July 2016, two executives received modified conditions in relation to certain performance rights on foot. This modification was made at the Board's discretion.

An expense of \$0.585 million has been recognised for the year ended 31 March 2017 (2016: \$0.322 million) in relation to equity-settled share-based payment.

Note F.4 Contingent liabilities and contingent assets

We are not aware of any contingent liabilities or assets as at 31 March 2017 (2016: \$0).

Notes to the consolidated financial statements

31 March 2017

Note F.5 New accounting standards 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 the Group's annual reporting period beginning 1 April 2016, but have not been applied in preparing this financial report:

- AASB 15 *Revenue from Contracts with Customers* establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including AASB 118 *Revenue*, AASB 111 *Construction Contracts* and associated Interpretations. AASB 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The impact of this standard has yet to be quantified by the Group, however, there will be no impact on regulated revenue (84.9% of total revenue). In addition, most of the unregulated revenue of the Group is either fee for service or sales of goods, which are not impacted by AASB 15. AusNet Services has some revenue contracts that contain multiple deliverables that may require an acceleration or deferral of revenue from current practice. However, this is not expected to be material.
- AASB 16 *Leases* will require the recognition of all leases for a lessee on-balance sheet, with limited exceptions for short-term and low value leases, thereby removing the off-balance sheet treatment currently applied to operating leases. In addition, lease expenses will be recognised as depreciation and interest expenses and will result in the front-loading of expense recognition compared to the current straight-line model. AASB 16 is effective for annual reporting periods beginning on or after 1 January 2019, with early adoption permitted. The impact of this standard will be that the majority of operating lease contracts disclosed in Note C.4 (b) will be present valued and recognised as a "right of use" asset, with a corresponding liability also recognised. In addition, the majority of the \$13.0 million operating lease expense will no longer be recognised and will be replaced with amortisation/interest expense.

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

Note F.6 Events occurring after the balance sheet date

(a) Other matters

There has been no matter or circumstance that has arisen since 31 March 2017 up to the date of issue of this financial report that has significantly affected or may significantly affect:

- (a) the operations in financial years subsequent to 31 March 2017 of the Group;
- (b) the results of those operations; or
- (c) the state of affairs, in financial years subsequent to 31 March 2017, of the Group.

Directors declaration

In the opinion of the Directors of AusNet Services Holdings Pty Ltd (the Company):

- (a) the financial statements and notes set out on pages 28 to 74, and the remuneration disclosures that are contained in the Remuneration report set out on pages 11 to 24 in the Directors' report, are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Australian Accounting Standards and the Corporations Regulations 2001; and
 - (ii) giving a true and fair view of the consolidated entity's financial position as at 31 March 2017 and its performance for the financial year ended on that date;
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Section A; and
- (c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

The Directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer required by section 295A of the *Corporations Act 2001*.

Signed in accordance with a resolution of the Directors.



Nino Ficca
Managing Director

Melbourne
15 May 2017



Independent Auditor's Report

To the shareholders of AusNet Services Holdings Pty Ltd (the Company)

Report on the audit of the Financial Report

Opinion

We have audited the **Financial Report** of AusNet Services Holdings 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 March 2017 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 statement of financial position as at 31 March 2017;
- Consolidated statement of profit or loss, 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; and
- Directors' Declaration.

The **Group** consists of the Company and the entities it controlled at the year's 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:

- Recognition of revenue;
- Valuation of non-current assets, including property, plant and equipment and intangible assets;
- Accounting for project related expenditure; and
- Valuation and accounting for derivatives.

Key Audit Matters are those matters that, in our professional judgment, 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.

Recognition of revenue (AUD \$1,226.5m)

Refer to Note B.1 Segment results and Note B.2 Working Capital of the Financial Report.

The key audit matter	How the matter was addressed in our audit
<p>Revenue recognition is a key audit matter due to the nature of the regulatory framework and billing process for the distribution of electricity and gas in Victoria, which adds complexity to our audit approach. In particular:</p> <ul style="list-style-type: none"> • the application of regulator approved tariff rates, which are used to bill customers for the distribution of electricity and gas. The Group's regulatory price determinations promulgated by various regulatory bodies are routinely revised; and • the inherent complexity in the Group's customer billings processes to estimate energy consumed and to determine the relevant tariff rates. 	<p>Our procedures included:</p> <ul style="list-style-type: none"> • involving our regulatory advisory specialists and considering the impact of relevant regulatory price determinations on the Group's revenue, including developments in respect of the Australian Energy Regulator's (AER) Final Electricity Distribution Price Review (EDPR) issued in May 2016, the Australian Competition Tribunal (ACT) Limited Merits Review, and the Advanced Metering Infrastructure 2016 Transition Charges Final Decision issued in December 2016; • working with our Information Technology specialists and testing the key controls over the revenue process including the reconciliation between the metering systems and the billing system, and the validation of metering data during billing periods; • evaluating the appropriateness of the Group's accounting policies for revenue recognition against accounting standard requirements; • comparing tariff rates charged to customers to the regulator approved tariff rates for the

	<p>time the services were provided;</p> <ul style="list-style-type: none"> analysing revenue against historical performance, regulatory price determinations, and energy consumption data in comparison to weather patterns.
<p>Valuation of non-current assets, including property, plant and equipment (AUD \$5,897.3m) and intangible assets (AUD \$492.6m)</p>	
<p>Refer to Note C.1 Property, Plant and Equipment, C.2 Intangible Assets, and C.3 Impairment of non-current assets of the Financial Report.</p>	
<p>The key audit matter</p>	<p>How the matter was addressed in our audit</p>
<p>The valuation of non-current assets is a key audit matter due to the:</p> <ul style="list-style-type: none"> determination of Cash Generating Units ('CGU') being subject to judgement as it requires consideration of the impact of regulatory developments on the business model; complex nature of the regulatory framework for determining revenue and expenditure applicable to each of the Group's regulated CGU's; complexity in auditing the forward-looking assumptions applied to the Group's discounted cash flow models for each CGU given the significant assumptions involved. The main assumptions included those relating to terminal values, expected capital and operating expenditure, expected returns from future regulatory determinations, inflation, growth rates and discount rates; and challenges associated with auditing the Group's long term forecast cash flow model having regard to emerging regulatory change, technology and market changes, and accounting standard requirements. 	<p>Our procedures included:</p> <ul style="list-style-type: none"> involving our regulatory advisory specialists, and using our industry knowledge to consider the impact of the relevant regulatory developments on the Group's determination of CGUs, in particular the Australian Energy Market Commission's ('AEMC') Final Determination on Metering Contestability and the Victorian Government's deferral of adoption of metering competition in Victoria; testing the key controls over the cash flow models, including review and approval of key assumptions and the FY18-22 Financial Plan, which form the basis of cash flow forecasts; assessing the Group's cash flow model assumptions by: <ul style="list-style-type: none"> comparing regulated cash flow assumptions to regulatory determinations relevant to the forecast cash flow period; comparing unregulated cash flow assumptions to customer contracts and historical trends; agreeing the relevant cash flow forecasts to the FY18-22 Financial Plan; involving our valuation specialists and assessing the reasonableness of

	<p>the discount rates by considering comparable market information and evaluating the economic assumptions relating to cost of debt and cost of equity; and</p> <ul style="list-style-type: none"> ○ for regulated assets, assessing the appropriateness of using a long term cash flow forecast against accounting standard requirements by considering industry practice and the long term nature of the Group’s regulated asset base. ● evaluating the Group’s sensitivity analysis in respect of the key assumptions, including the identification of areas of estimation uncertainty and reasonably possible changes in key assumptions; ● assessing the appropriateness of the related financial statement disclosures against accounting standard requirements; ● comparing carrying values of CGUs to available market data, such as implied earnings and asset multiples of comparable entities.
Accounting for project related expenditure (AUD \$481.7m total additions)	
<p>Refer to Note C.1 Property, plant and equipment of the Financial Report.</p>	
The key audit matter	How the matter was addressed in our audit
<p>Project related expenditure is a key audit matter due to the:</p> <ul style="list-style-type: none"> ● significance of capital and operating expenditure, in respect of building and maintaining safe and reliable networks, to both the statement of financial position and income statement; ● number of new and overall significant number of projects in progress including the Metering Program and the Bushfire Mitigation Program; and 	<p>Our procedures included:</p> <ul style="list-style-type: none"> ● testing the key controls for the: <ul style="list-style-type: none"> ○ authorisation of new projects; ○ monitoring of actual project expenditure against approved budgeted expenditure; ○ allocation between capital and operating expenditure in accordance with accounting standards. ● analysing the indirect cost (e.g. corporate overhead, labour and finance cost)

<ul style="list-style-type: none"> ● the complexity in auditing judgements made in respect of: <ul style="list-style-type: none"> ○ the classification between capitalised and operating expenditure; ○ whether capital projects represent future benefits to the Group; ○ whether indirect costs such as labour and overheads were allocated between capital and operating expenditure in accordance with accounting standards; and ○ the determination of the useful lives of capitalised assets. 	<p>allocation methodology by challenging the underlying assumptions applied in the Activity Based Costing survey, capitalised finance charge models, and comparing the allocation of indirect costs against historical trends.</p> <p>For a sample of projects, our procedures included:</p> <ul style="list-style-type: none"> ● assessing the nature of costs capitalised to identify whether they represent future benefits to the Group in accordance with accounting standard requirements; ● consideration of individual asset impairments, the impact of asset retirements on depreciation expense and decommissioning provisions; ● assessing the actual project spend to budgeted spend by comparing approved budgets to actual costs. This testing was conducted to assess: <ul style="list-style-type: none"> ○ whether additional costs represent future benefits to the Group capable of capitalisation; and ○ authorisation and allocation of overspend in accordance with Group policy. ● evaluating the Group’s assessment of the useful life of the capitalised assets, for consistency with the Group’s accounting policies, and accounting standard requirements.
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Valuation and accounting for derivatives (AUD \$311.7m assets; AUD \$313.4m liabilities)

Refer to Note D.3 Financial risk management of the Financial Report.

The key audit matter	How the matter was addressed in our audit
<p>Valuation and accounting for derivatives is a key audit matter due to the:</p> <ul style="list-style-type: none"> ● size and complexity of the Group’s derivative portfolios, in particular cross 	<p>With the assistance of our Financial Instrument and Treasury specialists, our procedures included:</p>

<p>currency and interest rate swaps hedging foreign currency and Australian dollar denominated fixed and floating rate debt;</p> <ul style="list-style-type: none"> • the Group undertaking capital management activities during the year impacting on the Group's derivative portfolios and creating new hedge relationships; and • inherent complexity and judgement in applying accounting principles in the valuation and disclosure of derivatives and related hedging activities. <p>In assessing this key audit matter, we involved our Financial Instrument and Treasury specialists, who have industry specific experience and detailed knowledge of the complex accounting requirements.</p>	<ul style="list-style-type: none"> • evaluating the appropriateness of valuation methodologies and accounting for hedging activities against accounting standard requirements; • assessing and challenging the Group's market inputs and assumptions underlying the valuation of derivatives. We compared market inputs and assumptions to independently sourced market and credit data sets including spot foreign exchange rates, currency interest rate curves, currency basis spreads and credit pricing curves; • recalculating a sample of derivative valuations; • evaluating the adequacy of hedge designation documentation for a sample of new hedges in relation to the Group's documented Treasury Risk Management policy and accounting requirements; • obtaining independent confirmations from counterparties with which the Group has borrowings or derivative financial instruments and agreeing these to accounting records; • evaluating the appropriateness of the classification and presentation of derivative financial instruments and related financial risk management disclosures against accounting standard requirements.
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Other Information

Other Information is financial and non-financial information in AusNet Services Holdings 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, with the exception of the Remuneration Report and our related assurance opinion.

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's ability to continue as a going concern. 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 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 this 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_files/ar2.pdf. This description forms part of our Auditor's Report.

Report on the Remuneration Report

Opinion

In our opinion, the Remuneration Report of AusNet Services Holdings Pty Ltd for the year ended 31 March 2017, complies with *Section 300A* of the *Corporations Act 2001*.

Directors' responsibilities

The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with *Section 300A* of the *Corporations Act 2001*.

Our responsibilities

We have audited the Remuneration Report included in pages 11 to 24 of the Directors' report for the year ended 31 March 2017.

Our responsibility is to express an opinion on the Remuneration Report, based on our Audit conducted in accordance with *Australian Auditing Standards*.

KPMG

Paul J McDonald

Partner

Melbourne

15 May 2017