AusNet Services Holdings Pty Ltd
ACN 086 006 859

Financial Report

For the financial year ended 31 March 2019

Contents

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 12 May 2019.

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 2019 (FY2019).

The immediate parent of the Company is AusNet Services (Distribution) Pty Ltd. 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 the AusNet Services Group, us, our and we). During the year the AusNet Services Group underwent a restructure. In the prior year, the immediate parent of the Company was AusNet Holdings (Partnership) Limited Partnership.

What we do

We are a diversified energy network business, owning and operating 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 Mondo business we provide specialist metering, asset intelligence and telecommunication solutions to the utility and infrastructure sectors.

These activities are conducted through the following operating companies:

- AusNet Electricity Services Pty Ltd;
- AusNet Gas Services Pty Ltd; and
- Mondo Power Pty Ltd (formerly 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 year and up to the date of this report unless otherwise noted.

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

Adam **Newman**

Alistair **Parker**

Strategy

On 1 April 2019, we launched our new corporate strategy entitled “Energising Futures”. Energising Futures builds on the objectives of our ‘Focus 2021’ Strategy and responds to the new energy environment

AusNet Services’ vision is “to create energising futures by delivering value to our customers, communities and partners”. Energising Futures is our strategy to respond to industry transformation driven by a shift towards renewables, new technologies, changing customer expectations and pressure on energy affordability. The five key objectives of the Energising Futures strategy are:

- Growth – achieve profitable and sustainable growth
- Cost efficiency – improve efficiency and reduce costs
- Customer centricity – enable customer choice and control
- Digital utility – invest in digital tools and processes to improve performance
- Future-ready capabilities and culture – ensure we have the right culture and capabilities for sustainable high performance and adapt to the future

During FY2019 achievements included the signing of over $200 million of contracted assets and continued cost efficiency demonstrated in the FY2019 Financial Statements. In addition, we continue to invest in digital innovations and building our capability through the delivery of such innovations.

Operating & Financial Review

We own and operate two regulated energy network businesses, an electricity distribution network in eastern Victoria and a gas distribution network in western Victoria, as well as our unregulated business, Mondo.

Safety performance

	FY2019	FY2018	Movement	%
Recordable Injury Frequency Rate (RIFR)	**3.53**	5.46	(1.93)	(35.3)

FY2019 saw a 35 per cent reduction in the recordable injury frequency rate. In FY2019 we implemented our Back to Basics strategy and continued to focus on critical risk areas. This result is the lowest RIFR score that AusNet Services has achieved.

Financial performance

The following table summarises our financial performance and key financial measures in the current year:

$M	FY2019	FY2018	Movement	%
Revenue	**1,162.8**	1,236.3	(73.5)	(5.9)
EBITDA	**684.5**	704.6	(20.1)	(2.9)
NPAT	**71.3**	118.0	(46.7)	(39.6)

Net profit after tax decreased by 39.6 per cent as a result of lower revenues and lower operating costs arising from a combination of our ongoing efficiency program and one-offs in the prior year.

Operating & Financial Review (continued)

Financial performance (continued)

A summary of our revenues and results by operating segment for the financial year ended 31 March 2019 is set out below.

Electricity distribution

	FY2019	FY2018	Movement	%
Segment revenue ($M)	**866.2**	891.4	(25.2)	(2.8)
Segment result – EBITDA ($M)	**528.5**	540.2	(11.7)	(2.2)
Volume (GWh)	**7,608**	7,716	(108)	(1.4)
Connections	**736,841**	722,046	14,795	2.0
Capital expenditure ($M)	**461.0**	439.3	21.7	4.9

Revenues reductions, consistent with the half year, are due to $29.1 million lower incentive revenues ($31.0 million in FY2018, $1.9 million in FY2019 due to lower reliability performance in CY2016) and a $29.4 million reduction in metering revenue, primarily due to the hand back of previously received excess expenditures disallowed by the Australian Energy Regulator (AER). Offsetting these is a $22.1 million increase in customer contributions, primarily new housing developments and revenue cap outperformance of $3.8 million (see below for further comment).

Operating expenses decreased $13.5 million (net) as a result of the cost efficiency program, with new contractual arrangements in vegetation management and corporate support functions, in particular, reducing costs.

Capital expenditure rose as a result of a $23.6 million increase in REFCL expenditure. The program was in place for part of the prior year only.

Future revenue impacts

Revenue for distribution services is recognised when those services are provided, based on the prevailing tariffs at the time. Our electricity distribution business is regulated by the AER and revenue is set on a calendar year basis which differs to our financial year. 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 Electricity Distribution Price Review (EDPR) determination. This difference is trued-up as an adjustment to tariffs in future periods. At 31 March 2019 we have a cumulative over-recovery of $7.1 million which will reduce our revenue in CY2019 and CY2020.
- The AER's decision on our 2016 Advanced Metering Infrastructure (AMI) Transition Charges Application will result in future revenue reduction of $23 million (approximately $13 million in FY2020 and $10 million in FY2021).
- In CY2019, we re-commenced earning incentive revenues under the Service Target Performance Incentive Scheme (STPIS) and are entitled to $19.4 million as a result of our CY2017 network reliability performance of which we have received $1.9 million and will receive approximately $7.8 million in the remainder of CY2019 and $9.7 million in CY2020.

Operating & Financial Review (continued)

Gas distribution

	FY2019	FY2018	Movement	%
Segment revenue ($M)	**215.1**	224.6	(9.5)	(4.2)
Segment result – EBITDA ($M)	**152.5**	162.3	(9.8)	(6.0)
Volume (PJ)	**63.3**	66.0	(2.7)	(4.1)
Connections	**711,310**	692,282	19,028	2.7
Capital expenditure ($M)	**106.8**	96.9	9.9	10.2

Regulated gas distribution revenues and EBITDA declined as a result of a 9.4 per cent decrease in gas tariffs for CY2018.

The increase in capital expenditure reflects higher levels of customer connections and augmentations to the network.

Mondo (previously Commercial energy services)

	FY2019	FY2018	Movement	%
Segment revenue ($M)	**81.5**	121.4	(39.9)	(32.9)
Segment result – EBITDA ($M)	**3.5**	2.1	1.4	66.7
Capital expenditure ($M)	**16.7**	9.5	(7.2)	(75.8)

The Mondo business provides metering services, emerging energy markets and asset intelligence services. The customers of this business primarily operate in the utility and essential infrastructure sectors of electricity, water, gas and rail.

Revenues reduced by $39.9 million predominantly as a result of the strategic refocus executed in FY2018 reducing the provision of certain maintenance services resulting in exiting a number of field services agreements. EBITDA improved as a result of the refocus and a change in revenue mix towards higher margin infrastructure, energy data and asset intelligence projects.

Financial position

Total equity of the Group was $1,442.0 million as at 31 March 2019, a decrease of $405.1 million compared to the previous financial year, primarily attributed to profit for the year partly offset by the hedge reserve movement.

Our current liabilities exceed current assets by $725.5 million at 31 March 2019. 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 2019, the Group has available a total of $778 million of undrawn but committed bank debt facilities and $337.3 million of cash (required for a bond repayment in April 2019).

Non-current assets increased by $426.5 million compared to prior year, largely due to an increase in related party receivables, partly offset by $584.5 million of capital expenditure invested into the asset base.

Capital management

We manage our capital structure to maximise the long-term 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 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

Our common or central funding vehicle (CFV) operates through AusNet Services Holdings Pty Ltd, a subsidiary of AusNet Services Ltd. The Group has access to funds 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 over $1 billion of debt raising in the current year as follows:

- an A$200 million 25-year bond issue in May 2018;
- A$700 million of bank facilities in August 2018 for a combination of five, six and seven year terms;
- a NOK 1.5 billion (A$246 million) 10-year bond issue in March 2019; and
- a HKD 610 million (A$110 million) 15-year bond issue in March 2019.

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

Dividends

The following dividends were approved by AusNet Services Holdings Pty Ltd during the current financial year. There were no dividends approved and paid by AusNet Services Holdings Pty Ltd during the prior financial year.

Dividend	**Date declared**	**Cents per share**	**Total dividend $M**
Funding for AusNet Services Ltd interim FY2019 dividend	30 September 2018	32.078	341.1
Funding for AusNet Services Ltd final FY2019 dividend	31 March 2019	13.576	177.3
Total dividend		**45.654**	**518.4**

Material risks and uncertainties

We are committed to understanding and effectively managing risk to enhance our ability to deliver on our strategic objectives to meet expectations of our shareholders, employees, customers, suppliers and communities in which we operate. Oversight is maintained of our material business risks (financial and non-financial) at an enterprise-wide level through regularly reporting 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, with a significant focus on environmental issues, energy security, reliability and affordability. Various political, regulatory and industry bodies continue to debate, recommend and implement various reform programs that could have significant impacts on the operation of the energy market and could have significant impacts on our business.

A number of regulatory and policy reviews have been completed in the current year including:

- In December 2018, the AER completed its review of the Rate of Return Guideline. The National Electricity Rules require a review to be completed every five years. The 2018 review reduced overall rates of return by approximately 40 basis points, with the market risk premium reduction and Gamma increase being the main changes. The new guideline will be applied from our next regulatory resets and will begin adversely affecting revenues from 1 January 2021, being the next reset date of our electricity distribution network.
- In December 2018, the AER completed its regulatory tax approach review. While not changing the incentive based model, the review did address depreciation method mismatches and will adjust for immediate deduction in relation to certain asset replacement works. As a result of this change in application of the regulatory tax approach, we will see reduced revenues from 1 January 2021 in relation to tax allowances. Over the long term, we will receive the same quantum of tax allowances, however this adjustment to the approach will result in revenue reductions from CY2021 as the change will be applied prospectively to new assets added to the network from 1 January 2021.
- The Security of Critical Infrastructure Act 2018 came into effect in July 2018. This Act creates a critical assets register to provide the Government with greater visibility and understanding of who controls and has access to critical infrastructure assets. As an owner and operator of critical infrastructure assets, we are impacted by the Act. We continue to work through our reporting obligations of the Act to ensure compliance.

In addition to policy development, 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 impact our physical networks' and regulatory framework and the need 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 actively participate in shaping 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). 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 distributors access to metering data can be addressed and the experience of other jurisdictions in implementing metering competition.

Material risks and uncertainties (continued)

Industry and regulatory risks (continued)

Rapid Earth Fault Current Limiter (REFCL) program

On 1 May 2016, the Electricity Safety (Bushfire Mitigation) Amendment Regulations 2016 (Amended Bushfire Mitigation Regulations) came into effect in Victoria. The amended regulations require Victorian distributors to install REFCLs at designated zone substations. The purpose of the REFCL devices is to reduce the risk of a bushfire caused by a fallen powerline.

AusNet Services is one of three electricity distributors required to implement REFCL devices. Our program has been separated into three tranches, the following table details the requirements of each tranche and progress made to date:

	Tranche 1	Tranche 2	Tranche 3
Compliance period	1 May 2019 to 30 April 2021	1 May 2021 to 30 April 2023	1 May 2023 onwards
Zone substations	8	10	4
Minimum number of points* required by the Act	30	23 (53 total)	10 (63 total)
Direct spend approved by the AER ($M)	95	137	TBC**
Zone substations commissioned	8	-	-

* Each zone substation is attributed a point score from 1 to 5, with the highest value attributed to those zone substations where fire mitigation measures would provide the greatest benefit, depending on the degree of bushfire risk.

** Subject to future contingent project application

This program presents several risks, including funding, technology, vendor, compliance and delivery risks, which are being actively managed. Each Tranche faces these risks to varying degrees. The following section provides specific commentary on Tranche 1.

<u>Tranche 1 compliance</u>

AusNet Services has eight zone substations commissioned with REFCL technology. However, some issues have been identified during the testing of installed REFCLs related to the technical characteristics of existing equipment at various sites. This means that the achievement of the "required capacity" under the regulations is challenging due to the new use of this technology and its interaction with the existing network. While we continue to actively work on resolving these issues, delays are expected to achieving full compliance with the legislative requirements detailed below.

The amended Electricity Safety Act 1998 (Vic) (ESA) enables Energy Safe Victoria (ESV) or the Minister to apply to the Supreme Court of Victoria, seeking the imposition of significant financial penalties if AusNet Services fails to achieve the number of points prescribed by the Regulations throughout the applicable compliance period. The legislation provides that the Court can impose a maximum penalty of $2 million per point for each station that AusNet Services has not achieved compliance. Accordingly, penalties of up to $10 million per zone substation can apply if AusNet Services fails to achieve the required capacity during the relevant compliance period. Additionally, the Court can impose a maximum daily penalty of $5,500 for each day AusNet Services remains non-compliant.

ESV-observed compliance testing was completed in early April 2019. ESV has confirmed that six of these zone substations totalling 23 points have achieved conditional compliance. Conditional compliance means that the ESV has accepted that AusNet Services has successfully commissioned the REFCL devices and they are functioning at a level acceptable to ESV, however there are further steps required to meet full compliance. ESV has set a time frame of the beginning of the next bushfire season to complete these further steps.

Two of the zone substations have not achieved conditional compliance, and we have submitted applications to ESV requesting postponement of the commencement of the Tranche 1 Compliance Period until 1 November 2019 in relation to those two zone substations. In the event that ESV does not agree to this request, ESV or the Minister could decide to file legal proceedings and the Court could impose pecuniary penalties on AusNet Services. ESV has sole discretion over whether any postponement is granted, and for how long.

Material risks and uncertainties (continued)

Industry and regulatory risks (continued)

Rapid Earth Fault Current Limiter (REFCL) program (continued)

In some instances, full compliance may not be possible without incurring considerable additional expenditure. Given the challenges associated with achieving full compliance and the incremental cost/benefit, AusNet Services is working with relevant parties to explore amending the program requirements through technical exemptions, for which there are specific provisions in the legislation. At present, none of our zone substations have achieved full compliance. If full compliance is not achieved by the beginning of the next bushfire season and the ESV does not grant technical exemptions, ESV or the Minister could decide to file legal proceedings and the Court could impose pecuniary penalties on AusNet Services.

Impact of voltage standard review

Since publication by the AER of their final decision on cost recovery for tranche one of the project the Essential Services Commission Victoria (ESCV) completed its review of the voltage standards in the Victorian Electricity Distribution Code (VEDC). Of particular relevance to the AER's decision on tranche two, the revised VEDC that came into effect on 20 August 2018 identifies high voltage (HV) customers as responsible for ensuring their electrical assets are able to withstand higher voltages occurring during REFCL operation. We are currently working with affected high voltage customers to ensure that they protect their assets from increased voltages. There is a risk that delays with HV customers implementing acceptable modifications to their assets may result in delays to the delivery of Tranche two of the program.

Price determinations

The energy industry in Australia is highly regulated. The regulated component of our revenues (approximately 85 per cent of total revenues for the year ended 31 March 2019) are 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. The upcoming regulatory reset dates for our gas distribution network and electricity distribution network are 1 January 2023 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.

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.

AusNet Services is the first Australian energy business to trial a new. This involved the establishment of a Customer Forum which has formed part of our 2021-25 EDPR proposal. During the regulatory period we continuously monitor and manage our costs through processes and systems which produce high quality data and enable efficiency, effectiveness and control. In addition, through our enterprise-wide efficiency program we aim to improve our benchmark performance.

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 (including cyber-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.

Material risks and uncertainties (continued)

Network risks (continued)

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 and terminal stations have property insurance cover, however incidents outside the boundaries of our zone substations and terminal stations 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.

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 operates a DRP, 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 growth capital 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 2019 of 67 per cent (excluding equity credit for the $706 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 tenor 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.

Climate change and sustainability risks

As an owner and operator of energy networks, AusNet Services is focussed on the identification and management of both transition and physical risks of climate change.

Transition risks include the impacts of potential changes to energy policy, legislation and regulations as the energy industry moves to a lower carbon future, with increasing renewable and distributed generation. As outlined in the industry and regulatory risks section above, we are actively involved in industry reviews. We have also continued to realign our networks to support large scale renewable generation.

Other transition risks and opportunities arise from changes in customer preferences and developments in renewable energy and energy storage technology. As part of our active monitoring of new technology we undertake trials (including mini-grids), and partner with other organisations to better understand the risks and benefits for our business.

Physical risks include the impacts of changing environmental conditions (both short and longer term) on our network assets and the potential damage to assets and interruptions to supply from severe weather events such as storms, bushfires or floods. Risk management for these risks includes reviewing engineering standards and ratings for equipment, a significant investment in bushfire mitigation activities and the ongoing development and testing of emergency response plans. In addition, AusNet Services has continued its network resilience program to strengthen critical parts of the network and enhance contingency planning.

In FY2019 we further increased customer engagement on community resilience, including increased pre-summer communications and media for customers to be bushfire ready; increased communications capability to alert customers about unplanned outages and load shedding, with particular focus on life support customers; and customer recruitment for the expansion of our “GoodGrid” residential demand management program.

Material risks and uncertainties (continued)

Information and communication technology risks

The drive to reduce carbon emissions, customers' increasing 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. The greater role of technology comes with an increased risk and potential impact of cyber-attacks. 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, integration, future maintenance, upgrades and support. The realisation of any such risks could adversely impact the effectiveness and cost of such a solution and business continuity.

AEMC rule changes commence on 1 July 2021, which change the settlement period for the electricity spot price from 30 minutes to five minutes. This rule may require additional investment in metering and IT systems, with increased data collection and management requirements. Similar to metering contestability, the application of the AEMC rule is subject to approval from the Victorian Government.

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.

Taxation risks

As a large taxpayer, the Australian Tax Office (ATO) annually reviews the income tax return and various tax positions adopted by AusNet Services. There is the risk that changes in tax law, or changes in the way tax laws are interpreted, may materially impact the tax liabilities of the Group. AusNet Services manages this risk via a Board-approved Tax Risk Management policy which outlines a number of review and sign-off procedures, including the utilisation of external tax and legal advisors, for each tax position based on the assessed level of judgment of that position.

During the year, the ATO completed a Pre-Lodgement Compliance Review (PCR) for the income years 31 March 2017 and 31 March 2016. The PCR identified matters in respect of capital allowances, which the ATO sought additional information and where the interpretation of tax laws affects the amount of provision for income tax and deferred tax balances recognised. In December 2018, the ATO commenced an audit review in relation to the profile of capital allowances (tax depreciation profile and entitlements) following the corporate restructure in June 2015. AusNet Services expects further detailed engagement with the ATO The audit is expected to be completed by December 2019.

While work is ongoing and there are a range of possible outcomes, a tax risk provision of $11.0 million has been recognised based on a probability-weighted range of possible outcomes. AusNet Services continues to engage cooperatively with the ATO through the course of the audit, with the intention of resolving these issues without requiring this provision.

1 Introduction

This report sets out the executive remuneration outcomes for FY2019 and provides details around the outcomes for remuneration components.

The report explains the Board's reasoning and considerations relating to the remuneration framework, specifically concerning how the structure of remuneration, and the implementation of the framework support the business strategy and drive sustainable business performance and shareholder outcomes.

The report has been prepared and audited against the disclosure requirements of the Corporations Act 2001 (Cth).

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)
Executive KMP	
Nino **Ficca**	Managing Director
Chad **Hymas**	Executive General Manager, Mondo
Adam **Newman**	Executive General Manager and Chief Financial Officer
Alistair **Parker**	Executive General Manager, Regulated Energy Services
Mario **Tieppo**	Executive General Manager, Technology

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.

Key Management Personnel Changes Subsequent to 31 March 2019

On 1 April 2019, Prue Crawford-Flett joined AusNet Services in the new position of Executive General Manager – Operations and Services. Given the breadth and scope of this position, it is expected to be disclosed as a KMP in the FY2020 financial report.

2 Executive KMP Remuneration

What are we seeking to achieve, and avoid, through our approach to executive remuneration?

The Board aims to ensure design and implementation of the executive remuneration framework:

- Reinforces business strategy and core values
- Supports and drives sustainable business performance
- Enables the business to develop, retain and grow capabilities, expertise and build diverse, resilient leaders
- Provides clarity
- Signals what is important about the what, how and why of AusNet Services' business
- Stands up to scrutiny, is objective, based on strong principles and draws on empirical analysis.

At the same time, the Board is looking to avoid remuneration arrangements which:

- Reward outcomes or behaviours which are at odds with sustainable business outcomes
- Deliver conflicting or confusing signals about priorities or values
- Work against transparency or constructive and critical discussions and debates**.**

What is the basis for the three-component remuneration structure?

AusNet Services' executive remuneration structure is based on three components, being fixed annual remuneration, short-term incentive and long-term incentive components.

The Board considers that this structure supports the business' performance and strategy, and consciously assesses the specific role of each component in that support.

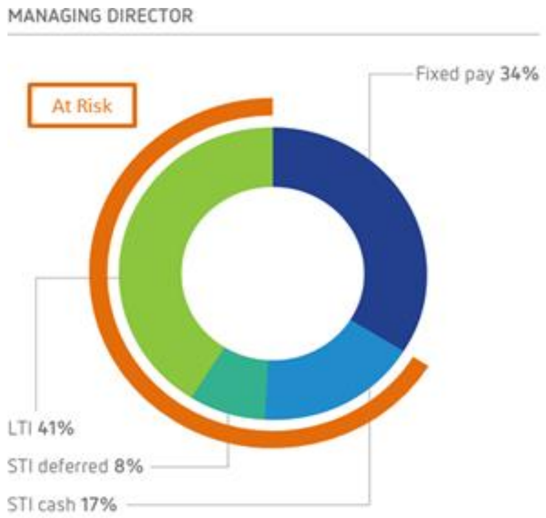
Executive KMP Reward Structure		
Fixed Annual Remuneration (FAR)	**Short Term Incentive (at risk)**	**Long Term Incentive (at risk)**
The fixed annual remuneration component is essential for attracting and retaining talent, and ensuring the business has access to the critical capabilities, capacity and leadership.	The short-term incentive drives transformation and progress in initiatives that are part of longer term strategic goals.	The long-term incentive seeks to ensure that decisions are made which drive long term sustainable outcomes and align executive and shareholder financial outcomes.
Setting effective quantum, performance measures, targets and performance ranges		
FAR decisions are based on market data, comparable roles, knowledge, individual performance and growth in capability. Trends in FAR market movements and compression ratios, are monitored to ensure FAR outcomes are fair and competitive. There are no guaranteed FAR increases in Executive KMP contracts of employment.	The STI opportunity for KMP is determined with reference to market practice, the nature of the KMP's role and the overall reward mix. The performance measures are informed by business and strategic planning, business performance, external developments and trends. Targets and performance ranges are informed by historical analysis, scenario testing and assessed effectiveness.	The LTI opportunity is determined with reference to market practice and overall reward mix The measures, targets and vesting scales are set drawing on the long-term value drivers and are informed by historical analysis, scenario testing and assessed effectiveness.

2 Executive KMP Remuneration (continued)

For FY2019, the detailed incentive remuneration design elements assessed to derive FY2019 outcomes applicable to the Managing Director and other Executive KMP were as follows:

FY2019	Short Term Incentive (at risk)			Long Term Incentive (at risk)	
Performance Period	FY2019			FY2017 – FY2019	
	Threshold	**Target**	**Maximum**	**Threshold**	**Maximum**
Incentive Opportunity **Managing Director**	37.5%	75%	112.5%	21%	120%
	(percentages of FAR) Award delivered as two thirds paid as cash one third deferred rights (two-year deferral period)			(percentages of FAR) Delivered as performance share rights	
Other Executive KMP	20%	40%	60%	9%	50%
	(percentage of FAR) Awards paid as cash			(percentage of FAR) Delivered as performance share rights	
Performance measures	• STI scorecard KPIs include selected financial and non-financial measures: • Two financial measures - EBITDA and Return on Equity (ROE) reflect ability to grow revenues, exhibit cost control and effectively manage working capital. • Non-financial measures cover safety, customer outcomes and performance against strategic initiatives (individual specific). • Total STI subject to gateway performance criteria relating to cash flow from operations, culture and capability and safety performance.			• LTIP KPIs are Relative Total Shareholder Return (TSR) (50 per cent), Earnings per Share (EPS) growth (25 per cent) and Return on Invested Capital (ROIC) (25 per cent). • TSR measures returns generated from the investments made against performance of comparator group. • EPS provides tangible measure of shareholder value creation. • ROIC measures returns generated from investments in operations.	

The resultant total reward mix for the Managing Director and Executive KMP are shown below, assuming business performance results in target vesting for STI and maximum vesting for LTI. The proportion of remuneration at risk equates to 66 per cent for the Managing Director and 47 per cent for Executive KMP.



2 Executive KMP Remuneration (continued)

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 annual remuneration	Fixed annual remuneration includes base salary and superannuation. As at 31 March 2019, FAR was $1,300,000. Fixed annual remuneration is reviewed periodically against market by the Remuneration Committee and the Board, with no guarantee of annual increase.
Short-term incentive (at risk)	Annual short-term incentive of 75 per cent of FAR for on-target performance. STI awards are 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 (at risk)	Long-term incentive of 120 per cent of FAR for maximum performance. Treatment of LTI awards are stated in 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 other than the short-term and long-term incentive opportunities set out on the previous page.

3 FY2019 Performance and Remuneration Summary

Executive remuneration outcomes, and STI and LTI awards correlate to business performance and shareholder outcomes

for the period FY2015 – FY2019.
For FY2019, performance was sound. Targets were set taking into account the impact of decreases in revenue associated with the underlying regulatory determination price paths, lower incentive revenues and metering hand-backs.

The Board awarded STI vesting outcomes of 105 per cent to the MD, reflecting a combination of financial and strategic outcomes. Performance over the FY2017 to FY2019 period gave rise to 54.3 per cent LTI vesting.
The table and charts below show key financial performance outcomes for the current and past reporting periods for the Managing Director's STI and LTI pay outcomes.

Financial performance	FY15[1]	FY16[2]	FY17[3]	FY18	FY19
NPAT ($m) [1, 2]	23	489	255	291	254
EBITDA ($m)	1,047	1,143	1,073	1,143	1,134
Return on Equity (%)	1.0	14.0	7.0	8.0	7.3
Total Shareholder Return (TSR) Percentile Ranking - relative performance	62.3	71.4	68.6	64.2	63.9
Earnings Per Share (EPS) (%) 3 year compound annual growth rate (CAGR)	(58.1)	17.8	3.4	130.4	(21.0)
Return on Invested Capital (ROIC) (%) 3 year average	4.58	4.82	4.89	5.67	4.70
Share price at 31 March ($)	1.460	1.490	1.685	1.675	1.755
Dividends (cents per share) [3]	8.36	8.53	9.80	9.25	9.72
STI % [4]	56.2	127.1	107.6	N/A	N/A
STI vested as % of target – MD	45.0	115.7	96.8	110.0	105.0
LTI vested as % of target – MD	37.5	104.9	70.6	85.9	54.3
LTI vested as % of target – other Executive KMP	33.5	120.3	76.1	85.9	54.3

1. 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).
2. 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).
3. FY2017 dividends consist of 8.80 cents per share ordinary dividend plus 1.0 cents per share special dividend.
4. Corporate STI Scorecard outcome from FY2015 to FY2017, individual scorecard from FY2018.

Chart 1: MD Overall STI Outcome % of Target to EBITDA and NPAT

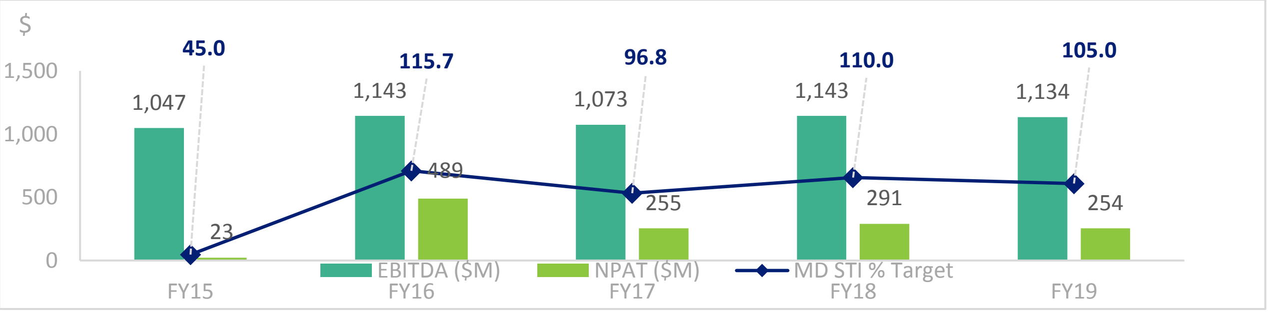
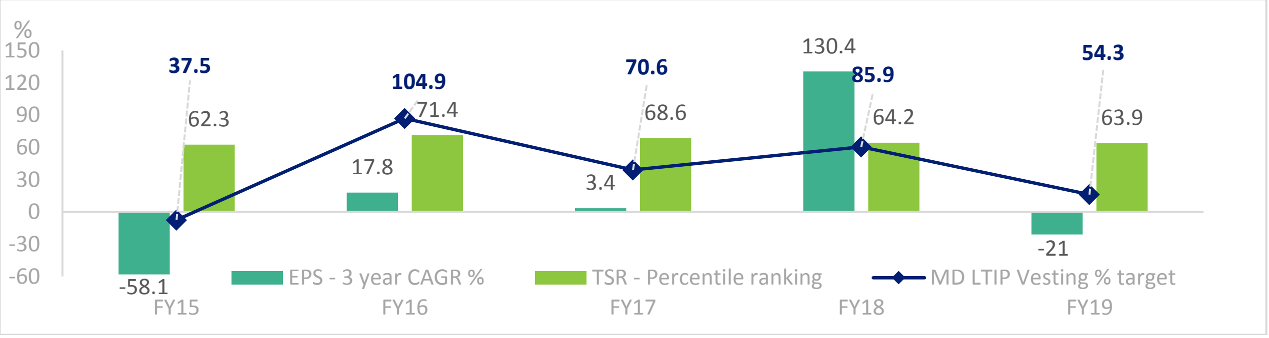


Chart 2: MD Overall LTI Outcome % of Maximum to EPS and TSR Percentile Ranking



3 FY2019 Performance and Remuneration Summary (continued)

Key remuneration outcomes for FY2019:

Executive Fixed Remuneration	No changes were made to the Managing Director's FAR during FY2019. No changes were made for other KMP, with the exception of Mr Tieppo, who received a 5.8 per cent increase in FAR.
FY2019 Short Term Incentive Plan outcomes	FY2019 was the second year of our simplified STI plan based on a single scorecard, including a 60 per cent weighting on financial performance. The MD's STI outcome was 105.0 per cent of target (maximum vesting opportunity was 145.0 per cent) which compares to 110.0 per cent of target for FY2018. Other Executive KMP STI scorecard outcomes varied between 93.0 per cent and 109.0 per cent of target which compares to between 105.0 per cent and 110.0 per cent for FY2018. Further details of the FY2019 STI plan and outcomes can be found in section 4.
Vesting of 2016 Long term Incentive Plan awards (FY2017-FY2019 performance period)	The LTI awards granted in 2016, (applicable for the FY2017 – FY2019 performance period), were tested against performance criteria, resulting in 54.3 per cent vesting. The LTI vesting outcome reflects: • relative total shareholder return ranking (63.9 percentile), • return on invested capital of 4.7 per cent • compound annual earnings per share growth (EPS CAGR) of negative 21 per cent. The negative EPS growth from FY2016 to FY2019 was below the EPS CAGR threshold due to the high FY2016 earnings per share arising from a tax consolidation adjustment, which is the baseline for calculating earnings growth over the FY2017 – FY2019 period. Further details of the LTI plan and LTI vesting can be found in section 4.
Managing Director 2018 Long Term Incentive Plan grant (FY2019-FY2021)	As approved by shareholders at the July 2018 AGM, the Managing Director's 2018 LTI grant was made based on a maximum vesting opportunity of 120 per cent of fixed remuneration. The 2018 LTI grant will be tested at the conclusion of the three-year performance period being FY2019 - FY2021.
2019 Long Term Incentive plan grant (FY2020-FY2022)	The 2019 LTIP grant will adopt the more stringent criteria implemented in the 2018 grant. Shareholders will have the opportunity to vote on the proposed 2019 LTI grant for the Managing Director at the Annual General Meeting to be held on 18 July 2019.

4 FY2019 Executive KMP Incentive Plans Detailed Outcomes

FY2019 Short-Term Incentive Plan

The FY2019 STI Plan continues the FY2018 initiative to use a single additive scorecard covering financial and non-financial measures.

Key features of the FY2019 STI Plan are set out as follows:

Board discretion

The Board has discretion over all elements of the STI plan including (but not limited to) the setting of KPI performance targets and ranges, selection of KPIs weightings, and any assessed performance outcomes.

STI Opportunity

STI opportunity is expressed as a percentage of the participant's FAR at target performance.

Managing Director – 75 per cent of FAR at target, 37.5 per cent of FAR at threshold performance and 112.5 per cent of FAR at maximum performance. (i.e. a performance range of minus/ plus 50 per cent.

Other Executive KMP – 40 per cent of FAR at target, 20 per cent of FAR at threshold performance and 60 per cent of FAR at maximum performance.

STI Performance gateway

STI payments are subject to a number of gateways:

- Cash flow from operational performance provides the company with the ability to pay shareholder dividends in accordance with AusNet Services' dividend guidance targets for the relevant year.
- In the event of a fatality, the Board retains complete discretion to adjust any STI award for the Managing Director, other Executive KMP or other employees.
- For FY2019 the Board added a Capability and Culture performance gate to access the strategic KPI opportunity (35 per cent) of the Managing Director's and reporting Executives' FY2019 scorecards. The Board considers the link between delivering on business performance and driving the right culture, behaviours and capability is critical to the delivery of sustainable business performance.

STI Performance measures and weightings

Financial		Non-financial	
EBITDA	Return on equity	HSEQ Index	KPIs aligned to strategic priorities
40%	20%	5%	35%

The KPIs are designed to reward achievement of both financial targets and non-financial objectives that drive the execution of AusNet Services' strategy and shareholder return.

KPIs aligned to strategic priorities are set by the Board for the Managing Director. For FY2019 the Board set the Managing Director's strategic KPIs to be aligned to our on-going Regulated Energy Services business cost efficiency program, growth in our unregulated asset base across our Mondo Business and Transmission network strategic planning.

For the executive team, KPIs reflecting a cascade of strategic priorities as appropriate for each role were applied.

STI Delivery mechanism

Two thirds of the Managing Director's STI award is paid in cash with one third deferred into shares held over a two-year period. At the conclusion of the two-year deferral period, a dividend equivalent cash payment is made equal to the dividends the share rights would have ordinarily received over the two-year deferral period. STI is paid in cash for all other executives.

4 FY2019 Executive KMP Incentive Plans Detailed Outcomes (continued)

FY2019 Managing Director STI scorecard performance outcomes

Design aspect	Managing Director FY2019 STI Scorecard
Eligibility & performance gates	The Board assessed the financial and safety performance gateways, which are required to be achieved to be eligible for a STI payment. In addition, the Board assessed the Capability and Culture performance gate associated with the 35 per cent strategic KPI component of the Managing Director and Executive KMP scorecards. The Board determined that all FY2019 performance hurdles required to be met against these gateways were achieved.
Assessment of KPIs	The Board reviewed the Managing Director's FY2019 STI scorecard performance and assessed an outcome of 105.0 per cent of target performance or 72.4 per cent of maximum STI opportunity.

	Measure	Strategy, Performance and Reward alignment	Weighting	FY2019 Vesting Outcome	Outcome Commentary
Financial	EBITDA	EBITDA is considered the most relevant financial performance measure in the utilities industry as it represents a proxy for cash generation, which influences dividend growth and is aligned with shareholder outcomes.	40%	Max Target Threshold	The company's EBITDA performance was ahead of target as a result of outperformance on operating costs and excluded/unregulated revenues. The EBITDA target factored in known regulatory revenue decreases seen in the year on year performance.
	Return on Equity	Return on equity is an important measure in demonstrating relative financial performance and aligns with shareholder outcomes.	20%	Max Target Threshold	Above target return on equity performance was consistent with the EBITDA outperformance.
Safety	HSEQ Index	This index blends key lead and lag indicators focussed on the ongoing improvement of our safety performance and culture.	5%	Max Target Threshold	Our HSEQ Index score of 110, driven primarily as a result of year on year improvements across our key safety indicators.
	Unregulated growth	Our Strategy 2021 Target of $1bn of unregulated infrastructure asset base resulted in a target being set for growth in the current year that would continue the trajectory towards exceeding the 2021 target.	10%	Max Target Threshold	In FY2019, AusNet Services achieved outcomes related to signing the Stockyard Hill Wind Farm connection assets contracts and commencing preliminary works for Dundonnell Wind Farm. In addition, practical completion has been achieved on the Salt Creek, Bulgana and Crowlands projects.
	Regulated Opex efficiencies	Our Strategy 2021 Target of top quartile benchmarking performance in all three regulated networks resulted in a target being set based on a regulated operating expenditure level that would take costs out year-on-year to trend to the achievement of the 2021 target.	15%	Max Target Threshold	In FY2019, significant progress was achieved towards reducing AusNet Services overall operating expenditure and a range of programs and initiatives were executed throughout the year contributing positively to the financial performance of the business. This KPI carried a target performance vesting requirement which was not achieved
	Transmission Network Planning	AusNet Services is supporting the energy reform agenda, including advancing a nationally consistent Transmission planning framework.	10%	Max Target Threshold	Progress has been made during the year to enable longer term improvements in coordinated Transmission planning.

4 FY2019 Executive KMP Incentive Plans Detailed Outcomes (continued)

Notes	While the STI design allows for a total maximum opportunity of 150 per cent of target, for FY2019 the Managing Director's maximum FY2019 STI opportunity was limited to 145 per cent to reflect the Transmission Network Planning KPI having no outperformance opportunity.
Delivery Mechanism	Two thirds of the Managing Director's STI award is paid in cash with one third deferred into share rights held over a two-year period. The number of share rights is determined by dividing one third of the Managing Directors FY2019 STI award by the allocation price. The allocation price is determined by calculating the volume weighted average price of AusNet Services Ltd (AST) share price over a five-day trading period commencing on the date AusNet Services releases its FY2019 Financial Results. The Board intends to seek shareholder approval for the granting of the Managing Directors FY2019 Deferred STI Rights.
Deferred Share Rights	The Deferred STI share rights are not subject to any additional performance testing. The share rights are subject to forfeiture in the event of resignation or termination for cause. Shares are held in Trust on behalf of the Managing Director throughout the two-year deferral period and will be transferred to the Managing Director at the conclusion of the two-year deferral period. Whilst the Managing Director does not have a right to receive dividends during the two-year deferral period, a cash based Dividend Equivalent Payment will be made at the conclusion of the deferral period. This payment will be based on the equivalent value of dividends that would have been ordinarily received during the deferral period if the shares were held directly and is not adjusted for franking credits.
Claw back	The Board may determine that any awards be clawed back in the event an unfair benefit has or will be obtained as a result of fraud, dishonesty, gross misconduct or breach of obligations which would not otherwise be satisfied.
Executive KMP STI Outcomes	Executive KMP STI scorecards included the same financial and safety weightings as for the Managing Director with individual strategic KPIs cascaded for each role. The range of FY2019 STI outcome for other Executive KMP was between 93.0 per cent of target and 109.0 per cent of target STI opportunity, or 62.0 per cent to 72.7 per cent of maximum STI opportunity. STI is paid in cash for all other executives.

4 FY2018 Executive KMP Incentive Plans Detailed Outcomes (continued)

Long-Term Incentive Plan for FY2019 to FY2021 performance period

The terms of the 2018 LTI grant for the three-year performance period commencing 1 April 2018 and ending on 31 March 2021 (FY2019 to FY2021) are summarised below.

These grants were made to Executive KMP in May 2018. The Managing Director's grant was made shortly after shareholders voted and elected to approve his grant at the AGM held in July 2018.

Design aspect	Commentary		
Eligibility	Executive KMP. The Board has discretion to invite additional employees to participate in the LTI plan.		
Opportunity	The LTI award opportunity is based on a percentage of the participant's FAR as at the grant date. The number of performance rights granted is the LTI award opportunity divided by the volume weighted average share price (VWAP) over the five trading day period commencing on 14 May 2018 being the date on which AusNet Services released its FY2018 results. Managing Director – 120 per cent of FAR at maximum performance Other Executive KMP – 50 per cent of FAR at maximum performance		
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 100 index (without exceptions). In assessing whether performance hurdles have been met, independent data is reviewed by the Board indicating relative TSR growth from the commencement of each grant and that of the companies in the comparator group. The level of TSR achieved is given a percentile ranking, compared with the comparator group.	EPS is calculated by taking the company's net profit after tax divided by the weighted average number of shares on issue. The EPS growth measure is based on achieving a nominal compound annual growth (CAGR) rate over the three-year performance period.	The ROIC measure is designed to measure how effectively we use funds (borrowed and owned) invested in our operations. ROIC is calculated over a three-year performance period and equals (NPAT + Finance Cost adjusted for Tax) / (Average Equity + Average Debt). Average debt includes finance lease liabilities arising from the implementation of AASB 16 *Leases* from 1 April 2019. Finance cost includes associated finance lease income and expense.
Weighting, targets and vesting scales	**Weighting 50%**	**Weighting 25%**	**Weighting 25%**
	Threshold Performance 50th percentile - 35 per cent vesting	Threshold Performance 2.5 per cent CAGR - 0 per cent vesting	Threshold Performance 4.70 per cent - 0 per cent vesting
	Maximum performance 75th percentile - 100 per cent vesting	Maximum performance 7.5 per cent CAGR - 100 per cent vesting	Maximum performance 4.90 per cent - 100 per cent vesting
	The vesting of each of the above KPIs will occur on a linear basis between the threshold and maximum ranges.		
Delivery mechanism	The LTI award is granted as performance rights, subject to performance against the above measures and continued employment. The Board retains the right to vary at its discretion the number of performance rights that vest.		
Unvested rights and dividends	No dividends or dividend equivalent payments accrue to unvested rights during the performance period.		
Change of Control	If a Change of Control Event occurs, or the Board determines such event is likely to occur, the Board may in its absolute discretion determine the treatment of any or all of the Participant's unvested Performance Rights.		
Clawback arrangements	The Board may determine that any awards be clawed back in the event performance measures have been satisfied by the participant as a result of fraud, dishonesty, gross misconduct or breach of obligations which would not otherwise be satisfied.		

4 FY2019 Executive KMP Incentive Plans Detailed Outcomes (continued)

2016 LTI grant (FY2017 to FY2019 performance period) outcomes

The Board assessed performance over the FY2017 to FY2019 performance period against the three measures (relative TSR, EPS growth and ROIC) set out in the 2016 LTI plan. For participants to qualify for an award under the ROIC measure, a safety performance gateway of zero fatalities for our employees in the 12-month period prior to vesting must be achieved.

The parameters of the 2016 LTI Award are summarised below:

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 volume weighted average price (VWAP) over the five trading day period commencing on the date AusNet Services released its FY2016 results. The 2016 LTI grant price was therefore $1.6045.

Managing Director – 100 per cent of FAR (at grant date) at maximum performance
Other Executive KMP – 50 per cent of FAR (at grant date) at maximum performance

Performance measures	Total Shareholder Return (TSR)	Earnings Per Share (EPS)	Return on Invested Capital (ROIC)
Weighting, targets and vesting scales	Weighting 50%	Weighting 25%	Weighting 25%
	Threshold Performance 50th percentile - 35 per cent vesting	Threshold Performance 2.5 per cent CAGR – 0 per cent	Threshold Performance 4.60 per cent - 50 per cent vesting
	Maximum performance 75th percentile - 100 per cent vesting	Maximum performance 5.0 per cent CAGR - 100 per cent vesting	Maximum performance 4.80 per cent - 100 per cent vesting
	The vesting outcome for each of the above KPIs occurs on a linear basis between the threshold and maximum performance targets.		

Assessed outcome

The Board assessed the performance of the LTI awards granted in 2016, applicable for the FY2017 – FY2019 performance period. The performance criteria tested were relative total shareholder return, earnings per share growth and return on invested capital.

Assessment of KPIs

The Board assessed the 2016 LTI grant KPI outcome and resulted in an overall vesting of 54.3 per cent of maximum (100 per cent) opportunity as set out below.

Performance Measures

Measure	Strategy, Performance and Reward alignment	Weighting	FY2019 Outcome	Performance Outcome
TSR	Total Shareholder Return (TSR) measures returns generated from the investments made against performance of comparator group.	50%	Max Threshold	63.9 percentile ranking
EPS (CAGR)	EPS provides tangible measure of shareholder value creation.	25%	Max Threshold	(21.0) per cent
ROIC	Return on invested capital measures returns generated from investments in operations.	25%	Max Threshold	4.70 per cent

Notes

Above table sets out the overall 2016 LTI grant performance and vesting outcomes. These grants were made to Executive KMP in May 2016. The Managing Director's grant was made shortly after shareholders voted and elected to approve his grant at our AGM held in July 2016.

Delivery Mechanism

The shares vested to the Managing Director and other KMP under the 2016 LTI plan are proposed to be allocated to each executive on 20 May 2019, at which time a personal income tax obligation arises. Each recipient of vested share rights is subject to the AusNet Services Guidelines for Dealing in Securities and applicable laws, to sell, transfer or otherwise

5 Remuneration Governance

AusNet Services' Board recognises that remuneration arrangements are important enablers and drivers of business performance and effective remuneration governance therefore requires diligence, access to data and information, external input and judgement.

Our approach is summarised as follows:

Clear roles assist efficient assessment and decision-making: The Board and Committee Charters establish clear roles for the Board and Remuneration Committee in relation to MD remuneration and the overall remuneration framework. The Remuneration Committee Charter was last reviewed by the Board in March 2016 and is periodically reviewed.

<table>
<tr><th></th><th colspan="2">Board</th></tr>
<tr><td rowspan="5">Stakeholders</td><td colspan="2">The Board oversees AusNet Services' remuneration arrangements. It is accountable for the remuneration of executives and of Non-executive Directors, and the policies and processes governing remuneration.
The Board's Remuneration Principles serve as a reference point for decisions on remuneration matters. These principles have been in place since 1 January 2016 and will be reviewed in FY2020 to ensure relevance to the internal and external environment of AusNet Services.
The Board assesses the performance of the Managing Director and oversees executive KMP performance and approves all related reward outcomes.
The Board's stakeholder engagement plan includes regular remuneration related interactions and formal meetings, which inform the Board's thinking and decisions on remuneration. In addition, the Board seeks input from external advisors to challenge its thinking and to support informed and independent decision-making by the Board.</td></tr>
<tr><th colspan="2">Remuneration Committee</th></tr>
<tr><td colspan="2">The Remuneration Committee reviews and make recommendations to the Board on matters of remuneration frameworks and structure, non-executive remuneration levels and executive remuneration, including fixed and variable pay elements.
Directors regularly receive and review current remuneration market practices and emerging trends and assess their relevance to AusNet Services.
The Committee undertakes rigorous historical analysis and forecasting when considering short and long-term performance criteria. In addition, the Committee monitors internal and external trends on pay compression, diversity and gender pay relativities.</td></tr>
<tr><th>External Advisors</th><th>Management</th></tr>
<tr><td>The Committee has appointed Ernst and Young (EY) as its Remuneration Advisor and engages other external advisors as required. No remuneration recommendations, as defined by the Corporations Act 2001, were provided to the Remuneration Committee or the Board by EY during the reporting period. Advice provided to the Remuneration Committee by EY during the reporting period focussed on overall executive remuneration market practices and frameworks in addition to executive remuneration benchmarking.</td><td>Management provides information and insights on contemporary remuneration practices and obtains remuneration information from external advisors to assist the Remuneration Committee.</td></tr>
</table>

Board discretion: The Board retains absolute discretion to adjust Short and Long Term Incentive components and outcomes where appropriate. In general, the Board's policy is not to adjust statutory performance outcomes for significant items when assessing incentive outcomes.

Equity Plans: All executives receiving LTI awards are subject to AusNet Services' Guidelines for Dealing in Securities and applicable laws regarding the sale, transfer or disposal of their securities. In order to satisfy share-based incentive awards, shares are purchased on market and held in AusNet Services' Employee Share Plan Trust. AusNet Services practice has been to seek shareholder approval for grants of equity to the Managing Director at the AGM.

6 Statutory Remuneration Disclosures

Executive KMP Statutory Remuneration

The following table sets out each element of total reported remuneration for Executive KMP, based on statutory remuneration disclosure requirements**.**

		Short-term		Other short-term benefits 2,5			Post-employment	Equity based payments 3	Other long-term benefits 4,5		Total
				Annual leave					Long service leave		
	FY	Cash salary and fees 5	STI 1	Taken	Balance net change	Car parking	Superannuation		Taken	Balance net change	
Nino **Ficca**	**2019**	**1,018,912**	**1,023,750**	**163,754**	**(79,696)**	**10,769**	**112,353**	**596,806**	**-**	**32,375**	**2,879,023**
	2018	1,055,302	1,072,500	127,364	(40,066)	10,541	119,028	712,997	-	32,302	3,089,968
Chad **Hymas**	**2019**	**397,318**	**196,200**	**26,054**	**6,896**	**10,769**	**25,000**	**93,752**	**-**	**11,207**	**767,196**
	2018	402,203	198,000	21,169	12,026	10,541	24,976	98,362	-	11,184	778,461
Adam **Newman**	**2019**	**619,219**	**257,735**	**46,058**	**5,310**	**10,769**	**25,000**	**153,320**	**-**	**17,255**	**1,134,666**
	2018	614,101	290,991	46,058	5,309	10,541	24,976	184,766	-	17,321	1,194,063
Alistair **Parker**	**2019**	**410,939**	**190,000**	**16,379**	**21,072**	**10,769**	**25,000**	**100,713**	**49,138**	**(39,272)**	**784,738**
	2018	447,691	210,000	26,290	18,240	10,541	27,429	103,188	-	12,489	855,868
Mario **Tieppo**	**2019**	**397,318**	**178,200**	**26,054**	**8,136**	**10,769**	**25,000**	**104,454**	**-**	**13,852**	**763,783**
	2018	335,934	187,158	62,892	(34,288)	10,541	24,976	97,593	-	10,634	695,440
Total Executive KMP and Directors	**2019**	**2,843,706**	**1,845,885**	**278,299**	**(38,282)**	**53,845**	**212,353**	**1,049,045**	**49,138**	**35,417**	**6,329,406**
	2018	2,855,231	1,958,649	283,773	(38,779)	52,705	221,385	1,196,906	-	83,930	6,613,800

1. FY2019 *STI* includes amounts in respect of performance for the year ended 31 March 2019. These amounts have been approved and will be payable in June 2019.
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 vest 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 vested under these awards will not be known until the end of the performance period.
4. *Other long-term benefits* include the accrual of long service leave entitlements.
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.

6 Statutory Remuneration Disclosures (continued)

Short-Term Incentive

The percentage of the available STI that was paid, or that vested, and percentage of target that was lapsed in the financial years ended 31 March 2018 and 31 March 2019, are set out below.

	FY2019 STI					FY2018 STI				
	STI payable ($)[1]	STI deferred ($)[2]	Total STI payable ($)	Percentage of target payable/ (lapsed)		STI paid ($)	STI deferred ($)[3]	Total STI paid ($)	Percentage of target paid/ (lapsed)	
Nino **Ficca**	682,500	341,250	**1,023,750**	105.0	-	715,000	357,500	**1,072,500**	110.0	-
Chad **Hymas**	196,200	-	**196,200**	109.0	-	198,000	-	**198,000**	110.0	-
Adam **Newman**	257,735	-	**257,735**	93.0	7	290,991	-	**290,991**	105.0	-
Alistair **Parker**	190,000	-	**190,000**	95.0	5	210,000	-	**210,000**	105.0	-
Mario **Tieppo**	178,200	-	**178,200**	99.0	1	187,158	-	**187,158**	110.0	-

1. Incentive payments for the performance year ended 31 March 2019 have been approved and will be payable in June 2019.
2. One third of the Managing Director's FY2019 award will be deferred into share rights to be held for a period of two years. STI is paid in cash for all other executives.
3. Under the terms of the Deferral Plan, the deferred STI component of Mr Ficca's STI was allocated by way of deferred rights to be held for a period of two years. The number of deferred rights issued was 212,532, being $357,500 divided by share price of $1.6821. The share price was calculated based on the volume weighted average price (VWAP) over the five trading day period commencing on the date AusNet Services released its FY2018 results.

Long-Term Incentive

FY2019 LTI vesting outcomes

The performance rights vesting in FY2019 were granted to the Managing Director and other Executive KMP under the terms and conditions of the 2016 grant. The performance outcome, outlined in section 4 of this report for the 2016 grant, resulted in 54.3 per cent of performance rights vesting as shown in the table below.

	2016 LTI Performance Rights		
	Granted	Vested	Lapsed
Nino **Ficca**	692,585	376,074	316,511
Chad **Hymas**	105,379	57,221	48,158
Adam **Newman**	215,904	117,236	98,668
Alistair **Parker**	130,564	70,896	59,668
Mario **Tieppo**	132,552	71,976	60,576

6 Statutory Remuneration Disclosures (continued)

LTI rights allocation

The following table shows the number and value of grants subject to current vesting and future performance testing. The performance periods for the grants made in 2017 and 2018 are still in progress and, as such vesting has not been assessed against the performance conditions at the date of this report.

KMP	**Maximum total value of grant ($)** [1,2]	**Performance rights granted**	**Maximum total value of grant ($)** [2]	**Performance rights granted**	**Maximum total value of grant ($)** [2]	**Performance rights granted**
Grant	2016		2017		2018	
Test / Vesting date	31 Mar 2019		31 Mar 2020		31 Mar 2021	
Nino **Ficca**	706,437	692,585	1,075,617	888,940	978,420	927,412
Chad **Hymas**	107,487	105,379	155,137	128,212	141,118	133,761
Adam **Newman**	220,222	215,904	238,854	197,400	217,270	205,943
Alistair **Parker**	133,175	130,564	172,374	142,458	156,798	148,623
Mario **Tieppo**	135,203	132,552	146,642	121,192	141,118	133,761
Total	**1,302,524**	**1,276,984**	**1,788,624**	**1,478,202**	**1,634,725**	**1,549,500**

1. These grants have vested. In determining LTIs for the 2016 grant, the Board has not exercised any discretion in relation to the performance measures and outcomes payable under the LTI plan.
2. Amounts represent the value of the performance rights on grant date. Refer to Note F.3 in the financial statements for further details.

Shareholdings of KMP

All KMP must comply with AusNet Services' Share Trading Policy, which includes a requirement that AusNet Services' shares can only be traded during specified trading windows.

The KMP of AusNet Services have disclosed direct, indirect and beneficial interests in shares as at 31 March 2019 as follows:

Name	**Number of shares at 1 April 2018**	**Granted during the year as compensation**	**Acquisitions / (disposals)**	**Number of shares at 31 March 2019**[1]
Nino **Ficca**	2,263,183	635,420	(635,420)	2,263,183
Chad **Hymas**	256,733	96,681	(88,631)	264,783
Adam **Newman**	288,190	198,568	(98,568)	388,190
Alistair **Parker**	220,464	119,788	6,913	347,165
Mario **Tieppo**	124,500	121,611	-	246,111

1. Total shareholdings include shares held by KMP and their related parties.

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 2019, 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
Adam **Newman**	7	8
Alistair **Parker**	6	8

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 30.

Statutory disclosures (continued)

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 NGER reporting with the Clean Energy Regulator for the period from 1 July 2017 to 30 June 2018.

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
12 May 2019

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 of AusNet Services Holdings Pty Ltd for the financial year ended 31 March 2019 there have been:

i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and

ii. no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

KPMG

Paul J McDonald

Paul J McDonald

Partner

Melbourne

12 May 2019

Consolidated income statement
For the year ended 31 March 2019

	Notes	2019 $M	2018 $M
Revenue	B.1	**1,162.8**	1,236.3
Use of system and associated charges		**(99.5)**	(104.5)
Employee benefits expenses		**(130.6)**	(150.4)
External maintenance and contractors' services		**(102.3)**	(117.8)
Materials		**(24.3)**	(36.8)
Information technology and communication costs		**(40.0)**	(41.9)
Operating lease rental expenses		**(7.4)**	(11.6)
Administrative expenses		**(20.9)**	(20.9)
Service level payments		**(8.0)**	(5.4)
Disposal of property, plant and equipment		**(19.1)**	(13.6)
Other costs		**(26.2)**	(28.8)
Total expenses excluding depreciation, amortisation, interest and tax		**(478.3)**	(531.7)
Earnings before interest, tax, depreciation and amortisation		**684.5**	704.6
Depreciation and amortisation	C.1, C.2	**(347.7)**	(332.0)
Profit from operating activities		**336.8**	372.6
Finance income	D.4	**114.4**	105.6
Finance costs	D.4	**(340.1)**	(309.4)
Net finance costs		**(225.7)**	(203.8)
Profit before income tax		**111.1**	168.8
Income tax expense	B.4	**(39.8)**	(50.8)
Profit for the year		**71.3**	118.0

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 2019

	Notes	2019 $M	2018 $M
Profit for the year		**71.3**	118.0
Other comprehensive income			
Items that will not be reclassified to profit or loss in subsequent periods			
Movement in defined benefit fund	F.2	**(4.7)**	12.0
Income tax on movement in defined benefit fund	B.4	**1.4**	(3.7)
		(3.3)	8.3
Items that may be reclassified to profit or loss in subsequent periods			
Movement in hedge reserve		**(291.2)**	(146.2)
Income tax on movement in hedge reserve	B.4	**93.1**	47.0
	D.3	**(198.1)**	(99.2)
Other comprehensive income for the year, net of tax		**(201.4)**	(90.9)
Total comprehensive income for the year		**(130.1)**	27.1

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 2019

	Notes	2019 $M	2018 $M
ASSETS			
Current assets			
Cash and cash equivalents		**337.3**	602.8
Receivables	B.3	**260.9**	271.8
Inventories	B.3	**46.6**	39.4
Derivative financial instruments	D.3	**139.2**	0.7
Other assets	B.3	**21.9**	17.3
Total current assets		**805.9**	932.0
Non-current assets			
Receivables	E.3	**2,479.2**	2,270.3
Property, plant and equipment	C.1	**6,331.0**	6,102.9
Intangible assets	C.2	**509.8**	487.3
Derivative financial instruments	D.3	**473.0**	501.6
Other assets	B.3	**27.6**	32.0
Total non-current assets		**9,820.6**	9,394.1
Total assets		**10,626.5**	10,326.1
LIABILITIES			
Current liabilities			
Payables and other liabilities	B.3	**487.8**	220.8
Provisions	B.3	**61.2**	58.8
Borrowings	D.2	**979.7**	465.4
Derivative financial instruments	D.3	**2.7**	77.7
Total current liabilities		**1,531.4**	822.7
Non-current liabilities			
Deferred revenue	B.3	**98.3**	81.1
Provisions	B.3	**54.3**	45.3
Borrowings	D.2	**6,966.7**	7,099.7
Derivative financial instruments	D.3	**347.2**	192.9
Deferred tax liabilities	B.4	**186.6**	237.3
Total non-current liabilities		**7,653.1**	7,656.3
Total liabilities		**9,184.5**	8,479.0
Net assets		**1,442.0**	1,847.1
EQUITY			
Contributed equity	D.5	**1,308.3**	1,064.9
Reserves		**(314.4)**	(116.3)
Retained profits		**448.1**	898.5
Total equity		**1,442.0**	1,847.1

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 2019

	Notes	Contributed equity $M	Share based payment reserve $M	Hedge reserve (i) $M	Retained profits $M	Total equity $M
31 March 2019						
Balance as at 1 April 2018		1,064.9	0.7	(117.0)	898.5	1,847.1
Total comprehensive income for the year						
Profit for the year		-	-	-	71.3	71.3
Other comprehensive income		-	-	(198.1)	(3.3)	(201.4)
Total comprehensive income for the year		**-**	**-**	**(198.1)**	**68.0**	**(130.1)**
Transactions with owners, recorded directly in equity						
Dividends	D.6	-	-	-	(518.4)	(518.4)
Equity injection	D.5	242.5	-	-	-	242.5
Share based payment reserve	D.5	0.9	-	-	-	0.9
Total transactions with owners		**243.4**	**-**	**-**	**(518.4)**	**(275.0)**
Balance as at 31 March 2019		**1,308.3**	**0.7**	**(315.1)**	**448.1**	**1,442.0**
31 March 2018						
Balance as at 1 April 2017		1,063.3	1.5	(17.8)	772.2	1,819.2
Total comprehensive income for the year						
Profit for the year		-	-	-	118.0	118.0
Other comprehensive income		-	-	(99.2)	8.3	(90.9)
Total comprehensive income for the year		**-**	**-**	**(99.2)**	**126.3**	**27.1**
Transactions with owners, recorded directly in equity						
Share based payment reserve	D.5	1.6	(0.8)	-	-	0.8
Balance as at 31 March 2018		**1,064.9**	**0.7**	**(117.0)**	**898.5**	**1,847.1**

(i) 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 2019

	Notes	2019 $M	2018 $M
Cash flows from operating activities			
Profit for the year		**71.3**	118.0
Add back interest, tax, depreciation		**613.2**	586.6
Other non-cash items		**(26.3)**	(6.5)
Non-cash intercompany transactions		**(11.2)**	16.4
Working capital movement		**(90.3)**	34.5
Net interest paid		**(298.7)**	(298.7)
Net cash inflow from operating activities		**258.0**	450.3
Cash flows from investing activities			
Payments for property, plant and equipment (i)		**(551.7)**	(525.3)
Proceeds from sale of property, plant and equipment		**1.2**	1.0
Net cash outflow from investing activities		**(550.5)**	(524.3)
Cash flows from financing activities			
Repayments of related party loans		**(9.7)**	(162.5)
Proceeds from borrowings	D.2	**574.2**	900.9
Repayment of borrowings	D.2	**(537.5)**	(388.6)
Net cash inflow from financing activities		**27.0**	349.8
Net (decrease)/increase in cash held		**(265.5)**	275.8
Cash and cash equivalents at the beginning of the year		**602.8**	327.0
Cash and cash equivalents at the end of the year		**337.3**	602.8

(i) Net finance costs include a credit of $10.9 million (2018: $7.7 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.

Contents

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. The ultimate Australian parent of the Company is AusNet Services Ltd, which is part of a consolidated group trading as AusNet Services (referred to as the AusNet Services Group, we, us or our). The financial statements were approved by the Board of Directors on 12 May 2019.

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 $725.5 million at 31 March 2019. The Group has positive net assets, and is expected to continue trading profitably, generating positive operating cash flows and successfully refinancing maturing debt. In addition, at 31 March 2019, the Group has available a total of $778.0 million of undrawn but committed bank debt facilities and $337.3 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.

Except for the adoption of AASB 15 *Revenue from Contracts with Customers* and AASB Interpretation 23 *Uncertainty Over Income Tax Treatments* (refer to note B.4), the accounting policies applied by the Group in this consolidated financial report are the same as those applied by the Group in its consolidated financial report as at and for the year ended 31 March 2018.

(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.1 - Segment results
- B.2 - Revenue from contracts with customers
- B.3 - Working capital
- B.4 - Taxation
- C.1 - Property, plant and equipment
- C.3 - Impairment of non-current assets
- D.3 - Financial risk management
- F.2 - Defined benefit obligations

(c) Change in accounting policies

AASB 15 was adopted from 1 April 2018, using the cumulative effect transition method. The cumulative effect transition method allows opening balances of the current period to be adjusted for transition to the new standard. There was no material impact to the 2019 financial report due to the adoption of AASB 15.

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 and earnings per share. In addition, this section provides information on the working capital used to generate the Group's operating activities 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 Mondo business.

(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 performance obligation is the provision of the access to the network and as such use of system revenue is recognised over the contract period which is deemed to be the regulatory reset period. The transaction price is deemed to be the determined recoverable revenue over that period. Variable consideration relating to volumes is constrained to the period in which it occurs, and volume over or under recoveries under the revenue cap are not considered to comprise variable consideration in accordance with AASB 138 *Intangible Assets.*

Excluded ancillary and alternative control services including public lighting, cross boundary charges and new connection charges are rendered to customers for a fixed rate with revenue recognised at a point in time when the services are rendered. The electricity distribution segment does not purchase or sell electricity. Our electricity distribution network covers eastern Victoria including the eastern metropolitan region of Melbourne.

Customer Contributions

Customer contributions include the receipt of cash from a customer for the construction of assets, or the contribution of completed assets to us.

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 it is operating as intended. The performance obligation is at a point in time being the time at which the customer is connected to the network.

For some customer projects, the performance obligation will be linked to an ongoing service contract, and hence the performance obligation will be satisfied over time, being the contract term.

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.

(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 performance obligation is the provision of the access to the network and as such use of system revenue is recognised over the contract period which is deemed to be the regulatory reset period. The transaction price is deemed to be the determined recoverable revenue over that period. Variable consideration, being the volume fluctuations or true ups for unaccounted for gas are constrained to the period to which they apply. The gas distribution segment does not purchase or sell gas. Our gas distribution network covers central and western Victoria.

Customer contributions in the gas distribution segment are accounted for in the same way as the electricity distribution segment.

Note B.1 Segment results (continued)

(iii) Mondo

The Mondo business provides specialised technology solutions to enable energy data and asset intelligence services.

Key estimates and judgements – variable consideration

Estimates are made of the amount of variable consideration contained in contracts with customers. The impact of variable consideration is estimated at inception and allocated to the relevant performance obligations. Adjustments for variable consideration are only recognised if it is highly probable that a significant reversal with regards to the variable consideration will not occur once the related uncertainty is removed.

Specialised technology solutions relate to the development and maintenance of asset management software solutions for utility and rail customers. Performance obligations are typically split between the development and the maintenance of the software. Performance obligations for development revenue are based on milestones, and are recognised at a point in time. Performance obligations for software maintenance are satisfied over the life of the contract. There is no variable consideration in these contracts.

For customer contributions in the Mondo business, the performance obligation will be linked to an ongoing service contract, and hence the performance obligation will be satisfied over time, being the contract term.

The customers of this business primarily operate in the utility and renewables sectors of electricity, water, gas and rail.

Notes to the consolidated financial statements
31 March 2019

Note B.1 Segment results (continued)

(b) Reportable segment financial information

	Electricity distribution	Gas distribution	Mondo	Inter-segment eliminations	Consolidated
2019	**$M**	**$M**	**$M**	**$M**	**$M**
Regulated revenue	784.4	202.4	-	-	**986.8**
Customer contributions	70.2	7.4	-	-	**77.6**
Service revenue	-	-	68.1	-	**68.1**
Other revenue	11.6	5.3	13.4	-	**30.3**
Total segment revenue	**866.2**	**215.1**	**81.5**	**-**	**1,162.8**
Segment operating expense	(337.7)	(62.6)	(78.0)	-	**(478.3)**
Segment result - EBITDA (i)	**528.5**	**152.5**	**3.5**	**-**	**684.5**
Depreciation and amortisation	(284.4)	(51.8)	(11.5)	-	(347.7)
Net finance costs					(225.7)
Income tax expense					(39.8)
Profit for the year					**71.3**
Capital expenditure	461.0	106.8	16.7		**584.5**
2018					
Regulated revenue	833.0	213.0	-	-	**1,046.0**
Customer contributions	48.1	11.0	-	-	**59.1**
Service revenue	-	-	100.6	-	**100.6**
Other revenue	10.3	0.6	20.8	(1.1)	**30.6**
Total segment revenue	**891.4**	**224.6**	**121.4**	**(1.1)**	**1,236.3**
Segment operating expense	(351.2)	(62.3)	(119.3)	1.1	**(531.7)**
Segment result - EBITDA (i)	**540.2**	**162.3**	**2.1**	**-**	**704.6**
Depreciation and amortisation	(275.5)	(48.0)	(8.5)	-	(332.0)
Net finance costs					(203.8)
Income tax expense					(50.8)
Profit for the year					**118.0**
Capital expenditure	439.3	96.9	9.5		**545.7**

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

Note B.2 Revenue from customers with contracts

(a) Disaggregated revenue

In the following table, revenue is disaggregated by revenue type and timing of recognition. The table also includes a reconciliation of the disaggregated revenue with AusNet Services' reportable segments (note B.1).

31 March 2019	Electricity distribution	Gas distribution	Mondo	Inter-segment eliminations	Total
	$M	$M	$M	$M	$M
Timing of recognition					
At a point in time	97.4	19.1	56.5	-	173.0
Over time	767.7	196.0	25.0	-	988.7
Revenue from contracts with customers	**865.1**	**215.1**	**81.5**	**-**	**1,161.7**
Other income not in scope of AASB 15					
Lease income	0.1	-	-	-	0.1
Income from government grants	1.0	-	-	-	1.0
Total revenue	**866.2**	**215.1**	**81.5**	**-**	**1,162.8**

Key estimates and judgements – timing of satisfaction of performance obligations

For performance obligations satisfied over time, we typically use the output method, with the passage of time used as the measure of satisfaction of performance obligations. This is because our performance obligations satisfied over time are based on a fixed fee for the use of or access to an asset. In these scenarios, volumes or other activity do not impact the amount or timing of revenue recognition. The period over which the performance obligations are satisfied can be the contract term (in the case of unregulated revenues) or the period to the next regulatory reset period (in the case of regulated revenues).

Note B.3 Working capital

Working capital are 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.

Note B.3 Working capital (continued)

	Assets		Liabilities	
	2019	2018	**2019**	2018
	$M	$M	**$M**	$M
Accounts receivable/payable	**34.9**	30.6	**(14.1)**	(5.0)
Related party receivables/payables	**72.1**	153.6	**(310.2)**	(40.8)
Accrued revenue - other/accrued expenses	**5.7**	7.3	**(85.9)**	(97.1)
Accrued revenue - contract assets (i)	**90.1**	78.6	**-**	-
Deferred revenue - contract liabilities (ii)	**-**	-	**(31.8)**	(31.0)
Deferred revenue - government grants	**-**	-	**(1.3)**	(1.3)
Deferred revenue - other	**-**	-	**(0.1)**	(0.1)
Other receivables/payables	**57.9**	0.3	**(0.1)**	(6.7)
Interest receivables/payables	**0.2**	1.4	**(44.3)**	(38.8)
Total current receivables/payables and other liabilities	**260.9**	271.8	**(487.8)**	(220.8)
Current other assets	**21.9**	17.3	**-**	-
Non-current other assets (iii)	**27.0**	31.3	**-**	-
Non-current accounts receivable	**0.6**	0.7	**-**	-
Current inventory	**46.6**	39.4	**-**	-
Current provisions	**-**	-	**(61.2)**	(58.8)
Non-current provisions	**-**	-	**(54.3)**	(45.3)
Non-current deferred revenue - contract liabilities (ii)	**-**	-	**(32.0)**	(32.0)
Non-current deferred revenue - government grants	**-**	-	**(66.2)**	(48.9)
Non-current deferred revenue - other	**-**	-	**(0.1)**	(0.2)
Defined benefit and share based payment reserve	**-**	-	**(18.7)**	(23.4)
Working capital	**357.0**	360.5	**(720.3)**	(429.4)

Total working capital movement	**(294.4)**
Comprising:	
Operating activities	**90.3**
Investing and financing activities (iv)	**(33.7)**
Non-cash intercompany transactions	**(351.0)**
	(294.4)

(i) Contract assets primarily relate to unbilled distribution revenue.

(ii) Contract liabilities primarily relate to funds received in advance for customer contributions, telecommunications services, unregulated infrastructure services and software maintenance fees and revenue is recognised over the transaction period and contract term. Revenue recognised in FY19 that was included in the contract liability balance at 1 April 2018 was $23.3 million.

Of the total contract liabilities of $63.8 million we expect that approximately 50 per cent of these performance obligations will be satisfied in the next twelve months, with the remainder satisfied over the long term.

(iii) Includes $23.6 million (2018: $31.0 million) defined benefit surplus, refer to note F.2 for further details.

(iv) Includes accrued interest and the portions of accounts payable and accrued expense that relate to capital expenditure.

Note B.3 Working capital (continued)

(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 distribution and specialist utility services is ten business days.

The ageing of accounts receivable as at reporting date was:

	Gross 2019 $M	**Allowance 2019 $M**	Gross 2018 $M	Allowance 2018 $M
Not past due	**22.5**	**-**	23.1	-
0 - 30 days	**5.1**	**-**	3.1	-
31 - 60 days	**2.4**	**-**	0.8	-
61 - 90 days	**1.5**	**-**	0.4	-
Greater than 90 days	**5.9**	**(1.9)**	4.0	(0.8)
Total	**37.4**	**(1.9)**	31.4	(0.8)

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 85 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.

Note B.3 Working capital (continued)

(c) Provisions

	2019 $M	2018 $M
Current provisions		
Employee benefits (i)	**55.1**	52.7
Sundry provisions (ii)	**4.5**	3.6
Redundancy provision	**0.9**	1.9
Environmental provision (iii)	**0.7**	0.6
Total current provisions	**61.2**	58.8
Non-current provisions		
Employee benefits (i)	**7.3**	5.9
Environmental provision (iii)	**35.1**	32.1
Make good provision	**11.9**	7.3
Total non-current provisions	**54.3**	45.3
Total provisions	**115.5**	104.1

(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 mostly include uninsured losses and cross boundary charges.

(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.

Note B.4 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 timing of deductibility of expenditure, which impacts the amount of income tax payable and whether deferred tax balances are to be recognised in the statement of financial position. Changes in tax legislation or the interpretation of tax laws by tax authorities may affect the amount of provision for income taxes and deferred tax balances recognised.

During the year, the Australian Taxation Office (ATO) completed a Pre-Lodgement Compliance Review (PCR) for the income years 31 March 2017 and 31 March 2016. The PCR identified matters in respect of capital allowances, which the ATO sought additional information and where the interpretation of tax laws affects the amount of provision for income tax and deferred tax balances recognised. In December 2018, the ATO commenced an audit matter in relation to the profile of capital allowances (tax depreciation profile and entitlements) following the corporate restructure in June 2015. The audit is expected to be completed by December 2019.

While work is ongoing and there are a range of possible outcomes, management has recognised a tax risk provision of $11.0 million based on a probability-weighted range of possible outcomes. AusNet Services continues to engage cooperatively with the ATO through the course of the audit, with the intention of resolving these issues without requiring this provision.

(a) Effective tax rate reconciliation

	2019 $M	2018 $M
Profit before income tax	**111.1**	168.8
Tax at the Australian tax rate of 30.0% (2018: 30.0%)	**33.3**	50.6
Tax effect of amounts which are not (taxable)/ deductible in calculating taxable income:		
Prior year under provisions	**0.4**	0.5
Tax risk provision	**11.0**	-
Sundry items	**(4.9)**	(0.3)
Income tax expense	**39.8**	50.8
Consists of:		
Current tax	**(7.1)**	(6.9)
Prior year under/(over) provision – current tax	**3.5**	(5.2)
Deferred tax	**46.5**	57.2
Prior year (over)/under provision – deferred tax	**(3.1)**	5.7
Income tax expense	**39.8**	50.8

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.

Note B.4 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 2018	**Prior-year tax returns** (i)	**Prior year (under) /overs**	**(Charged) /credited to income statement**	**Charged/ (credited) directly in equity**	**31 March 2019**
	$M	**$M**	**$M**	**$M**	**$M**	**$M**
2019						
Employee benefits	17.6	-	-	1.2	-	18.8
Other accruals and provisions	47.8	-	0.1	7.7	(0.4)	55.2
Derivative financial instruments and fair value adjustments on borrowings	11.4	-	(1.1)	9.9	93.1	113.3
Defined benefit funds	(9.4)	-	-	0.9	1.4	(7.1)
Intangibles	(26.7)	-	-	-	-	(26.7)
Property, plant and equipment	(278.0)	-	4.1	(66.2)	-	(340.1)
Net deferred tax liabilities	**(237.3)**	**-**	**3.1**	**(46.5)**	**94.1**	**(186.6)**
2018						
Employee benefits	17.9	-	-	(0.3)	-	17.6
Other accruals and provisions	44.5	-	-	3.3	-	47.8
Derivative financial instruments and fair value adjustments on borrowings	(39.1)	-	-	3.5	47.0	11.4
Defined benefit funds	(5.9)	-	-	0.2	(3.7)	(9.4)
Intangibles	(26.7)	-	-	-	-	(26.7)
Property, plant and equipment	(219.1)	10.7	(5.7)	(63.9)	-	(278.0)
Net deferred tax liabilities	**(228.4)**	**10.7**	**(5.7)**	**(57.2)**	**43.3**	**(237.3)**

(i) During FY2016 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.

Deferred tax liabilities were reduced in the prior year by the estimated tax effect of the valuation uplift. The AusNet Services Group is amending the FY2016 and FY2017 tax returns to reflect the actual tax depreciation on individual assets following an allocation exercise undertaken in FY2018.

Note B.4 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.

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.

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	
2019								
Carrying amount as at 1 April 2018	24.5	63.2	4.6	4,051.0	1,546.6	129.9	283.1	**6,102.9**
Additions	-	-	-	-	-	-	550.1	**550.1**
Transfers (i)	-	12.8	-	400.8	110.5	31.4	(554.6)	**0.9**
Disposals	-	-	-	(13.2)	(6.4)	(0.7)	-	**(20.3)**
Depreciation expense	-	(1.3)	-	(189.5)	(45.6)	(66.2)	-	**(302.6)**
Carrying amount as at 31 March 2019	**24.5**	**74.7**	**4.6**	**4,249.1**	**1,605.1**	**94.4**	**278.6**	**6,331.0**
Cost	24.5	85.6	4.6	6,397.8	2,230.5	559.5	278.6	**9,581.1**
Accumulated depreciation	-	(10.9)	-	(2,148.7)	(625.4)	(465.1)	-	**(3,250.1)**
Carrying amount as at 31 March 2019	**24.5**	**74.7**	**4.6**	**4,249.1**	**1,605.1**	**94.4**	**278.6**	**6,331.0**

(i) Net transfers represents transfer of the Geomatic Technologies business into the Group.

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	
2018								
Carrying amount as at 1 April 2017	24.3	63.6	1.2	3,947.1	1,504.0	179.8	177.3	**5,897.3**
Additions	-	-	-	-	-	-	509.2	**509.2**
Transfers	0.2	1.3	3.4	292.5	88.3	17.7	(403.4)	**-**
Disposals	-	-	-	(10.4)	(2.6)	(0.4)	-	**(13.4)**
Depreciation expense	-	(1.7)	-	(178.2)	(43.1)	(67.2)	-	**(290.2)**
Carrying amount as at 31 March 2018	**24.5**	**63.2**	**4.6**	**4,051.0**	**1,546.6**	**129.9**	**283.1**	**6,102.9**
Cost	24.5	72.8	4.6	6,031.5	2,138.6	540.0	283.1	**9,095.1**
Accumulated depreciation	-	(9.6)	-	(1,980.5)	(592.0)	(410.1)	-	**(2,992.2)**
Carrying amount as at 31 March 2018	**24.5**	**63.2**	**4.6**	**4,051.0**	**1,546.6**	**129.9**	**283.1**	**6,102.9**

Note C.2 Intangible assets

	Distribution licences (i)	**Goodwill** (ii)	**Software** (iii)	**Other intangible assets**	**Total**
	$M	**$M**	**$M**	**$M**	**$M**
Useful life (years)	Indefinite	Indefinite	3-10	3-10	
2019					
Carrying amount as at 1 April 2018	354.5	12.1	120.3	0.4	**487.3**
Additions	-	-	34.4	-	**34.4**
Transfers (iv)	-	23.8	9.6	-	**33.4**
Disposals	-	-	(0.2)	-	**(0.2)**
Amortisation expense	-	-	(44.9)	(0.2)	**(45.1)**
Carrying amount as at 31 March 2019	**354.5**	**35.9**	**119.2**	**0.2**	**509.8**
Cost	354.5	35.9	487.5	4.1	**882.0**
Accumulated amortisation	-	-	(368.3)	(3.9)	**(372.2)**
Carrying amount as at 31 March 2019	**354.5**	**35.9**	**119.2**	**0.2**	**509.8**
2018					
Carrying amount as at 1 April 2017	354.5	12.1	125.3	0.7	**492.6**
Additions	-	-	36.5	-	**36.5**
Amortisation expense	-	-	(41.5)	(0.3)	**(41.8)**
Carrying amount as at 31 March 2018	**354.5**	**12.1**	**120.3**	**0.4**	**487.3**
Cost	354.5	12.1	438.5	4.0	**809.1**
Accumulated amortisation	-	-	(318.2)	(3.6)	**(321.8)**
Carrying amount as at 31 March 2018	**354.5**	**12.1**	**120.3**	**0.4**	**487.3**

(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.

Note C.2 Intangible 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.

(iv) Transfers

Net transfers represents transfer of the Geomatic Technologies business into the Group.

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 form part of 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 discount rate and terminal value multiples used in the measurement of recoverable amount, the details of which are provided on the next page.

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

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

	Cash flow projection period (i)		**Post-tax discount rate** (ii)		**Carrying value**	
	2019	2018	**2019**	2018	**2019**	2018
Regulated CGUs	**years**	years	**%**	%	**$M**	$M
Electricity distribution (distribution licence)	**20**	20	**5.1**	5.2	**117.2**	117.2
Electricity distribution (goodwill)	**20**	20	**5.1**	5.2	**19.0**	19.0
Gas distribution (distribution licence)	**20**	20	**5.1**	5.2	**237.3**	237.3
Unregulated CGUs						
Mondo – field services (goodwill)	**5**	5	**10.2**	10.3	**16.5**	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.

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:

	2019	2018
	$M	$M
Property, plant and equipment	**145.5**	199.4

(b) Lease commitments

Our leases relate to premises, 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:

	2019	2018
	$M	$M
Payable:		
Within one year	**8.4**	7.2
Later than one year, but no later than five years	**30.3**	18.4
Later than five years	**37.4**	11.0
	76.1	36.6
Representing:		
Non-cancellable operating leases	**76.1**	36.6

Section D Financing our business

This section provides information relating to our capital structure and our exposure to financial risk, 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 AusNet Services 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 to ensure low cost of capital in order to generate desired shareholder returns.

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 process. This includes the value of network assets that will form part of the RAB at the next regulatory period.

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 ratio.

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

	2019	2018
	%	%
Net debt to R&CAB	**67.1**	66.7

This ratio does not include equity credits in relation to $706 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.

Note D.2 Borrowings (continued)

		Carrying Value		Face Value (i)	
		2019	2018	**2019**	2018
	Maturity date	**$M**	$M	**$M**	$M
Current borrowings					
Swiss francs (CFH) senior notes	Apr 2019	**389.5**	-	**283.2**	-
Bank debt facilities	Oct 2019	**22.0**	4.0	**22.0**	4.5
Domestic medium term notes	Feb 2020	**341.1**	-	**335.2**	-
Hong Kong dollar (HKD) senior notes	Mar 2020	**127.1**	-	**100.0**	-
Floating rate note	Mar 2020	**100.0**	-	**100.0**	-
Pound sterling (GBP) senior notes		**-**	461.4	**-**	537.5
Total current borrowings		**979.7**	465.4	**840.4**	542.0
Non-current borrowings					
Swiss franc (CHF) senior notes		**-**	378.4	**-**	283.2
Floating rate notes		**-**	99.9	**-**	100.0
Euro (EUR) senior notes	2020-2030	**2,637.1**	2,608.6	**2,329.8**	2,329.8
Hong Kong dollar (HKD) senior notes	2021-2034	**876.5**	785.0	**751.5**	741.0
Domestic medium term notes	2021-2043	**1,949.5**	2,063.8	**1,885.0**	2,012.4
Japanese yen (JPY) senior notes	2024	**66.3**	63.4	**62.6**	62.6
US dollar (USD) senior notes	2026	**118.7**	103.3	**107.0**	107.0
Norwegian kroner (NOK) senior notes	2027-2029	**596.4**	333.8	**565.8**	319.4
US dollar (USD) hybrid securities (ii)	2076	**513.7**	464.7	**505.7**	505.7
Singapore dollar (SGD) hybrid securities (ii)	2076	**208.5**	198.8	**199.6**	199.6
Total non-current borrowings		**6,966.7**	7,099.7	**6,407.0**	6,660.7
Total borrowings		**7,946.4**	7,565.1	**7,247.4**	7,202.7
less: cash and cash equivalents		**337.3**	602.8	**337.3**	602.8
Net debt		**7,609.1**	6,962.3	**6,910.1**	6,599.9

(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 at 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.

(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 as at 31 March 2019. The fair value of total borrowings as at 31 March 2019 was $8,562.0 million (2018: $8,152.3 million).

Note D.2 Borrowings (continued)

(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 downward 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 $15.0 million, of which $4.0 million was provided to third parties at 31 March 2019 (2018: $4.5 million).

(e) Changes in liability arising from financing activities

The table below details the movements in the Group's interest bearing liabilities for the year ended 31 March 2019:

		Cash flow movements (financing activities)		Non-cash flow movements				
	1 April 2018	Proceeds	Repayments	Reclassification	Foreign exchange movements	Fair value adjustment	Funding costs	31 March 2019
	$M	$M	$M	$M	$M	$M	$M	$M
Current	465.4	17.5	(537.5)	933.2	105.4	(5.2)	0.9	979.7
Non-current	7,099.7	556.7	-	(933.2)	75.7	167.2	0.6	6,966.7
Total	**7,565.1**	**574.2**	**(537.5)**	**-**	**181.1**	**162.0**	**1.5**	**7,946.4**

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 Management 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.

Note D.3 Financial risk management (continued)

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.

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 a major input in the determination of the regulatory weighted average cost of capital and consequently regulated revenues. The AER use a Trailing Average Portfolio approach to setting 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 2019 was 98.5 per cent (2018: 98.8 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.

	2019	2018
	$M	$M
Financial assets		
Related party receivables (i)	**2,479.2**	1,961.3
Fixed rate instruments	**327.0**	600.0
Floating rate instruments	**-**	-
Financial liabilities (ii)		
Fixed rate instruments	**(6,816.5)**	(6,475.3)
Floating rate instruments	**(430.9)**	(727.2)

Note D.3 Financial risk management (continued)

(a) Interest rate risk (continued)

(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.

(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 47 basis points as at 31 March 2019 (2018: 54 basis points), 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)**	
	2019	2018	**2019**	2018
	$M	$M	**$M**	$M
Increase in Australian interest rates with all other variables held constant	**1.0**	0.5	**169.7**	194.7
Decrease in Australian interest rates with all other variables held constant	**(1.9)**	(0.1)	**(176.6)**	(205.1)

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 interest rate movements 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 due to any valuation change of derivative financial instruments in cash flow hedges will unwind to zero at maturity of the derivative.

(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 and no sensitivity analysis is required.

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:

<table>
<tr><th></th><th>Fair value hedges</th><th>Cash flow hedges</th></tr>
<tr><td>Objective of the hedge</td><td>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.</td><td>To mitigate the variability in cash flows attributable to variable interest rate and/or foreign currency movements on borrowings or highly probable forecast transactions.</td></tr>
<tr><td>Treatment of changes in fair value of qualifying hedges</td><td>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.</td><td>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.</td></tr>
<tr><td>Documentation of the hedge relationship</td><td colspan="2">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.</td></tr>
<tr><td rowspan="2">Discontinuation of hedge accounting</td><td colspan="2">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.</td></tr>
<tr><td>After discontinuation, the previously hedged asset or liability is no longer revalued for changes in fair value.</td><td>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.</td></tr>
</table>

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
2019				
Current assets	5.6	0.2	133.4	139.2
Non-current assets	72.3	-	400.7	473.0
Current liabilities	(2.5)	(0.2)	-	(2.7)
Non-current liabilities	(346.7)	-	(0.5)	(347.2)
Total derivative financial instruments	**(271.3)**	**-**	**533.6**	**262.3**
Consists of:				
- fair value hedges	78.8	-	207.7	286.5
- cash flow hedges	(350.1)	-	327.1	(23.0)
- not in a hedge relationship	-	-	(1.2)	(1.2)
Total derivative financial instruments	**(271.3)**	**-**	**533.6**	**262.3**
2018				
Current assets	0.2	0.5	-	0.7
Non-current assets	71.3	0.1	430.2	501.6
Current liabilities	(0.8)	(0.5)	(76.4)	(77.7)
Non-current liabilities	(107.1)	(0.4)	(85.4)	(192.9)
Total derivative financial instruments	**(36.4)**	**(0.3)**	**268.4**	**231.7**
Consists of:				
- fair value hedges	59.8	-	(153.7)	(93.9)
- cash flow hedges	(95.7)	(0.3)	422.1	326.1
- not in a hedge relationship	(0.5)	-	-	(0.5)
Total derivative financial instruments	**(36.4)**	**(0.3)**	**268.4**	**231.7**

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 2019 is $25.8 million (2018: $38.2 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 2019, derivative assets and liabilities would be reduced by $332.7 million respectively (2018: $185.9 million). Refer to the below table:

	Gross amounts in the financial statements	Amounts subject to master netting arrangements	Net amount
	$M	$M	$M
2019			
Derivative financial assets	612.2	(332.7)	279.5
Derivative financial liabilities	(349.9)	332.7	(17.2)
	262.3	**-**	**262.3**
2018			
Derivative financial assets	502.3	(185.9)	316.4
Derivative financial liabilities	(270.6)	185.9	(84.7)
	231.7	**-**	**231.7**

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 were designated in cash flow hedges during the year:

	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	259.1	(264.4)	12,667.1
Foreign currency risk – debt	85.4	(83.5)	6,429.0
Foreign currency risk – capital expenditure	(0.2)	0.2	18.5

(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 and fair value hedges is $12,494.0 million.

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

	2019	2018
	$M	$M
Opening balance of cash flow hedge reserve	**(117.0)**	(17.8)
Amounts recognised in other comprehensive income, net of income tax:		
Changes in fair value of cash flow hedges (excluding foreign currency basis spreads)	**(356.1)**	(159.2)
Amounts reclassified to interest expense for effective hedges	**79.6**	49.8
Changes in foreign currency basis spreads	**(14.7)**	7.2
Tax effect of derivatives step up	**93.1**	3.0
Total amounts recognised in other comprehensive income, net of income tax	**(198.1)**	(99.2)
Closing balance of cash flow hedge reserve	**(315.1)**	(117.0)

The following table summarises the net cashflows receivable/(payable) under our cash flow hedges:

	2019	2018
	$M	$M
Borrowings:		
Less than 1 year	**(65.8)**	(39.8)
1 – 2 years	**17.1**	(36.9)
2 – 5 years	**(141.7)**	61.0
Greater than 5 years	**(58.5)**	37.6
	(248.9)	21.9

Note D.3 Financial risk management (continued)

(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	**Accumulated amount of fair value adjustments on hedged items**	**Gain/(loss) on remeasurement of hedged item**	**Gain/(loss) on remeasurement of hedging instruments**	**Nominal amounts of hedging instruments** (i)
	$M	**$M**	**$M**	**$M**	**$M**
AUD denominated borrowings	(2,410.1)	(81.2)	(29.2)	19.0	1,223.0
Foreign currency denominated borrowings	(5,533.9)	(643.3)	(360.5)	361.3	8,866.4

(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 cash flow and fair value hedges is $12,494.0 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 any particular year. In addition, our investment grade credit rating ensures ready access to both domestic and offshore capital markets.

Our policy is that financing facilities are to 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 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.

Note D.3 Financial risk management (continued)

(d) Liquidity risk (continued)

(i) Contractual cash flows (continued)

2019	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		337.3	337.3	337.3	337.3	-	-	-
Accounts and other receivables	B.3	2,740.1	2,740.1	2,740.1	260.9	-	-	2,479.2
Derivative financial assets								
Interest rate swaps			77.9	96.9	26.8	23.7	33.9	12.5
Cross-currency swaps			534.1	239.7	114.6	71.4	6.6	47.1
Forward foreign currency contracts			0.2					
- Inflow				10.1	9.4	0.7	-	-
- Outflow				(9.9)	(9.2)	(0.7)	-	-
			3,689.6	**3,414.2**	**739.8**	**95.1**	**40.5**	**2,538.8**
Financial liabilities								
Non-derivative financial liabilities								
Trade and other payables	B.3	454.6	454.6	454.6	454.6	-	-	-
Bank debt facilities		22.0	22.0	22.0	22.0	-	-	-
Domestic medium term notes		2,220.2	2,290.6	2,997.2	453.1	95.5	795.8	1,652.8
USD senior notes		107.0	118.7	138.5	3.7	3.7	11	120.1
CHF senior notes		283.2	389.5	393.8	393.8	-	-	-
HKD senior notes		851.5	1,003.6	1,248.7	157.9	27.1	148.4	915.3
JPY senior notes		62.6	66.3	68.4	0.9	0.9	2.7	63.9
EUR senior notes		2,329.8	2,637.1	2,755.7	52.8	843.1	655.3	1,204.5
NOK senior notes		565.8	596.4	734.9	17.8	17.8	53.5	645.8
USD hybrid securities (i)		505.7	513.7	604.4	30.4	30.4	543.6	-
SGD hybrid securities (i)		199.6	208.5	236.5	11.6	11.4	213.5	-
Floating rate notes		100.0	100.0	103.5	103.5	-	-	-
Derivative financial liabilities								
Interest rate swaps			349.2	394.2	62.4	62.6	141.7	127.5
Cross-currency swaps			0.5	14.2	0.3	0.1	1.5	12.3
Forward foreign currency contracts			0.2					
- Inflow				(8.5)	(3.9)	(3.9)	(0.7)	-
- Outflow				8.7	4.0	4.0	0.7	-
			8,750.9	**10,166.8**	**1,764.9**	**1,092.7**	**2,567.0**	**4,742.2**
Net cash outflow				**(6,752.6)**	**(1,025.1)**	**(997.6)**	**(2,526.5)**	**(2,203.4)**

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

Note D.3 Financial risk management (continued)

(d) Liquidity risk (continued)

(i) Contractual cash flows (continued)

2018	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		602.8	602.8	602.8	602.8	-	-	-
Accounts and other receivables	B.3	2,542.1	2,542.1	2,542.1	271.8	-	-	2,270.3
Derivative financial assets								
Interest rate swaps			71.5	89.7	18.3	18.3	39.8	13.3
Cross-currency swaps			430.2	6.1	(35.2)	76.2	3.6	(38.5)
Forward foreign currency contracts			0.6					
- Inflow				8.6	7.4	1.2	-	-
- Outflow				(8.0)	(6.9)	(1.1)	-	-
			3,647.2	**3,241.3**	**858.2**	**94.6**	**43.4**	**2,245.1**
Financial liabilities								
Non-derivative financial liabilities								
Trade and other payables	B.3	188.4	188.4	188.4	188.4	-	-	-
Bank debt facilities		4.5	4.0	4.5	4.5	-	-	-
Domestic medium term notes		2,012.4	2,063.8	2,670.2	94.6	444.1	806.8	1,324.7
Floating rate notes		100.0	99.9	106.9	3.4	103.5	-	-
USD senior notes		107.0	103.3	131.4	3.4	3.4	10.2	114.4
GBP senior notes		537.5	461.4	489.0	489.0	-	-	-
CHF senior notes		283.2	378.4	382.9	4.2	378.7	-	-
HKD senior notes		741.0	785.0	1,027.1	26.4	142.5	128.8	729.4
JPY senior notes		62.6	63.4	66.7	0.9	0.9	2.5	62.4
EUR senior notes		2,329.8	2,608.6	2,846.4	53.5	53.5	923.5	1,815.9
NOK senior notes		319.4	333.8	433.1	10.6	10.6	31.7	380.2
USD hybrid securities (i)		505.7	464.7	586.7	28.1	28.1	530.5	-
SGD hybrid securities (i)		199.6	198.8	237.0	10.9	11.0	215.1	-
Derivative financial liabilities								
Interest rate swaps			107.9	138.0	33.2	28.4	26.8	49.6
Cross-currency swaps			161.8	197.1	67.2	14.6	63.8	51.5
Forward foreign currency contracts			0.9					
- Inflow				(12.1)	(7.9)	(3.0)	(1.2)	-
- Outflow				13.0	8.4	3.3	1.3	-
			8,024.1	**9,506.3**	**1,018.8**	**1,219.6**	**2,739.8**	**4,528.1**
Net cash outflow				**(6,265.0)**	**(160.6)**	**(1,125.0)**	**(2,696.4)**	**(2,283.0)**

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

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:

Financing facilities (face value)	**2019 $M**	2018 $M
Unsecured bank overdraft facility, reviewed annually and payable at call:		
- Amount used	**-**	-
- Amount unused	**2.5**	2.5
	2.5	2.5
Unsecured working capital facility, reviewed annually:		
- Amount used	**22.0**	4.5
- Amount unused	**78.0**	95.5
	100.0	100.0
Unsecured bank loan facility with various maturity dates and which may be extended by mutual agreement:		
- Amount used	**-**	-
- Amount unused	**700.0**	450.0
	700.0	450.0
Total financing facilities	**802.5**	552.5

(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.3). Our exposure and the credit ratings of our counterparties are continuously monitored and the aggregate values of transactions concluded are spread amongst approved counterparties. Therefore, we consider the credit risk exposure to be minimal.

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 $327 million on term deposit and $490.7 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.

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.

	2019	2018
	$M	$M
Financial assets and other credit exposures		
Cross currency swaps	**548.3**	445.8
AUD interest rate swaps	**95.5**	97.7

Note D.4 Net finance costs

	2019	2018
	$M	$M
Finance income (i)		
Interest income	**6.4**	3.5
Interest income – related parties	**108.0**	102.1
Total finance income	**114.4**	105.6
Finance costs (ii)		
Interest expense	**323.2**	308.6
Other finance charges – cash	**3.4**	3.4
Other finance charges – non cash	**5.1**	3.6
Loss on fair value hedges	**9.5**	15.4
Loss on transactions not in a hedge relationship	**0.7**	0.1
Loss/(gain) on ineffective portion of cash flow hedges	**3.4**	(13.4)
Unwind of discount on provisions	**6.7**	0.1
Defined benefit net interest income	**(1.0)**	(0.7)
Capitalised finance charges (iii)	**(10.9)**	(7.7)
Total finance costs	**340.1**	309.4
Net finance costs	**225.7**	203.8

(i) Interest income is recognised as it accrues, taking into account the effective yield on the financial asset.

(ii) 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.

(iii) 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 4.5 per cent (2018: 4.4 per cent) applicable to our outstanding borrowings at the end of the period.

Note D.5 Equity

Share capital	Notes	**2019 Shares**	2018 Shares
Ordinary shares – fully paid (million)	(a), (b)	**1,308.3**	1,064.9

(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) Movements in ordinary share capital

Date	Details	Number of shares	$M
1 April 2018	Opening balance	1,063,361,942	1,064.9
31 March 2019	Equity injection (i)	242,584,191	242.5
31 March 2019	Contribution from AusNet Services Ltd (ii)	-	0.9
31 March 2019	**Closing balance**	**1,305,946,133**	**1,308.3**
1 April 2017	Opening balance	1,063,361,942	1,063.3
31 March 2018	Contribution from AusNet Services Ltd (ii)	-	1.6
31 March 2018	**Closing balance**	**1,063,361,942**	**1,064.9**

(i) Equity injection to apply excess funds from AusNet Services Ltd Dividend Reinvestment Plan.
(ii) This represents the accounting for the AusNet Services Group's share based payment arrangements where the Group grants awards to its employees that will be settled in the shares of the parent.

Note D.6 Dividends

Dividend	Date declared	Cents per share	Total dividend $M
Funding for AusNet Services Ltd interim FY2019 dividend	30 September 2018	32.078	341.1
Funding for AusNet Services Ltd final FY2019 dividend	31 March 2019	13.576	177.3
Total dividend		**45.654**	**518.4**

There were no dividends approved or paid by AusNet Services Holdings Pty Ltd during the prior financial year.

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:

			Equity holding	
Name of entity	**Country of incorporation**	**Class of shares**	**2019**	2018
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
Mondo Power Pty Ltd**	Australia	Ordinary	100.0	100.0

* In March 2019, the Boards of these companies resolved to liquidate these dormant companies.

** Renamed during FY2019, previously called Select Solutions Group Pty Ltd.

Note E.2 Parent entity information

(a) Statement of financial position

	2019	2018
	$M	$M
Current assets	**352.6**	187.3
Non-current assets	**9,784.1**	9,178.1
Total assets	**10,136.7**	9,365.4
Current liabilities	**1,229.7**	587.5
Non-current liabilities	**7,197.8**	6,567.2
Total liabilities	**8,427.5**	7,154.7
Contributed equity	**1,305.9**	1,063.3
Reserves	**(315.2)**	(111.4)
Retained profits	**718.5**	1,258.8
Total equity	**1,709.2**	2,210.7

(b) Statement of comprehensive income

	2019	2018
	$M	$M
Loss for the year	**(105.5)**	(20.8)
Total comprehensive loss for the year	**(267.4)**	(123.2)

(c) Contingent liabilities

The Directors are not aware of any contingent liabilities of the parent entity as at 31 March 2019 (2018: $0).

Note E.3 Related party transactions

(a) Major shareholders

The immediate parent of the Company is AusNet Services (Distribution) Pty Ltd. During the year the AusNet Services Group underwent a restructure. In the prior year, the immediate parent of the Company was 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 a 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*.

(b) Key management personnel

	2019	2018
	$	$
Short-term employee benefits	**4,983,453**	5,111,579
Post-employment benefits	**212,353**	221,385
Equity-based payments	**1,049,045**	1,196,906
Other long-term benefits	**84,555**	83,930
	6,329,406	6,613,800

The Remuneration Report within the Directors' report contains details of the remuneration paid or payable to each member of the Group's key management personnel for the year ended 31 March 2019.

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. All 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.

Zinfra (a subsidiary of Jemena) performs construction services under competitive tender processes. AusNet Services outsource a large portion of construction expenditure and the procurement function manages competitive tender processes for all contracts.

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

	2019	2018
	$'000	$'000
Sales of goods and services		
Regulated revenue (i)	**5,237**	3,320
Services revenue	**1,389**	13,807
Purchases of goods and services		
Other expenses	**3,612**	12,426
Property, plant and equipment (construction services)	**62,011**	72,174
Dividends	**518,400**	-

(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, State Grid and AusNet Services groups:

	2019	2018
	$'000	$'000
Current receivables (sale of goods and services)		
Other entities in the AusNet Services Group	**71,773**	150,900
Jemena (i)	**339**	2,663
Non-current receivables (loans)		
Other entities in the AusNet Services Group	**2,479,160**	2,270,300
Current payables and other liabilities (purchase of goods)		
Other entities in the AusNet Services Group	**299,125**	27,287
Jemena	**11,084**	13,586

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.

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:

	2019	2018
	$'000	$'000
Audit and review services		
Audit and review of financial statements	**1,221**	1,000
Audit of regulatory returns (i)	**313**	315
Total remuneration for audit and review services	**1,534**	1,315
Other services		
Other assurance, taxation and advisory services	**94**	200
Total remuneration for other services	**94**	200
Total remuneration of auditors	**1,628**	1,515

(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 we gain efficiencies when the services are performed by the same audit firm.

Note F.2 Defined benefit obligations

We make contributions to a defined benefit superannuation plan that is managed by Equipsuper. The fund provides 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.

	2019	2018
	$M	$M
Total amount included in the statement of financial position in respect of the defined benefit plan is as follows:		
Present value of defined benefit obligations	**(175.2)**	(167.6)
Fair value of plan assets	**198.8**	198.6
Net asset arising from defined benefit obligations	**23.6**	31.0
Amounts recognised in the income statement in respect of the defined benefit plan are as follows:		
Current service cost	**4.5**	4.3
Net interest income on defined benefit obligation	**(1.0)**	(0.7)
Total	**3.5**	3.6
Remeasurement (loss)/gains recognised during the year in other comprehensive income	**(4.7)**	12.0

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.

From 1 July 2018, AusNet Services ceased to make contributions to the defined benefit plans. This contribution holiday is expected to continue during the next financial year under the Target Funding method 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 plans expose us to additional actuarial, interest rate and market risk.

(a) Movement in defined benefit obligation

	2019	2018
	$M	$M
Movements in the present value of the defined benefit obligations were as follows:		
Opening defined benefit obligation	**167.6**	165.2
Current service cost	**4.5**	4.3
Interest cost	**6.0**	6.5
Contributions by plan participants	**1.7**	1.7
Actuarial loss/(gain)	**8.5**	(1.5)
Benefits, taxes and premiums paid	**(13.1)**	(8.6)
Closing defined benefit obligations	**175.2**	167.6
Movements in the fair value of plan assets were as follows:		
Opening fair value of plan assets	**198.6**	185.0
Interest income	**7.0**	7.2
Actual return on fund assets less interest income	**3.8**	10.5
Contributions from the employer	**0.8**	2.8
Contributions by plan participants	**1.7**	1.7
Benefits, taxes and premiums paid	**(13.1)**	(8.6)
Closing fair value of plan assets	**198.8**	198.6

The actual return on plan assets was a gain of $10.8 million (2018: gain of $17.7 million).

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:

	2019	2018
	%	**%**
Investments quoted in active markets:		
Australian equities	**11**	15
International equities	**18**	16
Fixed interest securities	**17**	17
Unquoted investments:		
Property	**7**	8
Growth alternative	**11**	16
Defensive alternative	**9**	9
Cash	**27**	19
	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**	
	2019	2018	**2019**	2018
	%	%	**%**	%
Key assumptions				
Discount rate	**3.7**	4.1	**3.3**	3.7
Expected salary increase rate	**3.8**	3.8	**3.8**	3.8

As at 31 March 2019, the weighted average duration of the defined benefit obligation was 8 years (2018: 8 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.

(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	**Decrease**
	$M	**$M**
Defined benefit obligation		
Discount rate (0.5 per cent movement)	(8.2)	8.7
Expected salary increase rate (0.5 per cent movement)	6.2	(5.9)

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 $12.6 million of defined contribution benefit to employees (2018: $12.9 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 part of an employees' remuneration is or may be provided in exchange for shares or rights over shares (equity settled transactions) in order to align to shareholder outcomes. The granting of such shares or rights may be subject to satisfaction of certain conditions.

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 AusNet Services Board. The plan is based on the grant of performance rights (PRs) 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.

AusNet Services Ltd's performance rights are granted to employees of subsidiary companies within the Group. 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 2018	**LTIP 2017**	**LTIP 2016**
Share price at grant date	$1.61	$1.77	$1.56
Exercise price	$0.0	$0.0	$0.0
Expected volatility	20%	20%	20%
Risk-free interest rate	2.19%	1.70%	1.61%
Dividend yield	5.50%	5.75%	6.00%
Expected life of performance rights	36 months	36 months	36 months

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

An expense of $1.075 million has been recognised for the year ended 31 March 2019 (2018: $1.822 million) in relation to equity-settled share-based payments.

Note F.4 Contingent liabilities and contingent assets

(a) Rapid Earth Fault Current Limiter (REFCL) penalty regime

AusNet Services has eight zone substations commissioned with REFCL technology. However, some issues have been identified during the testing of installed REFCLs related to the technical characteristics of existing equipment at various sites. This means that the achievement of the "required capacity" under the regulations is challenging due to the new use of this technology and its interaction with the existing network. While we continue to actively work on resolving these issues, delays are expected to achieving full compliance with the legislative requirements detailed below.

The amended Electricity Safety Act 1998 (Vic) (ESA) enables Energy Safe Victoria (ESV) or the Minister to apply to the Supreme Court of Victoria, seeking the imposition of significant financial penalties if AusNet Services fails to achieve the number of points prescribed by the Regulations throughout the applicable compliance period. The legislation provides that the Court can impose a maximum penalty of $2 million per point for each station where AusNet Services has not achieved compliance. Accordingly, penalties of up to $10 million per zone substation can apply if AusNet Services fails to achieve the required capacity during the relevant compliance period. Additionally, the Court can impose a maximum daily penalty of $5,500 for each day AusNet Services remains non-compliant.

ESV-observed compliance testing was completed in early April 2019. ESV has confirmed that six of these zone substations totalling 23 points have achieved conditional compliance. Conditional compliance means that ESV has accepted that AusNet Services has successfully commissioned the REFCL devices and they are functioning at a level acceptable to ESV, however there are further steps required to meet full compliance. ESV has set a time frame of the beginning of the next bushfire season to complete these further steps.

Note F.4 Contingent liabilities and contingent assets (continued)

(a) Rapid Earth Fault Current Limiter (REFCL) penalty regime (continued)

Two of the zone substations have not achieved conditional compliance, and we have submitted applications to ESV requesting postponement of the commencement of the Tranche 1 Compliance Period until 1 November 2019 in relation to those two zone substations. In the event that ESV does not agree to this request, ESV or the Minister could decide to file legal proceedings and the Court could impose pecuniary penalties on AusNet Services. ESV has sole discretion over whether any postponement is granted, and for how long.

In some instances, full compliance may not be possible without incurring considerable additional expenditure. Given the challenges associated with achieving full compliance and the incremental cost/benefit, AusNet Services is working with relevant parties to explore amending the program requirements through technical exemptions, for which there are specific provisions in the legislation. At present, none of our zone substations have achieved full compliance. If full compliance is not achieved by the beginning of the next bushfire season and ESV does not grant technical exemptions, ESV or the Minister could decide to file legal proceedings and the Court could impose pecuniary penalties on AusNet Services.

(b) Other

AusNet Services is involved in various legal and administrative proceedings and various claims on foot, the ultimate resolution of which, in the opinion of AusNet Services, will not have a material effect on the consolidated financial position, results of operations or cash flows.

Other than as listed above, we are not aware of any contingent liabilities or assets as at 31 March 2019 (2018: $0).

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 will 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 2018, but have not been applied in preparing this financial report.

AASB 16 *Leases*

AASB 16 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, operating lease rental expenses will be recognised as depreciation and interest expenses. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases. The Group has reassessed the classification of its dedicated unregulated customer connection assets.

The Group will adopt AASB 16 from 1 April 2019, applying the modified retrospective transition method. Under this method, a lease liability balance will be recognised based on the remaining outstanding cash flows under the Group’s operating leases, discounted to present value. The discount rate used will be our incremental borrowing rate. The impacts are as follows:

- For lessee accounting, a right-of-use asset will be recognised applying the modified retrospective transition approach which results in the right-of-use asset having the same value as the lease liability. No adjustments to retained profits or restatements of prior periods are made under this method. Operating lease commitments will no longer be disclosed, these will be replaced with disclosures that assess the effect that leases have on the financial position, financial performance and cash flows of the Group.

Management has performed a detailed review of lease contracts as at 31 March 2019. Based on this review, the estimated impact of the transition to AASB 16 is summarised below if it had been in effect during the FY2019 year:

Note F.5 New accounting standards not yet adopted (continued)

Consolidated statement of financial position as at 31 March 2019:

	Before adoption of AASB 16 $M	Impact of AASB 16 $M	Adjusted $M
ASSETS			
Non-current assets			
Property, plant and equipment	6,331.0	45.1	6,376.1
Total non-current assets	**9,820.6**	**45.1**	**9,865.7**
Total assets	**10,626.5**	**45.1**	**10,671.6**
LIABILITIES			
Current liabilities			
Lease liability	-	1.6	1.6
Total current liabilities	**1,531.4**	**1.6**	**1,533.0**
Non-current liabilities			
Lease liability	-	43.5	43.5
Total non-current liabilities	**7,653.1**	**43.5**	**7,696.6**
Total liabilities	**9,184.5**	**45.1**	**9,229.6**

Consolidated income statement for the year ended 31 March 2019:

	Before adoption of AASB 16 $M	Impact of AASB 16 $M	Adjusted $M
Operating lease rental expense	(7.4)	7.4	-
Other costs	(26.2)	0.1	(26.1)
Earnings before interest, tax, depreciation and amortisation	**684.5**	**7.5**	**692.0**
Depreciation and amortisation	(347.7)	(5.8)	(353.5)
Net finance costs	(225.7)	(3.1)	(228.8)
Profit before income tax	**111.1**	**(1.4)**	**109.7**
Income tax expense	(39.8)	0.4	(39.4)
Profit for the year	**71.3**	**(1.0)**	**70.3**

Consolidated statement of cash flows for the year ended 31 March 2019:

	Before adoption of AASB 16 $M	Impact of AASB 16 $M	Adjusted $M
Profit for the year	71.3	(1.0)	70.3
Add back interest, tax, depreciation	613.2	8.5	621.7
Net interest paid	(298.7)	(3.1)	(301.8)
Net cash inflow from operating activities	**258.0**	**4.4**	**262.4**
Repayment of lease liability	-	(4.4)	(4.4)
Net cash inflow from financing activities	**27.0**	**(4.4)**	**22.6**
Net (decrease)/increase in cash held	**(265.5)**	**-**	**(265.5)**

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 2019 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 2019 of the Group;

(b) the results of those operations; or

(c) the state of affairs, in financial years subsequent to 31 March 2019, 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 31 to 80, and the remuneration disclosures that are contained in the Remuneration report set out on pages 13 to 27 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 2019 and of 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
12 May 2019

Independent Auditor's Report

To the shareholders of AusNet Services Holdings Pty Ltd

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 2019 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 2019
- Consolidated income statement, Consolidated statement of comprehensive income, Consolidated statement of changes in equity, and Consolidated statement of cash flows for the year then ended
- Notes including a summary of significant accounting policies
- Directors' Declaration.

The ***Group*** consists of AusNet Services Holdings Pty Ltd (the Company) and the entities it controlled at the year-end or from time to time during the financial year.

Basis for opinion

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

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

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

Key Audit Matters

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

- Taxation – assessment of uncertain tax position
- Recognition of revenue
- Valuation of non-current assets including property, plant and equipment and intangible assets
- Accounting for project related expenditure
- Valuation and accounting for derivatives

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

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

Taxation – Assessment of uncertain tax position (AUD $11m)

Refer to Note B.4 Income Tax of the Financial Report.

The key audit matter	How the matter was addressed in our audit
The assessment of uncertain tax position is a key audit matter due to the complexity of relevant tax legislation and the audit effort required in the assessment of the Group's estimates and assumptions. The Group has recognised a tax risk provision in relation to the uncertainty over income tax treatment as set out in note B.4 amounting to $11m, based on a probability-weighted range of possible outcomes. This provision is recognised in relation to matters subject to an Australian Tax Office (ATO) audit arising from the Pre-Lodgement Compliance Review for the income years 31 March 2016 and 31 March 2017. There is significant effort involved in the audit of the judgemental provisions in respect of uncertain tax positions. The estimates and assumptions applied by the Group may be subsequently challenged by the relevant tax authorities. In assessing this key audit matter, we involved our senior taxation specialists, who have industry-specific experience and detailed knowledge of the complex Australian taxation requirements and the ATO's compliance program activities.	Working with our taxation specialists, our procedures included: • Examining the tax audit notification and other relevant correspondence received from the ATO to understand the current status of the ATO audit; • Attendance at Audit and Risk Management Committee and Tax risk committee meetings in order to understand the analysis and submissions being prepared by the Group; • Considering tax advice obtained by the Group from external tax advisors. We assessed the skills and competencies of the external advisors; • Challenging the appropriateness of the assumptions applied and estimates made in relation to the provision in determining the range of possible outcomes. We challenged these assumptions using our experience and knowledge of ATO audits and compliance programs, and applicable tax laws and regulations; and • Evaluating the uncertain tax position and potential exposures disclosure in the financial statements against accounting standards requirements.

<table>
<tr><th colspan="2">Recognition of revenue (AUD $1,162.8m)</th></tr>
<tr><td colspan="2">Refer to Note B.1 Segment results, Note B.2 Revenue from contracts with customers, Note B.3 Working capital and Section A(c) Change in accounting policies – AASB 15 Revenue from Contracts with Customers</td></tr>
<tr><td>The key audit matter</td><td>How the matter was addressed in our audit</td></tr>
<tr><td>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:
the application of regulator approved tariff rates, which are used to bill customers for the distribution of electricity and gas in Victoria. 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.
In addition, the Group adopted AASB 15 Revenue from Contracts with Customers at 1 April 2018. Given the significance of changes to accounting standards for Revenue, additional audit effort was required in regards to applicable disclosures.</td><td>Our procedures included:
considering the impact of relevant regulatory price determinations on the Group's revenue, including developments in respect of the Australian Energy Regulator's (AER) Rate of Return Guideline effective December 2018 and Review of Regulatory tax approach January 2019;
working with our Information Technology specialists and testing the key controls in 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 time the services were provided;
performing sample testing of customer contribution revenue recognised, comparing relevant amounts to cash received or the fair value of assets contributed and assessing the appropriateness of the timing of revenue recognition;
testing key controls within the billing system which calculate electricity and gas distribution revenue based on the Group's billing process;
analysing the revenue against historical performance and regulatory price determinations; and
assessing revenue recognition and Group disclosures in accordance with AASB 15 Revenue from Contracts with Customers.</td></tr>
</table>

<table>
<tr><th colspan="2">Valuation of non-current assets including property, plant and equipment (AUD $6,331.0m) and intangible assets (AUD $509.8m)</th></tr>
<tr><td colspan="2">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.</td></tr>
<tr><td>The key audit matter</td><td>How the matter was addressed in our audit</td></tr>
<tr><td>The valuation of non-current assets is a key audit matter due to the:

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.
</td>
<td>Our procedures included:

testing the key controls for the cash flow models, including Board approval of key assumptions and the 5 year Financial Plan, which form the basis of cash flow forecasts;
assessing the Group's cash flow model assumptions by:

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;
checking the relevant cash flow forecasts to the 5 year Financial Plan;
using our industry knowledge and information published by regulatory and other bodies to assess the reasonableness of assumptions and the impact of technology, market and regulatory changes on those assumptions;
involving our valuation specialists and assessing the reasonableness of the discount rates by considering comparable market rate information and evaluating the economic assumptions relating to cost of debt and cost of equity;
comparing carrying values of regulated CGUs to available market data, such as implied earnings and asset multiples of comparable entities; and
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.

assessing the accuracy of previous forecasts of
</td></tr>
</table>

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	the Group to inform the areas on which to focus in the current financial year; • assessing the Group's determination of carrying values of CGUs against the requirements of the accounting standards; • 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; and • assessing the appropriateness of the related financial statement disclosures against accounting standard requirements.

Accounting for project related expenditure (AUD $550.1m total additions)	
Refer to Note C.1 Property, plant and equipment of the Financial Report.	
The key audit matter	**How the matter was addressed in our audit**

Project related expenditure is a key audit matter due to the:
• 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 significant ongoing projects including the Rapid Earth Fault Current Limiter (REFCL) program and ongoing residential gas connections; and
• the complexity in auditing judgements made in respect of:
  o the classification between capitalised and operating expenditure;
  o whether capital projects represent future benefits to the Group;
  o whether indirect costs such as labour and overheads were allocated between capital and operating expenditure in accordance with accounting standards; and
  o the determination of the useful lives of capitalised assets.
	Our procedures included:
	• testing key controls for the:
	  o authorisation of new projects;
	  o monitoring of actual project expenditure against approved budgeted expenditure; and
	  o allocation between capital and operating expenditure in accordance with accounting standards.
	• analysing the indirect costs (e.g. corporate overhead, labour and finance cost) allocation methodology by challenging the underlying assumptions applied in the Activity Based Costing survey and capitalised finance charge models, and comparing the allocation of indirect costs against historical trends.
	For a sample of projects, our procedures included:
	• assessing the nature of costs capitalised as to future benefits to the Group in accordance with criteria in the accounting standards;
	• 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: o whether additional costs represent future benefits to the Group capable of capitalisation; and o 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.

Valuation and accounting for derivatives (AUD $612.2m assets; AUD $349.9m 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**
Valuation and accounting for derivatives is a key audit matter due to the: • size and complexity of the Group's derivative portfolios, in particular cross currency and interest rate swaps hedging foreign currency and Australian dollar denominated fixed and floating rate debt; • 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. 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.	With the assistance of our Financial Instrument and Treasury specialists, our procedures included: • 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; • evaluating a selection of derivative fair valuations using independent market observable inputs and industry accepted valuation techniques; • evaluating the adequacy of hedge designation documentation for a selection of new hedges in relation to the Group's documented Treasury Risk Management policy and accounting requirements; • obtaining independent confirmation from counterparties with which the Group has borrowings or derivative financial instruments and comparing these to accounting records; and • evaluating the appropriateness of the classification and presentation of derivative financial instruments and related financial risk

	management disclosures against accounting standard requirements.

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 and Company's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Group and Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

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

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

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

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

Report on the Remuneration Report

Opinion

In our opinion, the Remuneration Report of AusNet Services Holdings Pty Ltd for the year ended 31 March 2019, 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 the Directors' report for the year ended 31 March 2019.

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

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Paul J McDonald

Paul J McDonald

Partner

Melbourne

12 May 2019