AusNet Services Holdings Pty Ltd
ACN 086 006 859

Financial Report

For the financial period ended 31 December 2022

Directors' Report

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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 operations and its principal activities is included in the Directors' report.

The financial report was authorised for issue by the Directors on 31 March 2023.

Directors' Report

The Directors of AusNet Services Holdings Pty Ltd (the Company) present their report on the general purpose financial report of the consolidated entity for the nine-month period from 1 April 2022 to 31 December 2022 (2022 period). The financial report is for AusNet Services Holdings Pty Ltd and its controlled entities (we, us, our, AusNet Services Holdings Group or the Group).

Our Board of Directors

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

Tony Narvaez *(Chief Executive Officer*)

Mark Ellul *(Chief Financial Officer)*

Change in Financial Year

The former ultimate Australian parent entity of the Group, AusNet Pty Ltd (formerly AusNet Services Ltd), was acquired by Australian Energy Holdings No 4 Pty Ltd (AEH4) on 16 February 2022 by a consortium of investors including Brookfield (Brookfield consortium). Following the acquisition, the AusNet Services Holdings Group changed its financial year end from 31 March to 31 December to align with the new ultimate Australian parent entity, Australian Energy Holdings No 1 Pty Ltd (AEH1) and Brookfield, a major shareholder.

As a result of this change, these financial statements are for the nine-month period from 1 April 2022 to 31 December 2022. Prior year comparatives are for the financial statements for the year ended 31 March 2022.

Operating & Financial Review

The period to 31 December 2022 represents the Group's first end of financial year since being acquired (indirectly) by the Brookfield Consortium. This period includes the impact of several items driven by the acquisition:

- The Group joined a new tax consolidated group with AEH1 as the head entity. This impacted the Group via the 'push-down' of the revised tax base amounts, which has had a significant impact on deferred tax balances.
- The finalisation of the tax return for the previous tax consolidated group, with several items still under review by the ATO.
- An increase to dividend payments from the Group.
- An increase in gearing reflected in higher recorded borrowings and interest.

In addition to the above acquisition-related items, the following key financial impacts occurred during the period:

- Finalisation and commencement of settlement of a historical employee under-payment matter, following comprehensive management review and consultation with the Fair Work Ombudsman Australia. (Refer to Note B.3 in the financial statements)
- Completion of an enterprise-wide operating model review to embed efficient operations and a sustainable cost base moving forward (Refer to Note B.3 in the financial statements)
- Draft GAAR submitted with increased allowances to previous years
- Continued progress on flagship unregulated infrastructure projects
- Response to several extreme weather events and timely restoration of supply to our customers, in co-operation with our delivery partners
- Continued progress on key strategic projects including IT application Cloud Migration and the Asset Risk Management initiative.

In addition, during the period the AER released its Draft Decision for the Gas Access Arrangement Review (GAAR) for 2023-2028 in December 2022. This included consideration of the Victorian Government's Gas Roadmap and its impact on the regulated gas network. The results of this decision are noted in the Material Risks and Uncertainties section below.

Review of Financial Results

This discussion and analysis is provided to assist readers in understanding the general purpose financial report. In addition to revenue and profit, we use Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) and EBITDA after lease income (EBITDAaL) to measure our performance, which are non-IFRS measures. (EBITDA and EBITDAaL are reconciled to IFRS measures in Note B.1 in the financial statements.) These measures are referred to below in our analysis. The results below are for the period from 1 April 2022 to 31 December 2022 for the Group, with comparatives shown for the year ended 31 March 2022. Commentary has been provided on a nine month period to 31 December 2022 vs. nine month period to 31 December 2021 comparative basis where applicable.

	December 2022 (9 months)	March 2022 (12 months)
Revenue ($M)	1,020.1	1,220.3
EBITDA ($M)	637.8	670.8
NPAT ($M)	1,110.3	63.4

The increase in net profit after tax is largely driven by the income tax benefit recognised of $939.7 million. The AusNet Services Holdings Group joined a new tax consolidated group following the acquisition of AusNet Pty Ltd Group on 16 February 2022. The tax consolidation event has resulted in the re-measurement of the tax base of assets and liabilities contributing to the recognition of net deferred tax assets of $148.0 million, a change from net deferred tax liabilities of $620.4 million recognised at 31 March 2022, driving the majority of the income tax benefit recognised.

Strong revenue growth contributed to revenue and EBITDA figures comparable to FY2022, despite the shorter financial period. This was largely driven by the electricity distribution segment, which on a 9 month vs. 9 month basis saw strong revenue growth. In addition, operating costs were lower due to several non-recurring items in the prior period including outage penalties for the severe weather events in June and October 2021.

Further details regarding revenue and operating expense performance are contained in each business segment commentary below.

Electricity distribution business

	December 2022 (9 months)	March 2022 (12 months)
Revenue ($M)	**780.3**	926.6
EBITDA ($M)	**494.9**	497.1
Capital expenditure ($M)	**309.1**	447.2

The electricity distribution segment showed strong revenue growth through a combination of the regulated price path, and revenue cap outperformance on volumes.

In addition, there was strong growth in customer contributions revenue driven by continued network growth. Operating costs decreased due to non-recurring items in the prior year, primarily due to decrease in service level payments, with the prior period including outage payments for the severe weather events in June and October 2021.

Capital expenditure in 2022 was driven by replacement spend, customer connections and continued spend on the Rapid Earth Fault Current Limiter (REFCL) tranche 3 works. On a 9 month comparative basis, capital expenditure decreased due largely to non-recurring items in the previous period including the Lilydale depot purchase, emergency response expenditure for the extreme weather events noted above and the near-completion of the Metering Compliance project.

Gas distribution business

	December 2022 (9 months)	March 2022 (12 months)
Revenue ($M)	**199.5**	237.7
EBITDA ($M)	**142.0**	165.8
Capital expenditure ($M)	**77.4**	113.0

Results for the gas segment were largely comparable on a 9 month basis, with an increase in revenues due to customer contributions, higher gas volumes driven by weather conditions and the sale of gas meter inventory to Downer (partially offset in cost of sales).

Operating costs were well managed in the period. This translated into EBITDA growth for the gas segment.

Capital expenditure was largely consistent for the period, showing a decrease due to lower customer and metering works (reflecting the lead time between customer capital spend and revenue recognition).

Development & Future Networks business

	December 2022 (9 months)	March 2022 (12 months)
Revenue ($M)	**40.3**	56.0
EBITDA ($M)	**0.9**	7.9
Lease interest income ($M)	**0.8**	1.6
EBITDA after lease income (EBITDAaL) ($M)	**1.7**	9.5
Capital expenditure ($M)	**19.4**	18.4

Revenues and operating costs were largely consistent on a 9 month comparative basis, showing a small decrease due to the prior period including revenues from the discontinued Geospatial business line (offset in operating costs).

Capital expenditure saw strong growth on a 9 month comparative basis due to investments in new business lines, including renewable Power Purchase Agreements with small & medium enterprises, stand alone power systems for regional communities, Ancillary services in the NEM spot market (including the Phillip Island battery system) and continued spend on Project EDGE to establish the distributed energy resources (DER) marketplace.

Material Risks and Uncertainties

The Board of AEH1 reviews and guides AusNet's system of risk management, compliance and internal controls, including setting the risk appetite. The Chief Executive Officer is accountable to the AEH1 Board for the implementation of risk management processes across all entities in the AusNet Pty Ltd Group, including AusNet Services Holdings Pty Ltd and its subsidiaries. Management is responsible for embedding sound risk management practices across all business activities.

Risks are identified, assessed and managed across the organisation via various methods and utilising our risk management framework and tools. The status of the material strategic and business risks is reported to executive management regularly, while all risks are reviewed by risk owners and subject matter experts regularly to ensure the risk description and consequences are up-to-date, appropriate controls are identified, and that those controls are adequate and effective in managing the risk to the target risk rating.

We are cognisant of the following principal risks which may materially impact the execution and achievement of our business strategy, financial performance and position.

Health and safety risks

Occupational health and safety are key risk areas in the operation and maintenance of energy distribution and transmission networks. There are risks caused by circumstances beyond the Group's control, as well as the inherently dangerous nature of operation, maintenance and construction work across our networks.

The Group's businesses also give rise to the risk of claims by (individual, industrial or commercial) customers and/or the community as a result of the dangers associated with:

- downed power lines, broken gas mains, oil spills and other events in connection with the construction, operation, management and maintenance of our networks and other related assets; and
- infrastructure leasing and licensing and providing specialist utility, government, energy and water services such as vegetation management, asset inspection and condition monitoring, chemical testing, metering and water infrastructure services.

Although the Group has implemented various risk management systems designed to identify and closely manage risks to employees, contractors, customers and the community through its operations, the Group cannot assert beyond doubt that such systems are adequate. Incidents, including fatalities and severe injuries, have occurred in the course of the Group's business in the past and may occur in the future. These risks will expose the Group to potential material liabilities, such as claims, fines and increased expenses.

Industry and regulatory risks

The energy industry and Australian economy more broadly is experiencing a period of significant and rapid change and uncertainty, with concerns around environmental issues, energy security, reliability and affordability, as well in relation to inflation, financial stability, national security and foreign policy. Government, as well as various political, regulatory and industry bodies continue to debate, recommend and implement various reform programs that could have adverse impacts on the financial performance and position of AusNet.

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 the transformation required in the energy sector.

The Group's gas network revenues are exposed to variations in demand for gas and other factors affecting customer usage. The majority of the Group's gas distribution network revenues are derived from the transported volume of gas metered at the connections to the distribution networks. The volume of gas used is subject to seasonal fluctuations and to a range of variables, including economic conditions, population growth, government policy, weather, alternative energy sources, technology, energy saving behaviour and availability of adequate supplies of gas.

Economic downturns and customer relocations out of a distribution area would also have a direct adverse effect on the Group's revenues. Similarly, warmer than normal winters can negatively affect the volume of gas that moves through its network, which may reduce the portion of revenue which is exposed to volume movements. There could also be a potential negative reaction by consumers to higher prices resulting in reduced demand, which may negatively impact revenues.

There are long-term structural shifts in the energy industry, which may result in a reduction in gas demand and declining revenues from the Group's gas distribution business. In particular, community sentiment to remove all fossil fuels from the economy may drive policy action to transition away from gas. The Victorian Government is actively considering policies to encourage electrification along with increased appliance efficiency, and this could cause high rates of residential disconnection and gas demand could fall. Such changes increase the exposure of Group's gas distribution assets to stranding risk due to changes in demand.

AusNet is working proactively with the Australian Energy Regulator (AER) to manage the impact of these changes and to ensure appropriate capital recovery of our asset base. This includes consideration for accelerated depreciation allowances under future gas access arrangements.

Industry and regulatory risks (continued)

Price determinations

The energy industry in Australia is highly regulated. The regulated component of our revenues (approximately 87 per cent of total revenues for the period ended 31 December 2022) is 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.

AusNet has no ability or flexibility to charge more for regulated services than is provided for under the relevant AER determination (for electricity distribution), or the approved access arrangement (in respect of gas distribution), without regulatory approval. Regulatory control periods are generally five years with a mechanism to update tariffs annually. The upcoming revenue reset date for our electricity distribution network is 1 July 2026, for our electricity transmission network it is 1 April 2028, and our gas distribution network will reset prices for a 5-year period from 1 July 2023.

Regulated charges will not necessarily reflect actual 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, including revenues and cash flows. In addition, we are exposed to cost changes within a regulatory control period and bear the risk of any shortfall in allowances subject to limited pass-through protection. The regulator applies benchmarking as it considers appropriate to each network business. Operating expenditure is particularly subject to benchmarking comparisons to set efficient levels going forward. Our risk management approach includes developing detailed plans of works to be undertaken and costs to be incurred as well as energy and maximum demand forecasts prior to the commencement of a regulatory period.

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.

Gas Access Arrangement Review (GAAR) Draft Decision 2023-2028

The AER released its draft decision for the Gas Access Arrangement Review (GAAR) for 2023-2028 in December 2022. This included consideration of the Victorian Government's gas roadmap and its impact on the regulated gas network. Compared to AusNet's draft proposal, the decision included:

- Overall lower revenue of $1,205.2 million compared to $1,260.7 million
- Higher operating expenses of $335.7 million compared to $306.4 million
- Lower regulatory depreciation of $217.7 million compared to $385.0 million
- Higher inflation assumptions, and
- Lower cash tax allowance

AusNet continues to work proactively with the AER to balance the needs of customers, and the uncertainty with respect to the future of the gas network.

Climate change and sustainability risks

As an owner and operator of energy networks, AusNet 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. The implications of these changes are outlined in the industry and regulatory risks and network risks sections.

As discussed above, government intervention and policy responses to climate change may adversely impact the existing business model for the gas distribution network. the transition risks and opportunities arise from changes in customer preferences and developments in renewable energy and energy storage technology. These may lead to increased network constraints and lower network reliability / stability. As part of our active monitoring of new technology we undertake trials (including mini-grids), participate in regulatory and policy reviews and partner with other organisations to better understand risks and opportunities 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. We have continued our network resilience program to strengthen critical parts of the network and enhance contingency planning.

Climate change and sustainability risks (continued)

In 2021 as part of our Taskforce on Climate-related Financial Disclosures (TCFD) report we undertook an exercise to identify and assess risks and opportunities specifically related to climate change. These remain valid and continue to be managed by AusNet and in 2023 we will publish an updated TCFD report and disclose further progress in our approach to managing climate-related risks across our governance, strategy, risk management and metrics & targets.

Bushfire Risks

Historical fire events both domestically and overseas have resulted in substantial losses. These events are impacting the availability and pricing of bushfire liability insurance globally. AusNet has liability insurance which specifically provides cover for bushfire liability. AusNet reviews its insurance cover annually and seeks cover commensurate with the scale and size of its operations, the risks assessed to be associated with its operations and with industry standards and practice. Recent events have seen some insurers withdraw from the market and premiums rise. This will likely continue to occur for future renewals, thereby increasing the risk of not being able to source commensurate cover at a reasonable cost.

There are regulatory mechanisms in place under which, in certain circumstances, we may apply to the AER for a pass through of any reasonable and prudent residual costs that may ultimately be incurred in relation to bushfires above our liability insurance. This mechanism has yet to be tested in practice.

Risk management for these risks includes a significant annual investment in bushfire mitigation activities, the ongoing development and testing of emergency response plans and reviewing engineering standards and ratings for equipment. Investment is also being made in network resilience to strengthen critical parts of the electricity distribution network and enhance contingency planning. AusNet's network asset management and network maintenance programs are consistent with industry practice. We operate and maintain the distribution network in accordance with our Bushfire Mitigation and Vegetation Management Plans. These Plans are a legislative requirement which are approved and audited regularly by the technical regulator, Energy Safe Victoria. In addition, we continue our focus on customer engagement on community resilience, including pre-summer communications and media for customers to be bushfire ready.

Information technology and security risks

There is a growing focus required from organisations due to an increasing risk of cyber-attacks. Our cyber security function is mandated to protect our digital assets from an attack that could disrupt our operations, impact our customers or defraud our organisation, acknowledging the important role we play in providing critical infrastructure and services to the State of Victoria.

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 (by reducing our ability to realise operational efficiencies) 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.

To mitigate these risks, we have established a centralised architecture, delivery and governance capability with a focus on technology needs, designing and building to meet requirements and governance. We use the Australian Energy Sector Cyber Security Framework (AESCSF) to assess, evaluate, and improve our cyber security capability and maturity. In addition, as an operator of Systems of National Significance (SoNS) we must comply with the Security of Critical Infrastructure Act 2018 (SOCI) which requires us to strengthen the security and resilience of our critical infrastructure assets.

Network reliability and service delivery risks

Our energy distribution networks, and information technology systems are subject 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, and this could harm our business and reputation. Our emergency response, crisis management and business continuity management system are our approved methodology to guide response and recovery activities.

However, it may not be able to effectively protect our business and operations from these events.

AusNet is also exposed to risks regarding its design and installation, information technology and other service providers. We rely on the expertise, qualifications and adequacy and sustainability of financial and other resources of these service providers. 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, which may not be partly or fully covered by warranties.

Plant warranties may not be available or may only partially respond. Additionally, while incidents in our zone substations and terminal stations have property insurance cover, 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.

The changing generation mix in Victoria and the location of generators in the future may also impact the configuration and performance of the networks, increasing the risk of redundant assets as well as a risk of decline in the reliability and security of the networks. We continue to work closely with all stakeholders associated with the planning and development of generating capacity to manage such risk.

Rapid Earth Fault Current Limiter (REFCL) update

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 three Victorian distributors including AusNet 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.

We are installing these devices across 22 of our zone substations in Victoria. Each zone substation is attributed a compliance point score from 1 to 5 with the highest value attributed to those zone substations where the mitigation measure would provide the greatest benefit depending on the degree of bushfire risk. The table below details our progress to date and anticipated progress:

Compliance date	**Completed**	**To be completed**		**Total**
	1 November 2022	**1 May 2023**	**1 November 2023**	
Zone substations	19	2	1	22
Compliance points	56	6	2	64

The Group has achieved all compliance points in line with the required timeline shown above. Subject to Energy Safe Victoria (ESV) granting an extension for the deadlines of 1 zone substation and 2 compliance points from 1 May 2023 to 1 November 2023 requested on 6 March 2023, the Group expects to meet final compliance deadlines of 1 November 2023. This program presents several risks, which continue to be present and are being actively managed. The risk of penalties under the regime remains possible until the program is completed.

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 a distributor fails to achieve the number of points prescribed by the Regulations throughout the applicable period. The legislation provides that the Court can impose a maximum penalty of $2 million per point for each station for which a distributor has not achieved compliance. Accordingly, penalties of up to $10 million per zone substation can apply if AusNet 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 remains non-compliant.

Taxation risks

AusNet is subject to annual Australian Tax Office (ATO) reviews of the income tax return and various tax positions adopted by AusNet. There is a risk that changes in tax law, or changes in the way that tax laws are interpreted, may materially impact the tax liabilities of the Group.

The final tax return for the former tax consolidated group was completed in 2022. However, several items remain open with the ATO for this former group, including our objection in relation to certain tax consolidation positions arising from the corporate restructure completed in June 2015. Court proceedings commenced in relation to this matter during the year. If AusNet is successful, assets carried in the former tax consolidated group, will be subject to a tax base uplift from June 2015, giving rise to higher capital allowance deductions in the former group. In the absence of a final Court decision, potential tax base uplifts have not been recognised in financial statements or adopted in tax returns filed to date.

In addition to the above, the acquisition of the AusNet Group by the Brookfield consortium, gives rise to significant tax consolidation and tax base reset outcomes for the group moving forward. Given the nature and size of the transaction, extensive ATO review and engagement is expected, in support of the ATO gaining assurance over the positions adopted. Any interpretive differences that may arise during the ATO review process, could have a material impact on the Group's tax position going forward.

Balance sheet and capital management

Total equity of the Group was $1,664.6 million as at 31 December 2022, an increase of $951.1 compared to the previous financial year, primarily attributed to the income tax benefit recognised in the current period as a result of the tax consolidation event.

Our current liabilities exceeded our current assets by $129.6 million at 31 December 2022. The Group is, and is expected to continue trading profitably, generating positive operating cash flows and successfully refinancing maturing debt. In addition, at 31 December 2022, the Group had available a total of $802.5 million of undrawn but committed bank debt and overdraft facilities and $14.5 million of cash.

Non-current assets increased by $871.6 million compared to the prior year, primarily due to derivative fair value gains, and the recognition of deferred tax assets.

Non-current liabilities increased by $16.0 million due to higher borrowings, offset by the re-measurement of deferred tax liabilities.

Capital management

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

Debt raising and repayments

In line with our Treasury Risk Policy, we maintain a diversified debt portfolio by maturity and source. The AusNet Group, for whom the Company raises debt as its common or central funding vehicle, has a BBB+ credit rating from Standard and Poor's and Baa1 from Moody's Investor Services. During the period, $1.5 billion of the bridging facility novated to the Company from Brookfield and its co-investors at 31 March 2022 was repaid, partially using proceeds from syndicated bank debt facilities, of which $1.45 billion was drawn down on a 3-year and 7-year facility and $725.0 million was drawn down on a 10-year facility over the period. In addition $335.0 million of AUD medium-term-notes were repaid during the period.

Dividends

Following the acquisition by the Brookfield consortium (indirectly) of the AusNet Group, there has been an increase in overall dividends paid by the AusNet Services Holdings Group to its parent. Dividends paid during the period amounted to $462.3 million.

Introduction and Contents

This report sets out the executive remuneration outcomes for the performance period 1 April to 31 December 2022 (CY2022 or nine month period ended 31 December 2022). 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, direction and controlling the major activities of the Australian Energy Holdings No 1 Pty Ltd Group (including AusNet Pty Ltd Group and AusNet Services Holding Group), directly or indirectly. The report explains the AEH1 Board's reasoning and considerations on the design and application of the remuneration framework to deliver sustainable business performance and stakeholder outcomes.

The KMP are engaged to provide services to the AEH1 Group and are not exclusive to any particular AusNet entity. Whilst certain KMPs are not directly employed by the entities within the AusNet Services Holdings Group, their employment agreements state that they are expected to provide services to all entities within the greater AusNet Group. For regulatory setting purposes, costs including KMP remuneration are allocated across the businesses within the AusNet Pty Ltd group in accordance with the cost allocation methodology as approved by the Australian Energy Regulator (AER).

Accordingly, this report includes information that is common to AusNet Services Holdings Pty Ltd and AusNet Pty Ltd. The remuneration amounts reported represent the total remuneration received by KMP during the period for services to the AEH1 Group, and we have not apportioned between particular entities within the AEH1 Group.

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1 Key Management Personnel

The KMP are assessed each year by the Board and comprise the Directors of the company and Senior Executives.

Those that were assessed to be KMP for CY2022 were as follows:

Name	Position	Date appointed as KMP
Tony **Narvaez**	Director and Chief Executive Officer (**CEO**)	November 2019
Prue **Crawford-Flett**	Executive General Manager, Network Operations & Safety (**EGM NO&S**)	May 2020
Mark **Ellul**	Director and Chief Financial Officer (**CFO**)	September 2019
Chad **Hymas**	Chief Development Officer (**CDO**)	April 2013 (Resigned 19 January 2023)
Steven **Neave**	Executive General Manager, Network Management & Digital (**EGM NM&D**)	July 2020

2 Approach to Executive Remuneration in CY2022

AusNet owns and operates energy infrastructure that requires long term investment decisions. Our business decisions are made in this context and our approach to remuneration reflects the focus on outcomes that support the long-term growth, value creation and sustainability of our business.

We combine Fixed Annual Remuneration with Short and Long-Term Incentives to form an overall Total Remuneration position. The structure, plan design and market positioning are intended to attract and retain people who will execute our strategy and drive sustainable high performance over the short and long term.

Remuneration outcomes reflect both individual and overall company performance; this approach enables us to reward performance in ways that are aligned with stakeholder outcomes.

The AEH1 Board reviews the structure and effectiveness of the remuneration arrangements from time to time to ensure their alignment to business performance and strategy.

The table below provides the purpose of each remuneration component.

Fixed Annual Remuneration (FAR)	**Short-Term Incentive (at risk)**	**Long-Term Incentive (at risk)**
To attract and retain; paying competitively and reflecting each role's impact and accountabilities along with the incumbent's skills, experience, capability and performance.	To connect and reward for achievement against an annual balanced scorecard of measures aligned with the agreed strategic and financial plan. To drive and reward increments of outperformance against set targets.	To reward and retain executives and key contributors aligned with long-term value creation in line with stakeholder interests.

3 At Risk and Incentive Components

The following table summarises the relative size of the short- and long-term incentive reward components for KMP and the key performance measures and delivery mechanisms applicable for the performance period ended 31 December 2022.

	Short-Term Incentive (at risk)			Long-Term Incentive (at risk)		
Incentive Opportunity	Short- and Long-Term Incentive opportunities expressed as a percentage of FAR[1]					
	Threshold	**Target**	**Maximum**	**Threshold**	**Target**	**Maximum**
CEO	30%	60%	90%	50%	100%	150%
CDO	30%	60%	90%	30%	60%	90%
CFO	30%	60%	90%	25%	50%	75%
Other KMP	20%	50%	60%	25%	50%	75%
Performance Measures	• STI scorecard KPIs include selected financial and non-financial measures. • Three financial measures – EBITDA after lease income (EBITDAal), Cash Flow Available for Distribution / Reinvestment (CFADR) and Company Opex (excluding Development & Future Networks (D&FN)) focus on ability to grow revenues, control costs and effectively manage working capital. • Non-financial measures drive the importance of Health & Safety and delivery of strategic initiatives.			• The grant value of the Executive KMP LTI award is determined by an assessment of performance during the year against a LTI scorecard. • LTI scorecard KPIs have been chosen to focus on key drivers of long-term value creation for shareholders and include CFADR, regulated and DFN growth Capex, projected returns on unregulated projects and total equity value.		
Delivery mechanism	• STI awards for all Executive KMP are paid as cash.			• The LTI award is granted as notional Participation Interests (PIs) that vest over 5 years, subject to continued employment and Board discretion. • Each PI is a right to receive a cash amount calculated by reference to the value of AusNet and certain distributions paid in respect of an issued ordinary share in AusNet.		

Remuneration Mix

The respective total reward mix for KMP is as follows, assuming target vesting for STI and target grant value for LTI.

		At Risk	
	FAR	**STI**	**LTI**
CEO	39%	23%	38%
CDO*	46%	27%	27%
CFO	47%	29%	24%
Other KMP	50%	25%	25%

*As the CDO resigned on 19 January 2023, the CDO is not eligible for the LTI award

[1] Opportunities expressed as a percentage of FAR are for a full calendar year. As CY2022 was a shortened performance year equivalent to 0.75 of a full calendar year, opportunities were pro-rated to reflect this.

4 CY2022 Incentive Plans – Structure and Outcomes

CY2022 Short-Term Incentive Plan

The CY2022 STI Plan used a balanced scorecard of financial and non-financial measures that were aligned with the agreed strategic and financial plan.

The balanced scorecard outcome determined 70% of the overall CY2022 STI outcome for Executive KMP, with 30% being determined by individual performance assessed against KPIs aligned to strategic priorities and strength of leadership over the period.

KPIs aligned to strategic priorities are set by the Board for the CEO. For CY2022 the Board set the CEO's strategic KPIs to be aligned to the organisation's financial KPIs.

For other KMP, KPIs reflecting a cascade of the organisation's strategic priorities as appropriate for each role were applied.

CY2022 CEO STI Outcome

The Board reviewed the CEO's CY2022 STI scorecard performance including progress on strategic measures and an assessment on how results were achieved, including alignment to values, risk, compliance, enterprise leadership and employee engagement.

The outcome was 118 per cent of target performance resulting in 118 per cent of target STI opportunity or 79 per cent of maximum STI opportunity.

The table below provides a summary of the CEO's CY2022 STI Scorecard assessment.

	Measure	Strategy, performance and reward alignment	Outcome commentary
Financial	EBITDAal	EBITDA is considered the most relevant financial performance measure in the utilities industry as it represents a proxy for cash generation, which influences distribution growth and is aligned with stakeholder outcomes.	EBITDAal outcome was above target.
	CFADR	A core metric representing the cash generation of the business, which is directly linked to the capacity to pay distributions to shareholders.	CFADR outcome was above target.
	Company operating expenditure (excluding D&FN)	Constraining operating expenditure for the regulated business is critical to our benchmarking outcomes and considered a key lever in improving financial performance.	Company operating expenditure outcome was at target.
Strategic	Growth	The value of contestable contracts signed during the period acts as a lead indicator of future revenue growth.	Maximum outcome.
	Customer	The duration of unplanned system outages acts as a measure of the reliability of our distribution network, a determining factor in our customers' satisfaction.	Below target outcome, impacted by one major storm events.
Safety	HSEQ Index blends key lead and lag indicators focussed on the ongoing improvement of our safety performance and culture.		The HSEQ Index has strongly outperformed across all key components resulting in the maximum index score.
Individual KPIs	Objectives aligned to the organisation's four key strategic priorities: Customers, People, Operational Excellence and Growth.		Board assessed overall performance against the CEOs individual KPIs as being at target.

Executive KMP STI Outcomes

Executive KMP STI scorecards included the same assessed financial and safety weightings as for the CEO with individual strategic KPIs determined for each role. In addition, individual KMP were assessed on how results were achieved including their alignment to values, risk, compliance, enterprise leadership and employee engagement and the CEO determined discretion need not be applied.

The range of CY2022 STI outcomes for Executive KMP was between 109 per cent of target and 120 per cent of target STI opportunity, or 73 per cent to 80 per cent of maximum STI opportunity.

Executive Long-Term Incentive Plan (LTIP) 2022 Grant

The terms of the 2022 Executive LTIP Grant are summarised below. These grants were made to Executive KMP, and other eligible participants in March 2023.

<table>
<tr><th>Design Aspect</th><th>Commentary</th></tr>
<tr><td>Eligibility</td><td>Executive KMP. The Board has discretion to invite additional executives and employees to participate in the Executive LTI plan.</td></tr>
<tr><td>Opportunity</td><td>The LTI award opportunity is based on a percentage the participant's FAR and determined by the outcome of the Executive LTI scorecard of the financial year ended 31 December 2022 (see below), as determined by the Board.</td></tr>
<tr><td>Vesting Period</td><td>The 2022 LTI grant vests in five equal tranches over the five-year period, with the first vesting date being 31 March 2023 and the last being 31 March 2027.</td></tr>
<tr><td>LTI Scorecard Outcome</td><td>The Board assessed performance against the CY2022 Executive LTI scorecard and determined an outcome of 100% of target. The vesting of each of the below KPIs is on a linear basis between the threshold and maximum ranges.
<table>
<tr><th>Measure</th><th>Weighting</th><th>Alignment to long-term value creation for shareholders</th><th>Outcome Commentary</th></tr>
<tr><td>CFADR</td><td>15%</td><td>A core metric representing the cash generation of the business, which is directly linked to the capacity to pay distributions to shareholders or to reinvest.</td><td>Above target.</td></tr>
<tr><td>Regulated Capex (spent)</td><td>15%</td><td>Aligns to business objective to grow the regulated asset base.</td><td>At target.</td></tr>
<tr><td>DFN Growth Capex (spent)</td><td>15%</td><td>Increasing growth in unregulated cash flows.</td><td>Below threshold.</td></tr>
<tr><td>Weighted average DFN Growth Capex projected returns</td><td>40%</td><td>Ensure positive returns on growth projects.</td><td>Below target.</td></tr>
<tr><td>Total Value Created</td><td>15%</td><td>Overall growth in the value of the AusNet Group.</td><td>Above target.</td></tr>
</table></td></tr>
<tr><td>LTI Grant</td><td>The number of Participation Interests (PIs) granted is the LTI award opportunity divided by value of the company on a per share basis. The value per share for the 2022 grant was $1.37808.

The CEO was granted 625,875 PIs shortly after Board approval was received on 8 March 2023, being 100% of his Fixed Annual Remuneration (FAR) of $1,150,000 divided by the grant price of $1.37808, calculated on a pro-rata basis to account for the nine-month performance period. Other Executive KMP grants were made on 8 March 2023 and awarded at 50% of FAR, calculated on a nine-month pro-rata basis. 435,395 PIs were granted to other Executive KMPs.</td></tr>
</table>

5 KMP – Contract terms

The KMP were employed on the following contractual terms in the period:

	CEO	Other KMP
Term of agreement	Permanent, subject to six months' notice of termination by either party.	Permanent, subject to six months' notice of termination by either party.
Termination benefits	Nothing above statutory entitlements.	Termination benefits calculated at three weeks' pay for every year of service paid at the Executive KMP's FAR rate and capped at six months.
Post-employment obligations	Non-compete and non-solicitation obligations.	Non-compete and non-solicitation obligations.

6 Statutory Remuneration Disclosures

Executive KMP Statutory Remuneration

Remuneration for Executive KMP, in accordance with statutory requirements for remuneration disclosures are as follows:

		Short-term			Other short-term benefits [3, 6]			Post-employment	Other long-term benefits [5, 6]		
	FY	Cash salary and fees [6]	Dividend Equivalent Payment [7]	STI [1,2]	Annual Leave taken	Annual Leave Balance Accrued	Car Park	Super-annuation	Long-term incentive plan [4]	Long Service Leave Balance Accrued[5]	Total
Tony **Narvaez**	**CY2022**	**801,663**	**-**	**611,000**	**39,655**	**26,739**	**6,348**	**20,731**	**400,729**	**21,478**	**1,928,343**
	FY2022	1,114,387	61,367	762,450	8,602	79,521	9,585	27,115	1,844,952	28,640	3,936,619
Prue **Crawford-Flett**	**CY2022**	**328,088**	**-**	**225,000**	**26,820**	**2,047**	**6,348**	**18,846**	**87,115**	**9,339**	**703,603**
	FY2022	392,433	-	207,000	32,567	-	9,585	25,096	375,924	11,207	1,053,812
Mark **Ellul**	**CY2022**	**359,293**	**-**	**319,000**	**62,068**	**(27,429)**	**6,348**	**20,731**	**104,538**	**11,258**	**855,807**
	FY2022	544,194	1,257	397,800	30,709	13,793	9,585	27,115	372,779	14,942	1,412,174
Chad **Hymas**	**CY2022**	**418,956**	**-**	**297,000**	**9,195**	**25,445**	**6,348**	**20,731**	**-**	**11,258**	**788,933**
	FY2022	446,692	11,975	328,342	12,297	24,207	9,585	27,115	405,998	12,103	1,278,314
Steven **Neave**	**CY2022**	**330,529**	**-**	**224,000**	**26,820**	**2,047**	**6,348**	**19,630**	**87,115**	**9,339**	**705,828**
	FY2022	408,339	8,176	201,600	20,376	12,069	9,585	21,285	288,094	11,207	980,731
Total KMP[8]	**CY2022**	**2,238,529**	**-**	**1,676,000**	**164,558**	**28,849**	**31,740**	**100,669**	**679,497**	**62,672**	**4,982,514**
	FY2022	2,906,045	82,775	1,897,192	104,551	129,590	47,925	127,726	3,287,747	78,099	8,661,650

[1] *CY2022 STI amounts for the performance year ended 31 December 2022 were paid in March 2023. All CY2022 awards were paid in cash in March 2023 and were not subject to any deferral.*
[2] *FY2022 STI amounts for the performance year ended 31 March 2022 were paid in May 2022. All FY2022 awards were made in cash and were not subject to any deferral.*
[3] *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.*
[4] *The FY2022 LTI amounts relate to an equity-based payment long-term incentive plan prior to acquisition. As all performance rights were vested upon the change of control of AusNet on 16 February 2022, the amount included is equal to the estimated grant value of all awards that vested less any amount already accrued in previous years.*

6 Statutory Remuneration Disclosures (continued)

Executive KMP Statutory Remuneration (continued)

[5] Other long-term benefits include the accrual of long service leave entitlements.
[6] 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.
[7] FY2022 amounts relate to dividend equivalent payments paid upon vesting of deferred rights on change of control.
[9] Approximately 70% of the costs of KMP remuneration disclosure in the table are attributable to the ASH group. The cost allocation methodology as approved by the AER is used to determine this apportionment.

Short-Term Incentive Outcomes

The percentage of the available STI that was paid and percentage of target that was lapsed in the financial years ended 31 December 2022 and 31 March 2022, are set out below.

	CY2022		FY2022	
	STI paid ($) [1]	**Percentage of target payable**	**STI paid ($)**	**Percentage of target paid**
Tony **Narvaez**	611,000	118.0%	762,450	110.5%
Prue **Crawford-Flett**	225,000	120.0%	207,000	115.0%
Mark **Ellul**	319,000	118.0%	397,800	110.5%
Chad **Hymas**	297,000	109.8%	328,342	112.6%
Steven **Neave**	224,000	119.0%	200,600	112.0%

[1] *Incentive payments for the performance year ended 31 December 2022 were paid in March 2023.*

Long-Term Incentive Vesting Outcomes

2022 Executive Long-Term Incentive Plan

In accordance with the terms of the 2022 Executive LTIP grant, the Board determined that the vesting conditions of the first tranche of PIs had been met in full and as a result, 20 per-cent of the 2022 grant will vest on 31 March 2023.

Equity-based settled plan (pre-acquisition)

On 16 February 2022, AusNet was subject to a change of control event, being the sale to Brookfield under a scheme of arrangement (**Scheme**). Under the terms of AusNet's LTIP, the Board determined that upon the Scheme becoming effective, all outstanding LTIP grants would vest in full. As such, the 2022 Executive LTIP grant explained in section 5 was the only LTIP grant that remained on foot for Executive KMP.

Meetings of Directors

The number of meetings of the Board of Directors of AusNet Services Holdings Pty Ltd held during the period ended 31 December 2022, 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**
Tony Narvaez	6	6
Mark Ellul	6	6

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

Indemnification of insurance of directors and officers

The constitution of provides that the Company may indemnify each current and former director, alternate director or executive officer (as defined in the constitution), and such other current and former officers of the Company or of a related body corporate as the Board in each case determines (each an 'Officer'), on a full indemnity basis and to the full extent permitted by law against all losses, liabilities, costs and expenses (as defined in the constitution) incurred by the person as an officer of the Company or of a related body corporate.

The constitution also provides that the Company may, to the extent permitted by law, purchase and maintain insurance, or pay or agree to pay a premium for insurance, for Officers against any liability (as defined in the constitution) incurred as an officer of the Company or related body corporate, as the Board considers appropriate.

The Company may enter into a deed with any Officer to give effect to the rights conferred by the constitution as described previously or the exercise of discretion under the constitution, on such terms and conditions as the Board thinks fit, as long as they are not inconsistent with the constitution.

The Company has not executed protection deeds in favour of any of Officers. However, Australian Energy Holdings No 1 Pty Ltd has executed deeds in favour of Directors, Alternate Directors, Company Secretaries and executives of the Company and Australian based subsidiaries (who held office as of, or have come to hold office since, 17 February 2022) on substantially the same terms as provided in the constitution. The deeds also give a right of access to the books of the companies and to Board documents (to officers of the Company and Australian based subsidiaries, only).

The Company has not purchased, nor agreed to pay a premium for, insurance for the liabilities of Officers incurred in that capacity. However, during the period, an Affiliate (as defined in the constitution) paid a premium to insure Directors and Company Secretaries of the Company and Australian-based subsidiaries, as well as executives of the Group for relevant liabilities.

No insurance premiums are paid in respect of insurance cover provided to the auditor of the Company, Ernst & Young. 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 Group are important.

Details of the amounts paid or payable to the auditor, Ernst & Young, 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 AEH1 Audit and Risk 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:

Non-audit services (continued)

- all non-audit services have been reviewed by the Audit and Risk 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 22.

Environmental regulation and climate change

We were subject to both Federal and State Government environmental legislation during the period, including compliance with our obligations under the *Environment Protection Act 2017 (Vic)*, as amended by the *Environment Protection Act Amendment 2018*, which came into effect, 1 July 2021. This new Act reforms the legislative framework for the protection of human health and the environment from pollution and waste and introduces proactive duties, including, among other obligations, a General Environmental Duty (GED), a duty to manage contaminated land and a duty to notify the Environmental Protection Authority (EPA) of contamination that meets or exceeds certain notifiable thresholds. AusNet prepared for the changes through a detailed Readiness Action Plan. Since 1 July 2021, focus has shifted to embedding the changes, ensuring our continued legislative compliance and delivery against environmental continuous improvement activities.

The most significant areas of environmental legislation applying to AusNet are those which regulate noise 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 period 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 met these thresholds and have lodged our current year's NGER reporting with the Clean Energy Regulator for the period from 1 July 2021 to 30 June 2022.

Significant changes in the state of affairs

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

Rounding of amounts

AusNet is a company of a kind referred to in Instrument 2016/201, 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.

Matters subsequent to the end of the financial period

(a) Distribution

On 23 March 2023, the Board of AusNet Services Holdings Pty Ltd approved a dividend of $3.9 million to AusNet Services (Distribution) Pty Ltd.

(b) Other matters

There has been no matter or circumstance that has arisen since 31 December 2022 up to the date of issue of this financial report that has significantly affected or may significantly affect:

(a) the operations in financial period subsequent to 31 December 2022 of the Group;

(b) the results of those operations; or

(c) the state of affairs, in financial period subsequent to 31 December 2022, of the Group.

Directors' Report

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

Tony Narvaez
Director

Melbourne
31 March 2023

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Auditor's independence declaration to the directors of AusNet Services Holdings Pty Ltd

As lead auditor for the audit of the financial report of AusNet Services Holdings Pty Ltd for the financial period ended 31 December 2022, I declare to the best of my knowledge and belief, there have been:

a. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit;

b. No contraventions of any applicable code of professional conduct in relation to the audit; and

c. No non-audit services provided that contravene any applicable code of professional conduct in relation to the audit.

This declaration is in respect of AusNet Services Holdings Pty Ltd and the entities it controlled during the financial period.

Ernst & Young

Kester C Brown
Partner
31 March 2023

Consolidated income statement

For the period from 1 April 2022 to 31 December 2022

	Notes	9 months to 31 December 2022 $M	12 months to 31 March 2022 $M
Revenue	B.1, B.2	**1,020.1**	**1,220.3**
Use of system and associated charges		(102.4)	(123.6)
Employee benefits expenses		(84.2)	(123.9)
External maintenance and contractors' services		(91.7)	(122.2)
Materials		(7.8)	(11.0)
Information technology and communication costs		(39.7)	(49.6)
Lease expenses		(1.6)	(2.4)
Administrative expenses		(20.9)	(25.8)
Service level payments		(5.0)	(37.7)
Disposal of property, plant and equipment		(5.4)	(9.1)
Reversal of impairment/ (impairment) of right of use assets	C.1	1.8	(1.8)
Scheme of arrangement transaction costs		-	(26.8)
Other expenses		(25.4)	(15.6)
Total expenses excluding depreciation, amortisation, interest and tax		**(382.3)**	**(549.5)**
Earnings before interest, tax, depreciation and amortisation		**637.8**	**670.8**
Depreciation and amortisation	C.1, C.2	(262.7)	(342.2)
Profit from operating activities		**375.1**	**328.6**
Finance income	D.4	97.3	100.4
Finance costs	D.4	(301.8)	(339.3)
Net finance costs		**(204.5)**	**(238.9)**
Profit before income tax		170.6	89.7
Income tax benefit/(expense)	B.4	939.7	(26.3)
Profit for the year		**1,110.3**	**63.4**

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

Consolidated statement of comprehensive income

For the period from 1 April 2022 to 31 December 2022

	Notes	9 months to 31 December 2022 $M	12 months to 31 March 2022 $M
Profit for the year		**1,110.3**	**63.4**
Other comprehensive income			
Items that will not be reclassified to profit or loss in subsequent periods			
Movement in defined benefit fund	F.2	(12.0)	16.3
Income tax on movement in defined benefit fund	B.4	3.6	(4.9)
		(8.4)	**11.4**
Items that may be reclassified to profit or loss in subsequent periods			
Movement in hedge reserve		445.0	720.5
Income tax on movement in hedge reserve	B.4	(133.5)	(216.2)
	D.3	**311.5**	**504.3**
Other comprehensive income for the year, net of tax		**303.1**	**515.7**
Total comprehensive income for the year		**1,413.4**	**579.1**

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

Consolidated statement of financial position

As at 31 December 2022

	Notes	31 December 2022 $M	31 March 2022 $M
ASSETS			**Restated***
Current assets			
Cash and cash equivalents		14.5	270.8
Receivables	B.3	200.9	223.1
Finance lease receivables	C.4	0.4	1.4
Inventories	B.3	44.7	36.9
Derivative financial instruments	D.3	104.3	18.3
Other assets	B.3	30.1	20.0
Total current assets		394.9	570.5
Non-current assets			
Receivables	E.3	3,517.2	3,351.5
Property, plant and equipment	C.1	7,136.2	6,990.6
Intangible assets	C.2	520.4	527.8
Other financial assets	C.3	1.5	1.5
Finance lease receivables	C.4	9.1	8.1
Derivative financial instruments	D.3	814.5	387.1
Defined benefit asset	F.2	65.0	76.7
Deferred tax assets	B.4	148.0	-
Other assets	B.3	12.6	9.6
Total non-current assets		12,224.5	11,352.9
Total assets		12,619.4	11,923.4
LIABILITIES			
Current liabilities			
Payables and other liabilities	B.3	266.8	268.9
Lease liabilities	D.5	4.3	5.0
Provisions	B.3	65.2	73.3
Borrowings	D.2	-	338.3
Derivative financial instruments	D.3	188.2	110.1
Total current liabilities		524.5	795.6
Non-current liabilities			
Contract liabilities	B.3	109.5	114.0
Lease liabilities	D.5	25.4	29.1
Provisions	B.3	37.3	41.0
Borrowings	D.2	9,802.1	9,183.2
Derivative financial instruments	D.3	456.0	426.6
Deferred tax liabilities	B.4	-	620.4
Total non-current liabilities		10,430.3	10,414.3
Total liabilities		10,954.8	11,209.9
Net assets		1,664.6	713.5
EQUITY			
Contributed equity	D.6	2,678.1	2,678.1
Reserves		(1,475.9)	(1,787.4)
Retained profits/(losses)		462.4	(177.2)
Total equity		1,664.6	713.5

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

**Refer to Section A - (a) Basis of preparation for information on accounting policy in relation to classification of derivatives*

Consolidated statement of changes in equity

For the period from 1 April 2022 to 31 December 2022

	Notes	Contributed equity $M	Restructure reserve (i) $M	Hedge reserve (ii) $M	Asset revaluation reserve $M	Retained profits/(losses) $M	Total equity $M
31 December 2022							
Balance as at 1 April 2022		2,678.1	(2,000.0)	211.1	1.5	(177.2)	713.5
Total comprehensive income for the year							
Profit for the year		-	-	-	-	1,110.3	1,110.3
Other comprehensive income		-	-	311.5	-	(8.4)	303.1
Total comprehensive income for the year		**-**	**-**	**311.5**	**-**	**1,101.9**	**1,413.4**
Transactions with owners, recorded directly in equity							
Dividends (iii)	D.7	-	-	-	-	(462.3)	(462.3)
Total transactions with owners		**-**	-	-	-	**(462.3)**	**(462.3)**
Balance as at 31 December 2022		**2,678.1**	**(2,000.0)**	**522.6**	**1.5**	**462.4**	**1,664.6**
Balance as at 1 April 2021		1,625.1	-	(293.2)	-	(70.1)	1,261.8
Total comprehensive income for the year							
Profit for the year		-	-	-	-	63.4	63.4
Other comprehensive income		-	-	504.3	-	11.4	515.7
Total comprehensive income for the year		**-**	**-**	**504.3**	**-**	**74.8**	**579.1**
Transactions with owners, recorded directly in equity							
Dividends	D.7	-	-	-	-	(181.9)	(181.9)
Novation of bridging loan (i)		-	(2,000.0)	-	-	-	(2,000.0)
Equity injection (iv)	D.6	1,049.4	-	-	-	-	1,049.4
Fair value adjustments		-	-	-	1.5	-	1.5
Share based payment reserve	D.6	3.6	-	-	-	-	3.6
Total transactions with owners		**1,053.0**	**(2,000.0)**	**-**	**1.5**	**(181.9)**	**(1,127.4)**
Balance as at 31 March 2022		**2,678.1**	**(2,000.0)**	**211.1**	**1.5**	**(177.2)**	**713.5**

Consolidated statement of changes in equity

For the period from 1 April 2022 to 31 December 2022

(i) As a part of the financing for the acquisition of AusNet Pty Ltd Group, Australian Energy Holdings No 4 Pty Ltd (the new immediate holding entity of AusNet Pty Ltd) entered into a $2.0 billion two year bridging loan facility. On 9 March 2022, AusNet Holdings Pty Ltd assumed all liabilities of this facility. As there were no cash proceeds received for the novated facility, an entry to restructure reserves of $2.0 billion was recognised as an equity transaction with owners. Subsequent to the novation, $0.5 billion of the loan was re-financed on 30 March 2022. The proceeds of $0.5 billion received from the refinancing was used to repay the counterparty, resulting in $1.5 billion remaining in non-current borrowings at 31 March 2022. In the current period, the $1.5 billion outstanding bridging loan facility was repaid. $200.0 million was repaid in April 2022 using cash on hand and the remaining $1.35 billion was repaid using part of the proceeds from new syndicated debt facilities entered in June and July 2022. Refer to Note D.2 for further details.

(ii) The hedge reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments. These gains or losses are transferred to the income statement when the hedged item affects income, except for highly probable forecast purchases of an asset where the gains or losses are included in the initial measurement of that asset. During the year, $311.5 million of unrealised gains relating to hedged items (net of tax) was recognised in other comprehensive income, driving the movement in the hedge reserve (31 March 2022: $504.3 million).

(iii) In the current period, dividends of $462.3 million were paid to AusNet Services (Distribution) Pty Ltd. Refer to Note D.7.

(iv) In prior period, AusNet Services (Distribution) Pty Ltd, made two equity injections during the year. The equity injection of $1.0 billion was to cure the impact of AusNet Service Holdings Pty Ltd. assuming the $2.0 billion debt from Australian Energy Holdings No 4 Pty Ltd. The other equity injection of $49.4 million was made to apply excess funds from AusNet Services Ltd. Dividend Reinvestment Plan. Refer to D.6 for details.

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

Consolidated statement of cash flows

For the period from 1 April 2022 to 31 December 2022

	Notes	9 months to 31 December 2022 $M	12 months to 31 March 2022 $M
Cash flows from operating activities			
Profit for the year		1,110.3	63.4
Add back interest, tax, depreciation		(472.5)	607.4
Earnings before interest, tax, depreciation and amortisation		**637.8**	**670.8**
Non-cash gifted assets		(41.2)	(48.2)
Other non-cash items		3.6	12.3
Non-cash related party transactions		(139.0)	(68.8)
Working capital movement		(23.9)	18.5
Income tax paid		-	59.8
Net interest paid		(313.8)	(242.7)
Net cash inflow from operating activities		**123.5**	**401.7**
Cash flows from investing activities			
Payments for property, plant and equipment (i)		(351.0)	(527.8)
Proceeds from sale of property, plant and equipment		1.5	0.5
Receipts from finance lease receivables		0.2	0.2
Receipts from financial assets (ii)		-	669.8
Net cash (outflow)/ inflow from investing activities		**(349.3)**	**142.7**
Cash flows from financing activities			
Proceeds from/(repayments) of related party loans		90.0	(87.8)
Payments for lease liabilities	D.5	(3.5)	(5.3)
Dividends paid (v)	D.7	(457.0)	-
Proceeds from borrowings (iii)	D.2	2,175.0	500.0
Repayment of borrowings (iv)	D.2	(1,835.0)	(1,506.8)
Net cash outflow from financing activities		**(30.5)**	**(1,099.9)**
Net decrease in cash held		(256.3)	(555.5)
Cash and cash equivalents at the beginning of the year		270.8	826.3
Cash and cash equivalents at the end of the year		**14.5**	**270.8**

(i) Net finance costs include a credit of $5.0 million (31 March 2022: $7.1 million) for capitalised finance charges which is included in payments for property, plant and equipment.

(ii) There were no short-term deposits with a maturity date more than 3 months that were redeemed as cash during the period (31 March 2022: $669.8 million).

(iii) Proceeds from borrowings include $2.1 billion drawn for new syndicated facilities entered into during the period ended 31 December 2022. In prior year, a $2.0 billion bridging loan facility used for financing the acquisition of the AusNet group by Australian Energy Holdings No 4 Pty Ltd was assumed on 9 March 2022 with no cash proceeds. $500.0 million of the bridging loan was refinanced on 30 March 2022 and repaid on the same day.

(iv) Repayment of borrowings includes a $1.5 billion repayment of the bridging loan facility and a $335.0 million repayment of domestic medium-term notes.

(v) Dividends paid excludes withholding tax.

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

Notes to the consolidated financial statements

For the period from 1 April 2022 to 31 December 2022

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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 Australian Energy Holdings No 1 Pty Ltd, which is part of a consolidated group operating as AusNet (also referred to as us, our, we).

The Company's current parent, AusNet Pty Ltd (formerly AusNet Services Ltd), previously had ordinary equity securities trading on the ASX. On 16 February 2022, all shares in AusNet Services Ltd, the former ultimate Australian parent of the Company was acquired by Australian Energy Holdings No 4 Pty Ltd. Australian Energy Holdings No 4 Pty Ltd is wholly owned (indirectly) by Australian Energy Holdings No 1 Pty Ltd, which became the AusNet consolidated group's new ultimate parent in Australia. Following the acquisition, the ordinary equity securities of AusNet Services Ltd were delisted from the ASX whilst the debt instruments issued by AusNet Services Holdings Pty Ltd continues to trade on the ASX. As such, the Company is deemed to be a reporting entity.

To align with the financial year-end of its ultimate Australian parent, the Company's financial year-end was changed from 31 March to 31 December. Accordingly, financial statements have been prepared for the nine-month period from 1 April 2022 to 31 December 2022 and the prior period amounts for the year ended 31 March 2022 presented are not entirely comparable. Adjustments have been made to certain items in the comparative period financial statements and notes to align with presentation and classification in the current period financial statements.

During the current period, the Group presented the current and non-current classification of derivative assets and liabilities based on settlement dates of cash flows of the derivatives. Previously current and non-current classification derivatives was determined based on the maturity date of the instrument. The Group has restated prior year comparatives in the Statement of Financial Position and classification in Note D.3 to align with current period.

The financial statements were approved by the Board of Directors on 31 March 2023.

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 $129.6 million at 31 December 2022. The Group is, and is expected to continue trading profitably, generating positive operating cash flows and successfully refinancing maturing debt. In addition, at 31 December 2022, the Group has available a total of $802.5 million of undrawn but committed bank debt facilities and overdraft, and $14.5 million of cash;
- under the historical cost convention, except for certain financial assets and liabilities (including derivative financial instruments) measured at fair value;
- 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; and
- 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 2022. Refer to Note F.5.

(b) Critical accounting estimates and judgements

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

- B.2 – Variable consideration and satisfaction of performance obligations
- B.3 – Accrued revenue estimates
- B.3 – Measurement of environmental provision
- B.4 – Determination of deferred tax assets
- B.4 – Timing of and availability of tax deductions
- C.1 – Useful lives of property, plant and equipment
- C.3 – Assessments of recoverable amount
- D.3 – Fair value of derivative financial instruments
- D.5 – Lease terms and incremental borrowing rate
- F.2 – Valuation of defined benefit assets and obligations

Section B Operating our business

This section highlights the performance of the Group for the period, including results by operating segment, details of income tax expense and related balances. In addition, this section provides information on the working capital used to generate the Group's 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 Development & Future Networks business.

Segment revenues and expenses are those that are directly attributable to a segment and the relevant portion that can be allocated to the segment on a reasonable basis. Segment revenues, expenses and results include transactions between the segments that are eliminated on consolidation.

The Cost Allocation Methodologies as approved by the Australian Energy Regulator (AER) are used as the basis for allocating expenses to the relevant segment.

(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.

The electricity distribution segment does not purchase or sell electricity. Our electricity distribution network covers eastern Victoria including the eastern metropolitan region of Melbourne. 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.*

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.

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.

Note B.1 Segment results (continued)

(ii) Gas distribution

The gas distribution network carries natural gas to commercial and residential end users, including metering.

The gas distribution segment does not purchase or sell gas. Our gas distribution network covers central and western Victoria. 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.

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

(iii) Development & Future Networks

The Development & Future Networks segment provides contracted infrastructure asset and energy services, as well as a range of asset and utility services to support the management of electricity, gas, and water networks. Many of these services continue to be provided under the Mondo brand.

The Development & Future Networks segment also provides various asset and utility services to customers. Revenues from these services are recognised at a point in time as the services are rendered.

Note B.1 Segment results (continued)

(b) Reportable segment financial information

9 months to 31 December 2022	Electricity distribution $M	Gas distribution $M	Development & Future Networks $M	Consolidated $M
Regulated revenue	708.8	182.7	-	891.5
Customer contributions	66.3	11.0	-	77.3
Service revenue	-	-	36.7	36.7
Other revenue	5.2	5.8	3.6	14.6
Total segment revenue	**780.3**	**199.5**	**40.3**	**1,020.1**
Reversal of impairment	1.4	0.4	-	1.8
Segment operating expense	(286.8)	(57.9)	(39.4)	(384.1)
Segment result - EBITDA (i)	**494.9**	**142.0**	**0.9**	**637.8**
Lease interest income	-	-	0.8	0.8
EBITDAaL (ii)	**494.9**	**142.0**	**1.7**	**638.6**
Depreciation and amortisation	(210.5)	(47.7)	(4.5)	(262.7)
Capital expenditure	309.1	77.4	19.4	405.9
12 months to 31 March 2022				
Regulated revenue	856.5	217.2	-	1,073.7
Customer contributions	64.7	18.1	-	82.8
Service revenue	-	-	54.1	54.1
Other revenue	5.4	2.4	1.9	9.7
Total segment revenue	**926.6**	**237.7**	**56.0**	**1,220.3**
Impairment	(1.3)	(0.5)	-	(1.8)
Segment operating expense	(428.2)	(71.4)	(48.1)	(547.7)
Segment result - EBITDA (i)	**497.1**	**165.8**	**7.9**	**670.8**
Lease interest income	-	-	1.6	1.6
EBITDAaL (ii)	**497.1**	**165.8**	**9.5**	**672.4**
Depreciation and amortisation	(270.3)	(60.7)	(11.2)	(342.2)
Capital expenditure	454.1	113.0	18.4	585.5

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

(ii) EBITDA after lease interest income.

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) by including income items not in the scope of AASB 15 *Revenue from Contracts with Customers*.

9 months to 31 December 2022	**Electricity distribution**	**Gas distribution**	**Development & Future Networks**	**Total**
	$M	**$M**	**$M**	**$M**
Timing of recognition				
At a point in time	87.3	21.9	26.5	135.7
Over time	691.4	177.6	13.8	882.8
Revenue from contracts with customers	**778.7**	**199.5**	**40.3**	**1,018.5**
Other income not in scope of AASB 15				
Operating lease income	0.1	-	-	0.1
Income from government grants (i)	1.5	-	-	1.5
Total revenue	**780.3**	**199.5**	**40.3**	**1,020.1**
12 months to 31 March 2022				
Timing of recognition				
At a point in time	90.0	27.1	34.9	152.0
Over time	835.0	210.6	21.1	1,066.7
Revenue from contracts with customers	**925.0**	**237.7**	**56.0**	**1,218.7**
Other income not in scope of AASB 15				
Operating lease income	0.2	-	-	0.2
Income from government grants (i)	1.4	-	-	1.4
Total revenue	**926.6**	**237.7**	**56.0**	**1,220.3**

(i) Government grant income in the electricity distribution segment comprises grants under the Powerline Replacement Fund program whereby grants are received to fund bushfire safety capital expenditure, with income recognised over the life of the constructed assets.

Key estimates and judgements – Variable consideration and satisfaction of performance obligations

Variable consideration in relation to volume variances and CPI escalation are constrained to the period to which they occur.

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 estimates

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

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

	Assets	Assets	Liabilities	Liabilities
	31 December 2022	31 March 2022	31 December 2022	31 March 2022
	$M	$M	$M	$M
Accounts receivable/payable	10.6	8.8	(43.9)	(15.5)
Related party receivables/payables	84.2	115.1	(19.8)	(65.9)
Accrued revenue - other/accrued expenses	7.9	7.5	(95.0)	(89.5)
Contract assets (i)	98.1	91.6	-	-
Contract liabilities (ii)	-	-	(51.2)	(48.2)
Deferred revenue - government grants	-	-	(1.5)	(2.4)
Other receivables/payables	-	-	(11.7)	(9.8)
Interest receivables/payables	0.1	0.1	(43.7)	(37.6)
Total current receivables/payables and other liabilities	**200.9**	**223.1**	**(266.8)**	**(268.9)**
Current other assets	30.1	20.0	-	-
Non-current other assets	12.6	9.5	-	-
Non-current accounts receivable	-	0.1	-	-
Current inventory	44.7	36.9	-	-
Current provisions	-	-	(65.2)	(73.3)
Non-current provisions	-	-	(37.3)	(41.0)
Non-current contract liabilities (ii)	-	-	(38.1)	(39.9)
Non-current deferred revenue - government grants	-	-	(71.4)	(74.1)
Working capital	**288.3**	**289.6**	**(478.8)**	**(497.2)**

(i) Contract assets primarily relate to unbilled regulated distribution revenue from AEMO market participants (retailers). Invoices are raised on 30-day billing cycles for distribution and on 60-day cycles for gas.

(ii) Contract liabilities primarily relate to funds received in advance for customer contributions, telecommunications services and software maintenance fees. Revenue is recognised over the transaction period and contract term. Revenue recognised in the current period that was included in the contract liability balance at 1 April 2022 was $32.1 million (31 March 2022: $29.7 million). Of the total contract liabilities of $89.3 million we expect that approximately 57.3 per cent (31 March 2022: 54.8 per cent) of these performance obligations will be satisfied in the next twelve months, with the remainder satisfied over the long term.

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 expected credit losses.

Collectability of receivables is reviewed on an ongoing basis. Debts that are known to be uncollectable are written off. For accounts receivable, contract assets and lease assets, the Group applies the simplified approach for expected credit losses, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

Accounts receivable are non-interest bearing and the average credit period is 15 business days (10 days for regulated retailers, 30 days for customer contracts).

The following table provides information about the exposure to credit risk for trade receivables grouped by different revenue segment:

	Gross	Allowance	Gross	Allowance
	31 December 2022	31 December 2022	31 March 2022	31 March 2022
	$M	$M	$M	$M
Electricity Distribution	7.5	-	2.7	-
Gas Distribution	1.6	-	4.9	-
Development & Future Networks	1.7	(0.2)	2.8	(1.6)
Total	**10.8**	**(0.2)**	**10.4**	**(1.6)**

The movement in the allowance for impairment in respect of trade receivables during the year is as follows:

	9 months to 31 December 2022	12 months to 31 March 2022
	$M	$M
Opening loss allowance	(1.6)	(2.5)
(Increase) / decrease in loss allowance recognised in profit or loss during the year	1.4	0.7
Receivables written off during the year as uncollectible	-	0.2
Closing loss allowance	**(0.2)**	**(1.6)**

Receivables relating to regulated revenue streams (which account for approximately 87 per cent of revenues) are owed by retailers in the industry. There are strict regulatory requirements regarding who can obtain a retail licence and the Essential Service 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.

Growth & Future Networks' receivables primarily relate to large telecommunications, electricity and gas retail businesses and other utilities such as water and transport companies. Allowances are required to cover potential contractual disputes over services provided as well as delinquent customers.

(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

	31 December 2022 $M	31 March 2022 $M
Current provisions		
Employee benefits (i) (ii)	45.3	60.5
Sundry provisions (iii)	2.3	1.4
Redundancy provision	2.1	5.8
Make good provision	2.7	4.1
Environmental provision	12.8	1.5
Total current provisions	**65.2**	**73.3**
Non-current provisions		
Employee benefits (i)	3.8	4.7
Make good provision	3.5	4.4
Environmental provision	30.0	31.9
Total non-current provisions	**37.3**	**41.0**
Total provisions	**102.5**	**114.3**

(i) Employee benefits provisions represent provisions for annual and long service leave for our employees as well as provisions for employee bonuses and other accrued entitlements. 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.

Employee benefits provision also includes an amount provided for in relation to the Executive Long-Term Incentive Plan. Refer to Note F.3.

(ii) Included within the employee benefits provision is the employee wages remediation provision of $2.9 million (31 March 2022: $14.3 million), raised for costs associated with underpayment of wages to certain employees of the subsidiaries of the AusNet Pty Ltd Group, pre-acquisition, under the current Enterprise Agreement. The provision recognised represents the difference in salaries paid to past and current employees and payments they would be entitled to under the terms of the Enterprise Agreement, plus interest and gratuity payments agreed with parties involved. In the current period, the review process was completed, and an agreement was reached with Fair Work Ombudsman and the Unions. The Company has made payments of $7.7 million to past and current employees in the period, with the provision balance of $2.9 million representing remaining payments to be made.

(iii) Sundry provisions mostly include uninsured losses and provisions for cross boundary charges.

Key estimates and judgements – Measurement of environmental provision

Provisions include an environmental provision of $42.8 million, which represents an estimate of costs to remediate soil and water contamination on gas sites which were previously used as coal production facilities. The provision is based on preliminary cost estimates and timing of remediation, considering current legal and regulatory requirements, the estimated extent of the contamination, the nature of the site and surrounding areas, and the technologies and methods available. Management is exploring a number of strategies for future land use options for the three sites, with the estimation of the provision at period end being based on the current preferred option. The extent of remediation activities and associated costs may differ significantly depending on which option is ultimately chosen, and on other factors impacting the extent of ultimate remediation effort and underlying cost that are not known at balance date. As a result there is a risk that in the event of full remediation of all three sites, the cost may significantly exceed the provision at 31 December 2022. Site investigations are ongoing and there has been no significant updates to estimated costs in the current period.

Note B.4 Taxation

Following the acquisition of the AusNet Pty Ltd Group on 16 February 2022 by the consortium of investors (including Brookfield), AusNet Services Holdings Pty Ltd joined a tax consolidated group headed by Australian Energy Holdings No 1 Pty Ltd and is subject to a new tax funding arrangement. Australian Energy Holdings No 1 Pty Ltd will file its first tax return for the tax consolidated group for the period ending 31 December 2022.

Key estimates and judgements – Determination of deferred tax assets

This tax consolidation event resulted in a reset and increase in the tax base of depreciable assets for the AusNet Services Holdings Group, which has created an estimated deductible temporary difference of $5.1 billion. The increase in the tax base of depreciable assets represents an estimate, as the tax consolidation calculations are subject to change upon finalisation of the tax consolidation calculations for the submission of Australian Energy Holdings No 1 Pty Limited’s first tax return.

Recognition of an associated Deferred Tax Asset for this deductible temporary difference was assessed under the requirements of AASB 112 Income Taxes, based on the forecasted taxable income of the AusNet Services Holdings Group, and an amount of $148.0 million was recognised. Management judgment has been applied to determine the amount of Deferred Tax Assets that can be recognised based on forecast taxable income. A level of uncertainty is associated with the estimation of forecast future taxable income. The full deferred tax asset relating to the step-up of the tax bases was not recognised at 31 December 2022, as it was assessed as not being probable of utilisation at the date of the financial report. If the Group was able to recognise all unrecognised deferred tax assets, profit and equity would have increased by $676.7 million.

The Deferred Tax Asset has been recognised against income tax expense, representing the uplift in future tax depreciation. This amount is subject to re-assessment in future periods based on management’s forecasted taxable income.

Key estimates and judgements – Timing and availability of tax deductions

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 Company. 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.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and considers whether it is probable that a taxation authority will accept an uncertain tax treatment. The group measures its tax balances either based on the most likely amount or the expected value, depending on which method provides a better prediction of the resolution of the uncertainty.

At present there are several tax positions of the tax consolidated group that are being reviewed by the ATO. Matters relating to the former AusNet Pty Ltd tax consolidated group include but are not limited to an objection lodged by AusNet Services Group in relation to certain tax consolidation and capital allowances positions arising from the corporate restructure completed in June 2015. In relation to the tax consolidation element of the 2015 corporate restructure objection, the potential uplift in tax bases has not been recognised in the financial statements of AusNet.

The matters being considered by the ATO are at various stages and include items that could have both a positive or negative impact on the currently recognised tax positions.

Note B.4 Taxation (continued)

(a) Effective tax rate reconciliation

	9 months to 31 December 2022 $M	12 months to 31 March 2022 $M
Profit before income tax	170.6	89.7
Tax at the Australian tax rate of 30.0% (2022: 30.0%)	51.2	26.9
Tax effect of amounts which are not (taxable)/ deductible in calculating taxable income:		
Prior year under provisions	-	0.1
Impact of amended assessments (i)	-	(6.9)
Tax risk provision (ii)	6.6	6.6
Non-deductible impairment	(0.3)	(0.9)
Sundry items	-	0.5
Impact of tax consolidation event (iii)	(997.2)	-
Income tax (benefit)/expense	**(939.7)**	**26.3**
Consists of:		
Current tax	(41.4)	(39.3)
Prior year under/(over) provision – current tax	-	(21.7)
Deferred tax	(898.3)	65.7
Prior year (over)/under provision – deferred tax	-	21.6
Income tax (benefit)/expense	**(939.7)**	**26.3**

(i) During prior year, amended assessments for FY2016 to FY2019 were lodged with the ATO, with a number of changes to the timing of deductions for property, plant and equipment. Part of these changes relate to the period prior to the 2015 tax consolidation event and as such, they increase the reset tax base amount under the consolidation event. A $6.9 million credit to tax expense has been recognised as a result of this higher reset tax base amount and is based on the amended assessments.

(ii) As noted above, the acquisition on 16 February 2022 resulted in the forming of a new tax consolidated group. The formation of this group resolved the uncertainty with respect to the tax risk provision for the capital allowances from the 2015 corporate restructure. As a result, a $6.6 million income tax expense was recognised for the year ended 31 December 2022 (31 March 2022: $6.6 million), representing the increase of the provision recognised within deferred tax liabilities from its probability weighted balance to the full balance.

(iii) $997.2 million of income tax benefit is recognised in relation to the re-measurement of the tax base of assets and liabilities as a result of the tax consolidation event, the change in the net deferred tax liabilities of $620.4 million recognised at 31 March 2022 relating to the former tax consolidation group and the recognition of the $148.0 million in deferred tax assets.

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

31 December 2022	1 April 2022 $M	Impact of tax consoli-dation event $M	Impact of amended assess-ments $M	Prior year (under)/ overs $M	(Charged)/ credited to income statement $M	Charged/ (credited) directly in equity $M	31 December 2022 $M
Employee benefits	17.5	-	-	-	(3.7)	-	13.8
Other accruals and provisions	61.6	-	-	-	2.0	-	63.6
Other financial assets	-	-			0.3	-	0.3
Derivative financial instruments and fair value adjustments on borrowings	(83.8)	83.3			(1.9)	(133.5)	(135.9)
Defined benefit funds	(23.2)	23.2	-	-	0.1	3.6	3.7
Intangibles	(26.7)	26.7	-	-	-	-	-
Property, plant and equipment	(565.8)	1,540.7	-	-	(95.7)	-	879.2
Net deferred tax assets/(liabilities)	**(620.4)**	**1,673.9**	-	-	**(98.9)**	**(129.9)**	**824.7**
Less: DTA not recognised	-	(676.7)	-	-	-	-	(676.7)
Net deferred tax assets recognised	**(620.4)**	**997.2**	-	-	**(98.9)**	**(129.9)**	**148.0**

31 March 2022	1 April 2021 $M	Impact of tax consoli-dation event $M	Impact of amended assess-ments $M	Prior year (under)/ overs $M	(Charged)/ credited to income statement $M	Charged/ (credited) directly in equity $M	31 March 2022 $M
Employee benefits	17.7	-	-	-	(0.2)	-	17.5
Other accruals and provisions	59.7	-	-	(2.2)	4.1	-	61.6
Derivative financial instruments and fair value adjustments on borrowings	119.1	-	-	0.5	12.8	(216.2)	(83.8)
Defined benefit funds	(18.7)	-	-	-	0.4	(4.9)	(23.2)
Intangibles	(26.7)	-	-	-	-	-	(26.7)
Property, plant and equipment	(463.1)	-	(21.8)	1.9	(82.8)	-	(565.8)
Net deferred tax liabilities	**(312.0)**	**-**	**(21.8)**	**0.2**	**(65.7)**	**(221.1)**	**(620.4)**

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 is 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

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 lives of property, plant and equipment

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, including but not limited to asset condition and obsolescence, location of supply and demand and estimated transformation in the energy market, including the changing source of generation and the Gas Substitution Roadmap currently being developed by the Victorian Government (refer to note C.5). Any reassessment for useful lives in a particular year will affect the depreciation expense.

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.

Included within this note are leases where the Group is a lessee, which are disclosed as right-of-use assets. The Group leases various offices, land and buildings that have lease terms that are typically for fixed periods, but certain lease arrangements have extension options. In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option. Extension options are only included in the lease term if the lease is reasonably certain to be extended. The right-of-use assets (measured at cost comprising the amount if the initial measurement of the lease liability and any other initial direct costs) are depreciated over the shorter of the assets' useful life and the lease term on a straight-line basis (refer to Note D.5).

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Notes to the consolidated financial statements
For the period from 1 April 2022 to 31 December 2022

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

	Freehold land	Buildings	Easements	Electricity distribution network	Gas distribution network	Other plant and equipment	Right-of- use asset (ii)	Capital work in progress (iii)	Total
	$M	$M	$M	$M	$M	$M	$M	$M	$M
Useful life (years)	Indefinite	40-99	Indefinite	5-70	15-80	3-12	1-47	n/a	
31 December 2022									
Carrying amount as at 1 April 2022	45.6	143.5	3.6	4,743.4	1,716.2	47.5	26.1	264.7	6,990.6
Lease modifications	-	-	-	-	-	-	-	-	-
Lessor transfers	-	-	-	-	-	-	-	(0.9)	(0.9)
Additions	-	-	-	-	-	-	-	364.5	364.5
Transfers	(1.0)	2.9	-	210.6	72.4	10.6	-	(295.5)	-
Reversal of impairments (i)	-	-	-	-	-	-	1.8	-	1.8
Disposals	-	-	-	(3.5)	(2.7)	(0.7)	-	-	(6.9)
Depreciation expense	-	(1.8)	-	(159.1)	(40.5)	(12.3)	0.8	-	(212.9)
Carrying amount as at 31 December 2022	**44.6**	**144.6**	**3.6**	**4,791.4**	**1,745.4**	**45.1**	**28.7**	**332.8**	**7,136.2**
Cost	44.6	163.8	3.6	7,607.0	2,542.8	553.9	46.8	332.8	11,295.3
Accumulated depreciation	-	(19.2)	-	(2,815.6)	(797.4)	(508.8)	(18.1)	-	(4,159.1)
Carrying amount as at 31 December 2022	**44.6**	**144.6**	**3.6**	**4,791.4**	**1,745.4**	**45.1**	**28.7**	**332.8**	**7,136.2**

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

	Freehold land	Buildings	Easements	Electricity distribution network	Gas distribution network	Other plant and equipment	Right-of-use asset	Capital work in progress	Total
	$M	$M	$M	$M	$M	$M	$M	$M	$M
Useful life (years)	Indefinite	40-99	Indefinite	5-70	15-80	3-12	1-47	n/a	
31 March 2022									
Carrying amount as at 1 April 2021	25.0	118.3	3.6	4,617.4	1,674.6	62.1	42.3	280.0	6,823.3
Lease modifications	-	-	-	-	-	-	(8.2)	-	(8.2)
Lessor transfers	-	-	-	-	-	-	-	(2.0)	(2.0)
Additions	-	-	-	-	-	-	-	482.5	482.5
Transfers	20.6	27.6	-	337.6	97.2	9.0	-	(492.0)	-
Impairments (i)	-	-	-	-	-	-	(1.8)	-	(1.8)
Reclassification from intangibles (ii)	-	-	-	-	-	-	-	(3.8)	(3.8)
Disposals	-	-	-	(4.7)	(3.5)	(0.5)	-	-	(8.7)
Depreciation expense	-	(2.4)	-	(206.9)	(52.1)	(23.1)	(6.2)	-	(290.7)
Carrying amount as at 31 March 2022	**45.6**	**143.5**	**3.6**	**4,743.4**	**1,716.2**	**47.5**	**26.1**	**264.7**	**6,990.6**
Cost	45.6	160.8	3.6	7,426.4	2,477.8	560.4	46.0	264.7	10,985.3
Accumulated depreciation	-	(17.3)	-	(2,683.0)	(761.6)	(512.9)	(19.9)	-	(3,994.7)
Carrying amount as at 31 March 2022	**45.6**	**143.5**	**3.6**	**4,743.4**	**1,716.2**	**47.5**	**26.1**	**264.7**	**6,990.6**

(i) During the year, a $1.8 million impairment reversal was recognised in relation to impairment taken in the prior period relating to a leased office space that the Group ceased to use as a result of our office transformation and refurbishment project. The Group started to use the space in the current period, resulting in the reversal of the impairment.

(ii) In the current year, depreciation expense for right-of-use assets includes a credit adjustment of $5.6 million made to correct for historical depreciation expense.

(iii) In prior period, an impairment of $3.8 million in relation to the Geospatial business recognised historically was reclassified from software to capital works in progress (refer to Note C.2).

Note C.2 Intangible assets (continued)

	Distribution licences (i)	**Goodwill** (ii)	**Software** (iii)	**Total**
	$M	**$M**	**$M**	**$M**
Useful life (years)	Indefinite	Indefinite	3-10	
31 December 2022				
Carrying amount as at 1 April 2022	354.5	12.0	161.3	527.8
Additions	-	-	43.1	43.1
Disposals			(0.7)	(0.7)
Amortisation expense	-	-	(49.8)	(49.8)
Carrying amount as at 31 December 2022	**354.5**	**12.0**	**153.9**	**520.4**
Cost	354.5	35.8	675.1	1,065.4
Accumulated impairment	-	(23.8)	(3.1)	(26.9)
Accumulated amortisation	-	-	(518.1)	(518.1)
Carrying amount as at 31 December 2022	**354.5**	**12.0**	**153.9**	**520.4**
31 March 2022				
Carrying amount as at 1 April 2021	354.5	12.0	106.0	472.5
Additions	-	-	103.0	103.0
Impairment reclassified to capital works in progress (iv)	-	-	3.8	3.8
Amortisation expense	-	-	(51.5)	(51.5)
Carrying amount as at 31 March 2022	**354.5**	**12.0**	**161.3**	**527.8**
Cost	354.5	35.8	656.5	1,046.8
Accumulated impairment	-	(23.8)	(3.1)	(26.9)
Accumulated amortisation	-	-	(492.1)	(492.1)
Carrying amount as at 31 March 2022	**354.5**	**12.0**	**161.3**	**527.8**

(i) 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.

(ii) 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. There were no assets impaired in the current period. In prior period, the impairment of $6.9 million of software previously recognised was partially reclassified to capital works in progress in the current year to reflect the final apportionment of the impairment.

Note C.2 Intangible assets (continued)

(iii) 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) In prior period, \$3.8 million of the \$6.9 million of impairment to software previously recognised was reclassified to capital works in progress to reflect the final apportionment of the impairment (refer to Note C.1).

Note C.3 Other financial assets

	31 December 2022 $M	31 March 2022 $M
Investment in equity instrument	1.5	1.5
Balance at 31 December 2022	**1.5**	**1.5**

Investment in equity instrument

The balance represents the Group's investment in Geospatial.AI Pty Ltd. The Group assessed that it does not have significant influence over the business and elected to account for the remaining 20% interest as a financial asset measured at fair value through other comprehensive income. We have assessed that the investment is not impaired as at 31 December 2022.

Note C.4 Finance lease receivables

Lessor finance receivables

The Group has determined that its dedicated unregulated customer connection assets meet the definition of a finance lease, resulting in de-recognition of property, plant and equipment and the recognition of a financial asset. The financial asset is initially measured at the present value of remaining revenue receipts, discounted at the interest rate implicit in the lease. In order to calculate the interest rate implicit in the lease, the Group has determined that the construction costs of the asset are equivalent to its fair value.

During the period, the Group recognised interest income on lease receivable of $0.8 million (31 March 2022: $1.6 million).

	31 December 2022 $M	31 March 2022 $M
Lessor finance receivables – current	0.4	1.4
Lessor finance receivables – non-current	9.1	8.1
Balance at 31 December 2022	**9.5**	**9.5**

The maturity analysis of lessor finance receivables is disclosed in Note D.3 (d).

Note C.5 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 – Assessment of recoverable amount

Key estimates and judgements have been applied in the discount rate, terminal regulated asset base (RAB) multiples, and terminal values used in the measurement of recoverable amount. These assumptions have been determined with reference to historical information, current performance and expected changes and take into account external information such as input costs, supply and demand. Such estimates may change as new information becomes available. The recoverable amount is sensitive to the discount rate and other inputs and assumptions, particularly in the Gas Distribution CGU, and could impact results of impairment testing in the future should there be movements and changes to our inputs and assumptions.

We have considered the impact of climate change and the transition to renewable energy sources on impairment modelling assumptions and related risks. One of the underlying assumptions is that an appropriate regulatory response and framework will continue to exist throughout the forecast period so as to mitigate any potential risk of asset impairment or other financial outcomes that would otherwise act to materially reduce the net present value of future cash flows attached to our regulated businesses due to the impact of climate change and related Government policy response. This includes the risk of potential long term structural shifts to the energy industry, including the Gas Substitution Roadmap being developed by the Victorian Government, which under certain scenarios may result in lower gas demand and declining revenues in the gas distribution business and CGU. These scenarios have not been reflected in year-end impairment model assumptions given the Government's final Roadmap outcomes are yet to be released, and there is uncertainty regarding whether and when these outcomes will be implemented by way of Government policy in the future. In addition, there are appropriate mechanisms under the regulatory framework that support recoverability of the assets value under these scenarios.

We will continue to closely monitor this as Government's policy response to the energy transition becomes more certain.

Note C.5 Impairment of non-current assets (continued)

The following CGUs have intangible assets with an indefinite life:

	Cash flow projection period (i)		**Post –tax discount rate** (ii)		**Perpetual growth rate** (iii)		**Carrying value**	
	31 December 2022	**31 March 2022**	**31 December 2022**	**31 March 2022**	**31 December 2022**	**31 March 2022**	**31 December 2022**	**31 March 2022**
Regulated CGUs	**years**	**years**	**%**	**%**	**%**	**%**	**$M**	**$M**
Electricity distribution (distribution licence)	10	10	5.3	4.6	2.0	2.5	117.2	117.2
Gas distribution (distribution licence)	10	10	5.3	4.6	2.0	2.5	237.3	237.3
Unregulated CGUs								
Growth & Future Networks – field services (goodwill)	5	5	18.0	12.3	2.0	2.5	12.0	12.0

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. Due to the regulated nature of our industry and vast amount of historical information available, we are able to build detailed, explicit and reliable financial forecasts for periods longer than five years. Consequently, fair value less costs to sell for Regulated CGUs are determined using forecasted cash flows over a ten-year period.

(ii) The discount rate represents the post-tax discount rate applied to the cash flow projections. The discount rate reflects the market determined risk adjusted discount rate that is adjusted for specific risks relating to the CGU.

(iii) The perpetual growth rate represents the growth rate applied to extrapolate our cash flows beyond the forecast period. These growth rates are based on our expectations of the CGUs' long-term performance in their markets.

Appropriate terminal values were calculated using a range of both RAB multiples and perpetual growth rates. Assumptions were re-assessed in the current period from prior year based on updated plan and forecasts following the acquisition of the AusNet Group and current economic environment. 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*. Value in use for Growth & Future Networks CGUs is determined using forecasted cash flows over the five-year forecast period.

Note C.6 Capital commitments

(a) Capital commitments

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

	31 December 2022	**31 March 2022**
	$M	**$M**
Property, plant and equipment	116.3	137.4

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

We manage our capital structure in order to maximise the long-term returns to shareholders. We achieve this by being disciplined in the pursuit of the following objectives:

- Targeting credit metrics over the medium term that maintain a ‘BBB+/Baa1’ range credit rating, thereby providing financial flexibility and a low cost of capital.
- Managing financial risk prudently to ensure net exposures are maintained within target settings.
- Funding capital expenditure efficiently through various sources to meet the Board’s long-term strategic objectives

We review our capital structure and dividend policy regularly and do so in the context of our ability to continue as a going concern over the long term, to invest in opportunities that grow the business and to enhance shareholder value.

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. Refer to Note D.2 for more information. The R&CAB consists of the following items:

- Regulated Asset Base (RAB). The RAB is an economic measure used by the regulator based on regulated capital expenditure adjusted for CPI indexation and regulatory depreciation; and
- The value of contracted network assets, based on the carrying value of contracted assets in Note C.1 and other financial assets in Note C.3. The revenues and returns for contracted assets 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.

The net debt to R&CAB ratio as at reporting date was as follows. This ratio does not include equity credits in relation to $1,731.9 million of hybrid securities. Refer to Note D.2 for the face value of hybrid securities.

	31 December 2022 %	**31 March 2022 %**
Net debt to R&CAB	85.5	84.5

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)	
	Maturity date	31 December 2022 $M	31 March 2022 $M	31 December 2022 $M	31 March 2022 $M
Current borrowings					
Domestic medium term notes		-	338.3	-	335.0
Total current borrowings		**-**	**338.3**	**-**	**335.0**
Non-current borrowings					
Hong Kong dollar (HKD) senior notes	2026 - 2034	752.2	729.8	700.0	700.0
Domestic medium term notes	2024 - 2043	2,386.6	2,474.0	2,550.0	2,550.0
Bank debt facilities (iii), (iv)	2025 - 2032	2,157.8	1,499.9	2,175.0	1,500.0
Euro (EUR) senior notes	2024 - 2030	2,238.8	2,217.0	2,426.2	2,426.2
Japanese yen (JPY) senior notes	2024	56.3	55.7	62.6	62.6
US dollar (USD) senior notes	2026	113.6	106.1	107.0	107.0
Norwegian kroner (NOK) senior notes	2027 - 2029	463.7	505.0	565.8	565.8
Australian dollar (AUD) hybrid securities (ii)	2080	649.6	649.5	650.0	650.0
Euro (EUR) hybrid securities (ii)	2081	983.5	946.2	1,081.9	1,081.9
Total non-current borrowings		**9,802.1**	**9,183.2**	**10,318.5**	**9,643.5**
Total borrowings		**9,802.1**	**9,521.5**	**10,318.5**	**9,978.5**
less:					
Cash and cash equivalents		14.5	270.8	14.5	270.8
Net debt		**9,787.6**	**9,250.7**	**10,304.0**	**9,707.7**

(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 October 2025 for AUD hybrids and September 2026 for EUR hybrids.

(iii) In June and July 2022, the Company entered into new syndicated facilities. Part of the proceeds were used to repay the remaining bridging loan facility balance to fund the acquisition and general corporate purposes. As at 31 December 2022, $2,175.0 million was drawn down from these facilities.

(iv) In prior period, as a part of the financing for the acquisition of the AusNet Services Group, Australian Energy Holdings No 4 Pty Ltd (the immediate holding entity of AusNet Services Ltd) entered into a $2.0 billion two year bridging loan facility. On 9 March 2022, AusNet Holdings Pty Ltd assumed all liabilities of this facility. As a result, there was no cash proceeds received for the novated facility and an entry to restructure reserves of $2.0 billion was recognised as an equity transaction with owners. Subsequent to the novation, $0.5 billion of the loan was re-financed on 30 March 2022. The proceeds of $0.5 billion received from the refinancing was used to repay the counterparty, resulting in $1.5 billion remaining in non-current borrowings at 31 March 2022.

Note D.2 Borrowings (continued)

(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 December 2022. The fair value of total borrowings as at 31 December 2022 was $9,847.8 million (31 March 2022: $10,245.0 million).

(c) Financial covenants

The terms of certain financing arrangements contain financial covenants that require the Group to maintain a certain credit rating or to maintain specified interest coverage ratios and gearing ratios. 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 within the Group 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 $7.3 million was provided to third parties at 31 December 2022 (31 March 2022: $7.3 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 December 2022:

	1 April 2022	Proceeds	Repayments	Foreign exchange movements	Fair value adjustment	Funding costs	31 December 2022
	$M	$M	$M	$M	$M	$M	$M
Current	338.3	-	(335.0)	-	(3.3)	0.0	-
Non-current	9,183.2	2,175.0	(1,500.0)	289.9	(333.2)	(12.8)	9,802.1
Total	**9,521.5**	**2,175.0**	**(1,835.0)**	**289.9**	**(336.5)**	**(12.8)**	**9,802.1**

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 periodically. Any material changes are submitted to the Board for approval.

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

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

The Treasury Risk Policy operates in conjunction with several other AusNet 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; and
- 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.

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 uses a Trailing Average Portfolio approach to setting the weighted average cost of debt. 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 December 2022 was 90.4 per cent (31 March 2022: 91.2 per cent).

Note D.3 Financial risk management (continued)

(a) Interest rate risk (continued)

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.

	31 December 2022 $M	31 March 2022 $M
Financial assets		
Related party receivables (i)	3,517.2	3,351.5
Fixed rate instruments	13.0	220.0
Floating rate instruments	0.7	40.5
Financial liabilities (ii)		
Fixed rate instruments	(9,328.8)	(8,901.2)
Floating rate instruments	(989.5)	(1,077.3)

(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 191 basis points as at 31 December 2022 (31 March 2022: 88 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)	
	31 December 2022 $M	31 March 2022 $M	31 December 2022 $M	31 March 2022 $M
Increase in Australian interest rates with all other variables held constant	(11.6)	-	6.9	3.9
Decrease in Australian interest rates with all other variables held constant	11.6	-	(6.9)	(3.9)

There have been no changes in the methods and assumptions used in preparing the sensitivity analysis as compared to the previous period.

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.

Note D.3 Financial risk management (continued)

(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.

(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 settlement date of cash flows of the derivatives (see Section A – (a) Basis of preparation).

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
31 December 2022				
Current assets	104.1	0.2	-	104.3
Non-current assets	745.2	0.6	68.7	814.5
Current liabilities	(24.4)	(0.2)	(163.6)	(188.2)
Non-current liabilities	(136.7)	(0.6)	(318.7)	(456.0)
Total derivative financial instruments	**688.2**	**-**	**(413.6)**	**274.6**
Consists of:				
- fair value hedges	(150.6)	-	(506.1)	(656.7)
- cash flow hedges	838.8	-	93.3	932.1
- not in a hedge relationship	-	-	(0.8)	(0.8)
Total derivative financial instruments	**688.2**	**-**	**(413.6)**	**274.6**
31 March 2022 (Restated)				
Current assets	18.2	-	0.1	18.3
Non-current assets	332.2	0.2	54.7	387.1
Current liabilities	(29.2)	-	(80.9)	(110.1)
Non-current liabilities	(138.5)	(0.5)	(287.6)	(426.6)
Total derivative financial instruments	**182.7**	**(0.3)**	**(313.7)**	**(131.3)**
Consists of:				
- fair value hedges	(43.6)	-	(439.3)	(482.9)
- cash flow hedges	226.2	-	126.4	352.6
- not in a hedge relationship	0.1	(0.3)	(0.8)	(1.0)
Total derivative financial instruments	**182.7**	**(0.3)**	**(313.7)**	**(131.3)**

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 December 2022 is $23.8 million (31 March 2022: $15.5 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.

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

(iii) Offsetting derivative financial instruments

Derivative assets and liabilities are presented on a gross basis. As such, as at 31 December 2022, the amount netted in other financial assets and other financial liabilities is nil (31 March 2022: nil). Certain derivative assets and liabilities are subject to enforceable master netting arrangements with individual counterparties if they were subject to default, although these financial assets and liabilities do not meet the criteria for being presented on a net basis.

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 period:

	Change in value of hedged item used to measure ineffectiveness	Change in value of hedging instrument used to measure ineffectiveness	Hedge ineffectiveness recognised in profit or loss (i)	Nominal amounts of hedging instruments (ii)
	$M	$M	$M	$M
Interest rate risk	(438.3)	457.3	(11.6)	14,583.9
Foreign currency risk – debt	49.5	(57.4)	7.4	7,814.4
Foreign currency risk – capital expenditure	30.6	(30.7)	-	39.9
	(358.2)	369.2	(4.2)	22,438.2

(i) Included in the line items 'Finance income' and 'Finance costs' within 'Net finance costs' in the Consolidated statement of comprehensive income.

(ii) 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 $15,678.6 million (31 March 2022: $23,666.7 million).

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

	9 months to 31 December 2022	12 months to 31 March 2022
	$M	$M
Opening balance of cash flow hedge reserve	211.1	(293.2)
Amounts recognised in other comprehensive income, net of income tax:		
Changes in fair value of cash flow hedges (excluding foreign currency basis spreads)	664.4	554.6
Amounts reclassified to interest expense for effective hedges (i)	(222.5)	192.1
Changes in foreign currency basis spreads	3.1	(24.1)
Tax effect	(133.5)	(218.3)
Total amounts recognised in other comprehensive income, net of income tax	**311.5**	**504.3**
Closing balance of cash flow hedge reserve	**522.6**	**211.1**

(i) The profit or loss from foreign exchange movement of hedging instrument largely offsets by the profit or loss from the foreign exchange movement of the borrowings in an effective hedge relationship.

Note D.3 Financial risk management (continued)

(c) Derivative financial instruments used to hedge interest rate and currency risks (continued)

(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	(3,035.6)	149.7	148.8	(148.8)	1,268.0
Foreign currency denominated borrowings	(6,766.5)	320.8	325.3	(325.3)	5,834.5
	(9,802.1)	470.5	474.1	(474.1)	7,102.5

(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 $15,678.6 million (31 March 2022: $23,666.7 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)

31 December 2022	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								
Cash and cash equivalents		14.5	14.5	14.5	14.5	-	-	-
Accounts and other receivables	B.3, E.3	3,718.1	3,718.1	3,718.1	3,718.1	-	-	-
Finance lease receivable	C.4	9.5	9.5	10.2	1.4	1.4	4.3	3.1
Derivative financial assets			918.9	1,064.3	92.2	132.8	311.5	527.8
			4,661.0	**4,807.1**	**3,826.2**	**134.2**	**315.8**	**530.9**
Financial liabilities								
Trade and other payables	B.3	266.8	266.8	266.8	266.8	-	-	-
Lease liability	D.5	29.7	29.7	32.5	4.9	4.8	14.1	8.7
Bank debt facilities		2,175.0	2,157.8	2,175.0	-	-	700.0	1,475.0
Domestic medium term notes		2,550.0	2,386.6	3,315.4	98.9	223.9	701.6	2,291.0
Foreign senior notes		3,861.5	3,624.6	4,248.6	81.6	622.1	1,578.8	1,966.2
Hybrid securities (i)		1,731.9	1,633.1	1,925.6	58.6	59.6	1,807.4	-
Derivative financial liabilities			644.3	1,115.7	188.6	201.6	413.8	311.7
			10,742.9	**13,079.7**	**699.4**	**1,112.0**	**5,215.7**	**6,052.6**
Net cash outflow				**(8,272.5)**	**3,126.8**	**(977.8)**	**(4,899.9)**	**(5,521.7)**
31 March 2022								
Financial assets								
Cash and cash equivalents		270.8	270.8	270.8	270.8	-	-	-
Accounts and other receivables	B.3, E.3	3,567.3	3,567.3	3,567.3	3,567.3	-	-	-
Finance lease receivable	C.4	9.5	9.5	11.3	1.4	1.4	4.3	4.2
Derivative financial assets			403.0	447.3	(46.5)	39.2	183.3	271.3
			4,250.6	**4,296.7**	**3,793**	**40.6**	**187.6**	**275.5**
Financial liabilities								
Trade and other payables	B.3	269.7	269.7	269.7	269.7	-	-	-
Lease liability	D.5	34.1	34.1	49.5	7.4	5.8	18.4	17.9
Bi-lateral bank debt		1,500.0	1,499.8	1,500.6	-	1,500.6	-	-
Domestic medium term notes		2,885.0	2,812.3	3,719.0	443.6	88.2	419.1	2,768.1
Foreign senior notes		3,861.6	3,613.6	4,330.9	82.4	622.9	1,419.3	2,206.3
Hybrid securities (i)		1,731.9	1,595.7	1,900.7	39.2	39.7	1,821.8	-
Derivative financial liabilities			534.3	880.5	106.4	108.8	354.6	310.7
			10,359.5	**12,650.9**	**948.7**	**2,366.0**	**4,033.2**	**5,303.0**
Net cash outflow				**(8,354.2)**	**2,844.3**	**(2,325.4)**	**(3,845.6)**	**(5,027.5)**

(i) Included within the Accounts and other receivables is the related party receivable of $3.5 million (31 March 2022: $3.4 million). Although contractually due on demand, the Group does not expect to realise cash flows within one year.

(ii) The table above assumes that the Group will exercise at the first call dates in October 2025 and September 2026. Full contractual cash flows continue until 2076, 2080 and 2081.

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 undrawn and committed financing facilities and overdraft facility available:

	31 December 2022			31 March 2022		
Financing facilities (face value)	**Amount used**	**Amount unused**	**Total**	**Amount used**	**Amount unused**	**Total**
	$M	**$M**	**$M**	$M	$M	$M
Unsecured bank overdraft facility, reviewed annually and payable at call	-	2.5	2.5	-	2.5	2.5
Unsecured working capital facility, reviewed annually	-	100.0	100.0	-	100.0	100.0
Unsecured bank loan facility with various maturity dates and which may be extended by mutual agreement	-	700.0	700.0	-	700.0	700.0
Total financing facilities	**-**	**802.5**	**802.5**	**-**	**802.5**	**802.5**

(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 D.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.

Expected credit losses for our receivables and financial assets (including contract assets) measured at amortised cost are estimated using a simplified approach, i.e. lifetime expected credit loss which results from all possible default events over the expected life of a financial instrument.

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 Committee and any changes to counterparties or their credit limits must be approved by the Chief Financial Officer 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.

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. The carrying amount of financial assets recorded in the financial statements, net of any allowances for losses, represents our maximum exposure to credit risk.

Note D.4 Net finance costs

	9 months to 31 December 2022 $M	12 months to 31 March 2022 $M
Finance income (i)		
Interest income	0.4	2.2
Interest income – related parties	96.1	96.6
Lease interest income	0.8	1.6
Total finance income	**97.3**	**100.4**
Finance costs (ii)		
Interest expense	295.1	337.8
Interest expense – leases	0.6	2.3
Other finance charges – cash	8.9	2.7
Other finance charges – non cash	7.4	7.1
Loss/(gain) on fair value hedges (iii)	3.6	(9.0)
Loss/(gain) on transactions not in a hedge relationship	(6.0)	7.7
Loss/(gain) on ineffective portion of cash flow hedges (iii)	(4.2)	(0.1)
Unwind of discount on provisions	3.1	(0.9)
Defined benefit net interest income	(1.7)	(1.2)
Capitalised finance charges (iv)	(5.0)	(7.1)
Total finance costs	**301.8**	**339.3**
Net finance costs	**204.5**	**238.9**

(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) Hedge ineffectiveness is mainly driven by changes in credit adjustment amounts.

(iv) 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 4.0 per cent (31 March 2022: 4.0 per cent) applicable to our outstanding borrowings at the end of the period.

Note D.5 Lease liabilities

	31 December 2022 $M	31 March 2022 $M
Opening carrying value	34.1	47.3
Lease modifications	(0.9)	(8.2)
Principal repayments	(3.5)	(5.0)
Closing carrying value	**29.7**	**34.1**
Comprising of:		
Current liability	4.3	5.0
Non-current liability	25.4	29.1
Total lease liabilities	**29.7**	**34.1**

The maturity analysis of lease liabilities is disclosed in Note D.3 (d).

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the Group's incremental borrowing rate. The lease liability is subsequently increased by the interest cost on the lease liability and decreased by the lease payments made. It is remeasured when there is a change in future lease payments arising from a change in an index or a rate (including reassessment of extension options).

To determine the incremental borrowing rate, the Group uses recent third-party financing received by the lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received with overlay adjustments specific to the lease term.

Payments associated with short-term leases and low-value assets are recognised on a straight-line basis as an expense within "Other expenses" in the consolidated income statement. Short-term leases are leases with a contractual term of 12 months or less. Furthermore, certain tax and insurance reimbursements to landlords do not convey a good or service to the Group and therefore are not included in the lease liability (non-lease payments). For the period ended 31 December 2022, $1.6 million of short-term or low value lease and non-lease payments have been recognised directly within the consolidated income statement (31 March 2022: $2.6 million).

Key estimates and judgements – Lease terms and incremental borrowing rate

The Group has applied judgement to determine the lease term for some lease contracts in which it is a lessee that include renewal options. The assessment of whether the Group is reasonably certain to exercise such options, as well as economic considerations including the value of leasehold improvements, impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognised.

The Group has estimated its incremental borrowing rate with reference to recently issued debt, quoted rates, and pricing information from debt investors for leases with terms longer than our average debt tenor.

Note D.6 Equity

Share capital	Notes	31 December 2022 $M	31 March 2022 $M
Ordinary shares – fully paid	(a), (b)	2,678.1	2,678.1

(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 2022	Opening balance	2,670,707,692	2,678.1
31 December 2022	**Closing balance**	**2,670,707,692**	**2,678.1**
1 April 2021	Opening balance	1,621,288,406	1,625.1
30 September 2021	Contribution from AusNet Services Ltd (i)	-	0.6
16 February 2022	Contribution from AusNet Services Ltd (i)	-	3.0
31 March 2022	Equity injection (ii)	49,419,286	49.4
31 March 2022	Equity injection (iii)	1,000,000,000	1,000.0
31 March 2022	**Closing balance**	**2,670,707,692**	**2,678.1**

(i) This represents the accounting for the AusNet Services Ltd Group’s share-based payment arrangements where the Group grants awards to its employees that were settled in the shares of the former parent, AusNet Services Ltd.
(ii) Equity injection to apply excess funds from AusNet Services Ltd Dividend Reinvestment Plan.
(iii) Equity injection to cure the impact of the Company assuming novated debt of $2.0 billion from Australian Energy Holdings No 4 Pty Ltd, relating to the financing for the acquisition of AusNet Services Group. Refer to Note D.2.

Note D.7 Dividends

The following dividends were approved by AusNet Services Holdings Pty Ltd during the current and previous periods. Dividends were paid from AusNet Services Holdings Pty Ltd to AusNet Services (Distribution) Pty Ltd.

31 December 2022	Total dividend $M
Total dividend	**462.3**

31 March 2022	Date declared	Cents per share	Total dividend $M
Funding for AusNet Services Ltd interim FY2022 dividend	30 September 2021	11.2	181.9
Total dividend		**11.2**	**181.9**

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**	**31 December 2022 %**	**31 March 2022 %**
AusNet Electricity Services Pty Ltd	Australia	Ordinary	100.0	100.0
AusNet Asset Services Pty Ltd	Australia	Ordinary	100.0	100.0
AusNet Gas Services Pty Ltd	Australia	Ordinary	100.0	100.0
Mondo Power Pty Ltd (i)	Australia	Ordinary	100.0	100.0

(i) In prior period, on 15 February 2022, the Group sold 80% of its interest in Geospatial business. The sale was implemented via a transfer of all assets and liabilities from Mondo Power Pty Ltd to a newly formed subsidiary, Geospatial.AI Pty Ltd, held by AusNet Electricity Services Pty Ltd. Immediately following the transfer, the Group sold 80% of its interest in Geospatial.AI Pty Ltd to an external party which resulted in a loss of control event. We determined that the group does not have significant influence over the entity and accounted for the remaining 20% interest as a financial asset measured at fair value through other comprehensive income. (Refer to Note C.3).

Note E.2 Parent entity information

(a) Statement of financial position

	31 December 2022	31 March 2022
	$M	$M
Current assets	356.3	208.3
Non-current assets	11,462.5	10,956.3
Total assets	**11,818.8**	**11,164.6**
Current liabilities	45.3	346.5
Non-current liabilities	10,576.4	9,837.8
Total liabilities	**10,621.7**	**10,184.3**
Contributed equity	2,670.7	2,670.7
Reserves	(1,467.0)	(1,784.1)
Retained (losses)/profits	(6.6)	93.7
Total equity	**1,197.1**	**980.3**

(b) Statement of comprehensive income

	9 months to 31 December 2022	12 months to 31 March 2022
	$M	$M
Profit/(loss) for the year	362.1	138.2
Total comprehensive profit/(loss) for the year	679.1	647.5

(c) Contingent liabilities

Except for the contingent liabilities relating to the Group, disclosed in Note F.4, there are no additional contingent liabilities associated with the parent entity as at 31 December 2022 (31 March 2022: $0).

Note E.3 Related party transactions

(a) Major shareholders

The immediate parent of the Company is AusNet Services (Distribution) Pty Ltd, wholly owned by AusNet Pty Ltd. The Group's ultimate parent in Australia is Australian Energy Holdings No 1 Pty Ltd, following the acquisition of AusNet Pty Ltd by a consortium led by Brookfield Asset Management, via by Australian Energy Holdings No 4 Pty Ltd on 16 February 2022.

Up until the 16 February 2022, the ultimate parent of the Company is AusNet Pty Ltd (formerly AusNet Services Limited), a company incorporated in Australia, which was part of a group trading as AusNet Services with ordinary equity securities listed on the ASX. AusNet Services Ltd had 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) were considered to be related parties of AusNet Services. These entities are not considered related parties under the *Corporations Act 2001*.

Note E.3 Related party transactions (continued)

(b) Transactions with related parties

For 9 months ended 31 December 2022

In addition, in the current period, related party transactions between the Group and its new shareholders and their subsidiaries consisted of:

- Dividend of $462.3 million paid to AusNet Services (Distribution) Pty Ltd (refer to Note D.7)
- Certain contribution fees revenue ($2,000 recognised and $4,020 deferred) and bons ($20,000) related to various capital projects, where the customers are a subsidiary or an associate of Brookfield Asset Management. Transactions were made on terms at arm's length; and
- Lending of funds to other entities withing AusNet Services Group

For 12 months ended 31 March 2022

Subsequent to 16 February 2022

Related party transactions between the Group and its shareholders and their subsidiaries from 16 February 2022 to 31 March 2022 include the following:

- The novation of debt from Australian Energy Holding No 4 Pty Ltd to the Group disclosed in the Statement of Note D.2
- Certain property leases that the Group has entered into as a lessee prior to 16 February 2022, of which the lessors are a subsidiary or an associate of Brookfield Asset Management.
- Certain services provided by suppliers, which the Group has engaged with prior to 16 February 2022, where the suppliers are a subsidiary or an associate of Brookfield Asset Management
- Lending of funds to other entities within the AusNet Services Group (see above)

For the period from 16 February 2022 to 31 March 2022, expenses of $2,100 was incurred. For transactions with lessors and suppliers described above, all transactions were made on terms at arm's length.

Prior to 16 February 2022

We engage in a wide variety of transactions with entities in the Temasek Group, State Grid via Jemena 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) is one of a number of installation service providers that 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.

Note E.3 Related party transactions (continued)

(b) Transactions with related parties (continued)

In the prior period, the following transactions occurred with related parties within the Singapore Power and State Grid groups and other entities within the Ausnet Services Group for the financial year:

	12 months to 31 March 2022 $'000
Sales of goods and services	
Regulated revenue (i)	3,387
Services revenue	2,035
Purchases of goods and services	
Other expenses	10,503
Property, plant and equipment (construction services)	10,629
Dividends	181,923

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

The following balances are outstanding at reporting date in relation to transactions with related parties within the AusNet Services Limited group:

	9 months to 31 December 2022 $'000	12 months to 31 March 2022 $'000
Current receivables (sale of goods and services)		
Other entities in the AusNet Services Group	84,252	115,127
Non-current receivables		
Other entities in the AusNet Services Group	3,517,170	3,351,529
Current payables and other liabilities (purchase of goods)		
Other entities in the AusNet Services Group	19,814	66,325

As the common funding vehicle, the Company lends funds to other entities within the AusNet 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. The loans are repayable on demand but has been classified as non-current as it is not expected the intercompany loans will be called within twelve months after reporting date. All other loans within the AusNet Services Holding Pty Ltd group are eliminated on consolidation.

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

Note E.3 Related party transactions (continued)

(c) Key management personnel

	9 months to 31 December 2022	12 months to 31 March 2022
	$	$
Short-term employee benefits	4,139,678	5,160,776
Post-employment benefits	100,669	127,727
Long-term employee benefits	679,498	3,287,748
Other long-term benefits	62,671	78,100
	4,982,514	**8,654,351**

The KMP are engaged to provide services to the AEH1 Group and are not exclusive to any particular AusNet entity. Whilst certain KMPs are not directly employed by the entities within the AusNet Services Holdings Group, their employment agreements state that they are expected to provide services to all entities within the greater AusNet Group. For regulatory setting purposes, costs including KMP remuneration are allocated across the businesses within the AusNet Pty Ltd group in accordance with the cost allocation methodology as approved by the Australian Energy Regulator (AER).

Accordingly KMP expenses disclosed here in this note include costs incurred for services provided by KMP to the AEH group. Approximately 70% of the costs of KMP remuneration disclosure in the table above are attributable to the ASH group, determined using the aforementioned cost allocation methodology as approved by the AER. The Remuneration Report within the Directors' report contains further details of the remuneration paid or payable to each member of the AEH1 Group’s key management personnel for the period ended 31 December 2022.

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 period, the following fees were paid or payable for services provided by our auditors and its related practices. The Company's auditors, Ernst & Young, were appointed in June 2022.

	9 months to 31 December 2022 $'000	12 months to 31 March 2022 $'000
Audit and review services		
Audit and review of financial statements	639	-
Total remuneration for audit and review services	**639**	-
Assurance services		
Regulatory assurance services (i)	335	-
Other assurance services	109	-
Total remuneration for assurance services	**444**	-
Other services		
Taxation services	49	-
Other services	521	-
Total remuneration for other services	**570**	-
Total remuneration of auditors	**1,653**	-

The following fees were paid to the KPMG for assurance and non-assurance related services to certain subsidiaries of the Group.

	9 months to 31 December 2022 $'000	12 months to 31 March 2022 $'000
Audit and review services		
Audit and review of financial statements	388	1,246
Total remuneration for audit and review services	**388**	**1,246**
Assurance services		
Regulatory assurance services	317	444
Total remuneration for assurance services	**317**	**444**
Other services		
Other services	92	301
Total remuneration for other services	**92**	**301**
Total remuneration of auditors	**797**	**1,991**

(i) It is our policy to employ our auditors 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 as required 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.

	9 months to 31 December 2022	12 months to 31 March 2022
	$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	(105.1)	(105.4)
Fair value of plan assets	170.1	182.1
Net asset arising from defined benefit obligations	**65.0**	**76.7**
Amounts recognised in the income statement in respect of the defined benefit plan are as follows:		
Current service cost	1.4	2.5
Net interest income on defined benefit obligation	(1.7)	(1.2)
Total	(0.3)	1.3
Remeasurement (loss)/gains recognised during the year in other comprehensive income (i)	**(12.0)**	**16.3**

(i) Loss recognised in other comprehensive income includes the de-recognition of a contribution tax provision of $11.4 million previously recognised in the defined benefit asset balance

Each year we engage an independent actuary to perform an actuarial review of the 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.

Note F.2 Defined benefit obligations (continued)

(a) Movement in defined benefit plan assets and obligations

	Asset	Obligation	Net	Asset	Obligation	Net
	31 December 2022			31 March 2022		
	$M	$M	$M	$M	$M	$M
Movements in the fair value of plan assets/present value of defined benefit obligations were as follows:						
Opening fair value of plan assets/(defined benefit obligations)	182.1	(105.4)	76.7	196.2	(134.5)	61.7
Current service cost	-	(1.4)	(1.4)	-	(2.5)	(2.5)
Interest income/(cost)	4.6	(2.9)	1.7	4.3	(3.1)	1.2
Actuarial (loss)/gain	(2.4)	(9.6)	(12.0)	2.3	14.0	16.3
Contributions by plan participants	0.5	(0.5)	-	0.8	(0.8)	-
Benefits, taxes and premiums paid	(14.7)	14.7	-	(21.5)	21.5	-
Closing fair value of plan assets/(defined benefit obligations)	**170.1**	**(105.1)**	**65.0**	**182.1**	**(105.4)**	**76.7**

The actual return on plan assets was a gain of $2.2 million (2022: gain of $6.6 million).

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 plans' assets equalling 105 per cent of plan liabilities within five years. The defined benefit superannuation plans expose us to additional actuarial, interest rate and market risk.

(b) Analysis of plan assets

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

	31 December 2022	31 March 2022
	%	%
Investments quoted in active markets:		
Australian equities	17	17
International equities	21	20
Fixed interest securities	15	11
Unquoted investments:		
Property	6	6
Growth alternative	20	19
Defensive alternative	14	17
Cash	**7**	10
	100	**100**

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

Note F.2 Defined benefit obligations (continued)

(c) Actuarial assumptions

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

	Defined benefit expense		Defined benefit obligation	
	31 December 2022	**31 March 2022**	**31 December 2022**	**31 March 2022**
	%	%	**%**	%
Key assumptions				
Discount rate	3.5	2.3	5.2	3.5
Expected salary increase rate	2.0	2.0	3.5	2.0

As at 31 December 2022, the weighted average duration of the defined benefit obligation was 7 years (31 March 2022: 8 years).

Key estimates and judgements – Valuation of defined benefit assets and obligations

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)	(4.0)	4.2
Expected salary increase rate (0.5 per cent movement)	2.0	(2.0)

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 period ended 31 December 2022, we contributed $13.3 million of defined contribution benefit to employees (31 March 2022: $18.6 million).

Note F.3 Long-term incentive plans

Executive Long-Term Incentive Plan

A new Executive Long-Term Incentive Plan ("the plan") has been approved by the ultimate parent board in March 2023 in relation to the performance period from 1 April 2022 to 31 December 2022.

Under the plan, the board of the ultimate parent grants notional participation interests ("PIs") to certain senior executives, including members of key management personnel. The number of PIs granted are determined in accordance with a formula based on the individual's long-term incentive opportunity and the value of the ultimate parent Company as determined by the board.

Each vested PI is a right to receive cash amounts calculated by reference to certain distributions and the value of the ultimate parent company on a per share basis. The cash payment per PI will be determined by a formula based on the adjusted equity value of the ultimate parent company.

The PIs vest evenly over five tranches on an annual basis, with the first vesting date on 31 March 2023, provided that the senior executives remain continuously employed with the Group.

The grant date has been determined to be 8 March 2023, but costs has been expensed and provided for based on services provided from the start of the performance period. $0.8 million has been expensed and recognised as a liability under employee benefits provision as at 31 December 2022.

Long term incentive plan – Share based payments (Equity-settled)

Prior to the implementation of the scheme of arrangement resulting in the acquisition of AusNet Services Ltd by Australian Energy Holding No 4 Pty Ltd (AEH4) and the de-listing of AusNet Services Ltd shares from the ASX on 16 February 2022, our parent, AusNet Services Limited, provided Long-Term Incentive benefits to some of its employees (including key management personnel) in the form of share-based payments, whereby part of an employee's remuneration was provided in exchange for performance rights (PRs) that vest into ordinary shares at no cost to the employee (equity settled transactions) in order to align to shareholder outcomes. The granting of such shares was subject to satisfaction of certain conditions and performance hurdles (refer to the Remuneration Report for further detail).

Total of 2,945,235 PRs were granted during the year ended 31 March 2022 with a fair value of $3.4 million at grant date.

Total of 7,670,443 outstanding PRs to a total value of $9.1 million were accelerated vested upon the acquisition of AusNet Services Ltd by AEH4 on 16 February 2022, and settled at the weighted average share price of $2.6025.

An expense of $4.1 million has been recognised for the year ended 31 March 2022 in relation to the accelerated vesting.

Note F.4 Contingent liabilities and contingent assets

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

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 three Victorian distributors including AusNet 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.

We are installing these devices across 22 of our zone substations in Victoria. Each zone substation is attributed a compliance point score from 1 to 5 with the highest value attributed to those zone substations where the mitigation measure would provide the greatest benefit depending on the degree of bushfire risk. The table below details our progress to date and anticipated progress:

Compliance date	Completed	To be completed by		Total
	1 November 2022	1 May 2023	1 November 2023	
Zone substations	19	2	1	22
Compliance points	56	6	2	64

The Group has achieved all compliance points in line with the required timeline shown above. Subject to Energy Safe Victoria (ESV) granting an extension for the deadlines of 1 zone substation and 2 compliance points from 1 May 2023 to 1 November 2023 requested on 6 March 2023, the Group expects to meet final compliance deadlines of 1 November 2023. This program presents several risks, which continue to be present and are being actively managed. The risk of penalties under the regime remains possible until the program is completed.

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 a distributor fails to achieve the number of points prescribed by the Regulations throughout the applicable period. The legislation provides that the Court can impose a maximum penalty of $2 million per point for each station for which a distributor has not achieved compliance. Accordingly, penalties of up to $10 million per zone substation can apply if AusNet 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 remains non-compliant.

(b) Other matters

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

In addition, there are several tax positions of AusNet that are currently being reviewed by the ATO. Further details are contained in Note B.4.

Other than as listed above and potential additional costs in addition to the environmental provision recognised, disclosed in Note B.2, there were no contingent liabilities or assets as at 31 December 2022 (31 March 2022: $0).

Note F.5 New accounting standards

(a) New accounting standards effective

A number of other new or amended accounting standards became mandatory in the current reporting period. None of these accounting standards and amendments that became effective in the current reporting period had a material impact on our accounting policies.

(b) New accounting standards issued but not yet effective

We have not yet early adopted any standard, interpretation, or amendment that has been issued but is not yet effective. We are currently assessing the impact of the amendments, and do not expect any of these standards to have a material impact on our financial statements upon adoption.

Note F.6 Events occurring after the balance sheet date

(a) Distribution

On 23 March 2023, the Board of AusNet Services Holdings Pty Ltd approved a dividend of $3.9 million to AusNet Services (Distribution) Pty Ltd.

(b) Other matters

Other than outlined above, there has been no matter or circumstance that has arisen since 31 December 2022 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 December 2022 of the Group;

(b) the results of those operations; or

(c) the state of affairs, in financial years subsequent to 31 December 2022, 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 23 to 78, and the remuneration disclosures that are contained in the Remuneration report set out on pages 10 to 18 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 December 2022 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.

Tony Narvaez
Director

Melbourne
31 March 2023

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Independent auditor's report to the members 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) and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 31 December 2022, the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the period then ended, notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

a. Giving a true and fair view of the consolidated financial position of the Group as at 31 December 2022 and of its consolidated financial performance for the period ended on that date; and

b. Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. 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 auditor independence requirements of 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 (including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

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 year. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial report* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial report. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial report.

Valuation and accounting for derivatives

Why significant	How our audit addressed the key audit matter
Valuation and accounting for derivatives is a key audit matter due to: • The size ($274.6 million net asset, consisting of $918.8 million of derivative assets and $644.2 million of derivative liabilities) and complexity of the Group's derivative portfolio, comprising cross currency and interest rate swaps used for the purposes of hedging foreign currency and interest rate exposures on Australian dollar denominated fixed and floating rate debt; • Capital management activities undertaken by the Group during the year through the issuance of securities, which impacted the Group's derivative portfolio and created new hedge relationships; and • Inherent complexity and judgement in applying accounting principles in the Group's valuation and disclosure of derivatives and related hedging activities.	Our procedures included: • Involving our treasury valuation and accounting specialists in performing our audit procedures; • Evaluating the appropriateness of the Group's valuation methodologies and accounting for derivatives and related hedging activities against Accounting Standard requirements and industry practice; • Obtaining independent confirmations from counterparties with which the Group has derivative financial instruments and comparing the key terms of these to the Group's accounting records; • Reconciling reported derivative instrument and hedge reserve balances to the underlying accounting records; • Assessing and challenging the Group's valuation inputs and assumptions for a sample of derivatives. We compared the Group's market inputs and assumptions to independently sourced market pricing and credit data sets including spot foreign exchange rates, forward interest rate curves, currency basis spreads and credit pricing curves; • Performing our own independent valuation of a sample of derivatives using third party confirmed terms of the derivatives and independently sourced market and credit data and assumptions and industry accepted valuation techniques. We compared these valuations to the Group's recorded valuations; • Evaluating the hedge designation documentation for a sample of hedge arrangements against the Group's Treasury Risk Management policy and Accounting Standard requirements; • Assessing the hedge accounting entries by comparing the recorded entries against our independently calculated hedge accounting entries on a selection of hedge relationships; and • Evaluating the appropriateness of the classification and presentation of derivative financial instruments and related financial risk management disclosures in Note D.3 using our understanding obtained from our testing and against Accounting Standard requirements.

Recognition and Recoverability of Deferred Tax Assets

Why significant	How our audit addressed the key audit matter
As disclosed in Note B.4 the Group has recorded a net deferred tax asset of $148.0 million as at 31 December 2022. As at 31 March 2022, the Group recorded a net deferred tax liability of $620.4 million. This increase in the net deferred tax position in the current period was primarily due to certain tax base adjustments arising from the Group's entry into the Australian Energy Holdings No 1 Pty Ltd ("AEH") tax consolidation group as disclosed in Note B.4.	Our procedures included: • Involving of tax specialists to assess the tax base increases arising from the group's entry into the AEH tax consolidation group, as well as the income and deferred tax calculations; • Assessing the independent asset valuations undertaken as part of the Group's entry into the AEH tax consolidation group which led to the increase in deductible tax base, involving our capital equipment valuation specialists;

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Why significant	How our audit addressed the key audit matter
The associated Allocable Cost Amount calculation resulted in an increase in the tax base of the Group's assets primarily relating to Property, Plant and Equipment. This resulted in an increase in deductible temporary differences for the Group and an income tax credit in the current period. The Group recognises the net future tax benefit related to deferred tax assets to the extent that it is probable that the deductible temporary differences will reverse in the foreseeable future. A potential tax asset of $676.7 million relating to temporary differences was not recognised as a deferred tax asset as at 31 December 2022, as the potential tax asset did not meet the deferred tax asset recognition criteria, as disclosed in Note B.4. Assessing the recoverability of deferred tax assets requires the Group to make significant estimates related to the quantum and timing of future taxable income and compliance with the relevant taxation legislative requirements. As a result, the recognition and recoverability of deferred tax assets is a key audit matter.	• Assessing the Group's forecasts of future taxable income and reversal of temporary differences by comparing the forecasts for consistency with the cash flow forecasts utilised in the Group's impairment testing, testing the mathematical accuracy of the Group's calculations and performing sensitivity analysis in respect of the assumptions which were considered to have the most significant impact on the recoverability of the net deferred tax asset; and • Evaluating the appropriateness of the disclosures of recognised and unrecognised deferred tax assets, against Accounting Standard requirements.

Information other than the financial report and auditor's report thereon

The directors are responsible for the other information. The other information comprises the Directors' Report which is included in the financial report.

Our opinion on the financial report does not cover the other information and accordingly we do not express 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 and, in doing so, 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.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the financial report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

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Auditor's responsibilities for the audit of the financial report

Our objectives are 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 the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: https://www.auasb.gov.au/admin/file/content102/c3/ar1_2020.pdf. This description forms part of our auditor's report.

Report on the audit of the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 10 to 18 of the directors' report for the period ended 31 December 2022.

In our opinion, the Remuneration Report of AusNet Services Holdings Pty Ltd for the period ended 31 December 2022 complies with section 300A of the *Corporations Act 2001*.

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

Ernst & Young

Ernst & Young

K Brown

Kester C Brown
Partner

Melbourne
31 March 2023