AusNet Services Holdings Pty Ltd
ACN 603 317 559

Financial Report

For the financial year ended 31 March 2020

Contents

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

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

Level 31, 2 Southbank Boulevard
Southbank, Victoria 3006
Australia

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

The financial report was authorised for issue by the Directors on 11 May 2020.

Directors' report

The Directors of AusNet Services Holdings Pty Ltd present their report on the general-purpose financial report of the consolidated entity for the financial year ended 31 March 2020 (FY2020). The financial report is for AusNet Services Holdings Pty Ltd and its controlled entities (we, us, our, or the Group).

Our Board of Directors

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

Nino **Ficca** *(Managing Director* – retired as MD 31 October 2019 and retired as Director 8 December 2019)

Tony **Narvaez** *(Managing Director* – appointed 1 November 2019)

Adam **Newman** (resigned 20 September 2019)

Mark **Ellul** (appointed 9 December 2019)

Alistair **Parker**

Operating & Financial Review

We own and operate two regulated energy network businesses, which includes an electricity distribution network in eastern Victoria and a gas distribution network in western Victoria. All are regulated by the Australian Energy Regulator (AER). Our unregulated business, Mondo, provides specialised technology solutions to utilities businesses primarily based in Australia.

Financial performance

The following table summarises our financial performance and key financial measures:

$M	FY2020	FY2019	Movement	%
Revenue	**1,239.2**	1,162.8	76.4	6.6
EBITDA	**712.8**	684.5	28.3	4.1
NPAT	**87.6**	71.3	16.3	22.9

Our overall financial performance improved in FY2020, with increases in all key measures. The improvement was particularly pleasing as it was achieved despite range of challenges in the external operating environment, including extreme bushfire and weather events and ongoing uncertainties and changes in the energy landscape. While the improved results were primarily driven by higher regulated revenues and customer contributions, there were also business driven initiatives that enhance financial performance on an enduring basis, including operational changes made to further increase our operating efficiency and deliver better outcomes for our customers. These changes included entering into new contractual arrangements with key suppliers, as well as using technology to improve efficiencies of both operational and support processes.

A summary of our revenues and results by operating segment for the financial year ended 31 March 2020 is as follows:

Electricity distribution

The electricity distribution business generated significant revenue improvements in FY2020, due to the approved prices under the regulatory framework and higher customer contributions revenue. This translated to a 6.7 per cent EBITDA increase after absorbing higher costs associated with the bushfire response.

	FY2020	FY2019	Movement	%
Segment revenue ($M)	**937.1**	866.2	70.9	8.2
Segment result – EBITDA ($M)	**564.1**	528.5	35.6	6.7
Volume (GWh)	**7,531**	7,608	(77)	(1.0)
Connections	**753,601**	736,841	16,760	2.3
Capital expenditure ($M)	**501.5**	461.0	40.5	8.8

Operating & Financial Review (continued)

Revenues increased by $70.9 million due to the following factors:

- $40.2 million increase in regulated revenue due to regulated price increases (part of which is the recovery of higher TUOS costs) and $6.2 million increase in incentive revenues;
- $21.0 million increase in customer contributions and gifted assets associated with higher housing developments, public lighting and recoverable works, including a prior year catch up; and
- $12.8 million due to the sale of inventory to Downer (at book value).

Operating expenses increased $22.5 million (excluding the $12.8 million material cost associated with the inventory sale). This was driven by:

- $16.4 million of bushfire recovery costs.
- $14.8 million in higher Transmission Use of System (TUOS) costs (which will be recovered in future regulated revenues).

Capital expenditure rose as a result of a $41.9 million increase in the Rapid Earth Fault Current Limiter (REFCL) program.

<u>Future revenue impacts</u>

Looking forward, we expect the future revenues of our electricity distribution business will be affected by a range of events related to the treatment of over- and under-recovery of regulated revenues under the regulatory framework, in particular:

- Across CY2020 and CY2021, our regulated revenue will be reduced by $12.7 million, to account for our cumulative over-recovery (at 31 March 2020) of volume charges above those assumed in our pricing structures.
- In FY2021, our regulated revenue will be reduced by $8.0 million to account for the over-recovery that stems from the AER's decision on our 2016 Advanced Metering Infrastructure (AMI) Transmission Charges Application.
- In FY2021 we will receive a further $3.5 million in incentive revenues under the Service Target Performance Incentive Scheme (STPIS) arising from our prior period network reliability performance.
- Given the magnitude of the bushfire event in FY2020, we will pursue natural disaster pass-through mechanisms under our electricity distribution business' regulatory framework. Subject to AER approval, bushfire response expenditure (both operating capital expenditure) incurred in relation to this event may be recovered in future periods.
- Further, in April 2020, we announced a suite of measures to support our customers experiencing hardship as a result of the COVID-19 pandemic, including rebating or deferring network charges from 1 April 2020 to 30 June 2020 for customers meeting certain hardship criteria. On 6 May 2020, the AER lodged with the Australian Energy Market Commission a proposal for an urgent change to the National Electricity Rules to extend deferral of retailer payment terms. This deferral applies to network charges for customers meeting certain hardship criteria and applies through to 31 December 2020. The rapidly evolving nature of COVID-19 makes it inherently difficult to forecast outcomes of these measures with certainty.

Gas distribution

Our gas distribution business continues to experience strong customer growth, particularly through the growth corridors of Western Melbourne. In FY2020, it achieved improved revenues while constraining cost growth.

	FY2020	FY2019	Movement	%
Segment revenue ($M)	**223.8**	215.1	8.7	4.0
Segment result – EBITDA ($M)	**159.0**	152.5	6.5	4.3
Volume (PJ)	**68.3**	63.3	5.0	7.9
Connections	**732,479**	711,310	21,169	3.0
Capital expenditure ($M)	**104.9**	106.8	(1.9)	(1.8)

Revenue increased by $8.7 million, primarily due to $5.8 million of unaccounted for gas revenue (the business receives revenue when the annual volume of gas lost during transportation via our network is lower than the regulated benchmark and incurs costs when this annual volume is higher than the benchmark). Revenue also increased due to a 1.3 per cent increase in gas tariffs for CY2019.

Operating & Financial Review (continued)

Operating expenditure increased by $2.2 million, due to $4.5 million of unaccounted for gas costs (associated with the revenue increase). The impact of these costs was partly offset by our continued cost efficiency focus.

Capital expenditure decreased by $1.9 million, mostly due to lower planned residential meter replacements and less major alteration activity. Expenditure on mains replacement was in line with FY2019 and expenditure on augmentation was slightly higher due to an increase in new connections driven by residential housing growth in Western Melbourne.

Mondo

	_FY2020	FY2019	Movement	%	
Segment revenue ($M)		**78.3**	81.5	(3.2)	(3.9)
Segment result – EBITDA ($M)		**(10.3)**	3.5	(13.8)	(394.3)
Capital expenditure ($M)		**20.9**	16.7	4.2	25.1

Revenues decreased $3.2 million primarily as a result of the exit of low-margin field services contracts exited, partially offset by higher materials sales and the incorporation of the former Geomatic technologies business into this segment.

Operating expenses increased by $10.6 million, which reflects higher materials sales costs and higher corporate cost allocations.

Capital expenditure predominantly relates to ongoing replacement and refurbishment of the contestable metering fleet and in the emerging energy markets space.

Material risks and uncertainties

We are committed to understanding and effectively managing risk to enhance our ability to deliver on our strategic objectives to meet expectations of our shareholders, employees, customers, suppliers and communities in which we operate. Our material business risks (financial and non-financial) at an enterprise-wide level and their management plans are regularly reported to the Audit and Risk Management Committee and the Board of Directors.

Two key events during the financial year ended 31 March 2020 have required major operational responses: the bushfires of the 2019/20 summer and the outbreak of the coronavirus (COVID-19). These events have also required appropriate crisis management responses, to meet both the immediate and ongoing expectations of our shareholders, employees, customers, suppliers and communities in which we operate. This include standing up Crisis Management and Emergency Management response teams to co-ordinate and manage these events and our recovery efforts, while also working with relevant Government, emergency response and regulatory stakeholders.

The Board reviews and guides AusNet Services' system of risk management, compliance and internal controls. This includes setting the risk appetite and ensuring that shareholders are informed in a timely manner of material changes to AusNet Services' risk profile.

The ARMC assists the Board in discharging these responsibilities. The ARMC has oversight of the adequacy and effectiveness of AusNet Services' risk management framework, including risk identification and management processes, the review of AusNet Services' treatment of material business risks (financial and non-financial) and the assessment of whether the business is operating within risk appetite.

The Managing Director is accountable to the ARMC and the Board for the implementation of risk management processes in line with good corporate governance. Management is responsible for embedding sound risk management practices across all business activities and it is expected that all employees, contractors and suppliers proactively identify, manage, review and report risks.

Risks are identified, assessed and managed across the organisation via various methods and utilising our risk management framework and tools. The status and trend of the most significant strategic and business risks are reported to executive management monthly, 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.

Everyone at AusNet Services is responsible for identifying and managing new risks. Risk leaders and co-ordinators ensure that new and changed risks are managed within our framework. A risk assessment is performed for all new projects to ensure that the risks are appropriate identified and controlled. In addition, executive management are part of a Group Risk Committee which meets several times a year to oversee new and existing material risks.

Material risks and uncertainties (continued)

Further details can be found in our Corporate Governance Statement which is available on our website. We are cognisant of the following principal risks which may materially impact the execution and achievement of our business strategy and financial prospects.

COVID-19 pandemic

At the time of writing, the outbreak of COVID-19 and its impacts in Australia are rapidly evolving. Actions to limit the spread of the virus have been taken by Australian Governments, both Federal and State, to assist, health systems cope with the anticipated influx of COVID-19 patients.

On 27 March 2020, the AER released a Statement of Expectations of energy businesses, which sets out ten principles they expect businesses to adhere to during the COVID-19 pandemic, to the maximum extent possible. On 2 April 2020, we announced a suite of measures to provide support to customers enduring hardship as a result of the COVID-19 pandemic, including rebating or deferring network charges from 1 April 2020 to 30 June 2020 for customers meeting certain hardship criteria. On 6 May 2020, the AER lodged with the Australian Energy Market Commission a proposal for an urgent change to the National Electricity Rules to extend deferral of retailer payment terms. This deferral applies to network charges for customers meeting certain hardship criteria and applies through to 31 December 2020. The rapidly evolving nature of COVID-19 makes it inherently difficult to forecast outcomes of these measures with certainty.

COVID-19 has significantly affected the way in which we operate impacts a number of pre-existing risks and introduces a number of new risks as follows:

- **We might not be able to supply energy safely and reliably** - this is caused by employee availability (which includes delivery partners) and supply chain issues. This risk is mitigated by critical staff having backups in place and the ability of many of our employees to work remotely. The supply chain disruption risk is largely mitigated by maintaining an appropriate level of critical spares and having numerous sources of supply available. However, COVID-19 also creates uncertainty in both the generation and use of energy, which may require our networks to be operated in an unprecedented manner. Refer to 'Network risks' section for further detail.
- **We might not be able to make a safe environment for our employees, delivery partners, customers and communities** - AusNet Services is prioritising work to minimise community disruption, implementing new social distancing measures in all sites and is working with many of our suppliers to ensure they are still operating as suppliers into a critical infrastructure company. This adds to the risk of compliance with our network licence obligations as well as meeting new obligations such as REFCL compliance. Refer to 'Industry and regulatory risks' section for further detail.
- **We could suffer financial loss (caused by demand drop, non-payment by customers, government intervention or other) that we cannot offset and that has an impact on our credit rating and financial settings** - AusNet Services is largely not exposed to demand risk due to the electricity distribution business having a revenue cap, with any volume under recovery trued-up in future periods. AusNet Services' income primarily comes retailers and generators (for Electricity and Gas Distribution) and other utilities (for Mondo). Retailer revenue risk is mitigated by the AER's Retailer of Last Resort (ROLR) arrangements, which is designed to protect customers from failing retailers. AusNet Services is working proactively with customers to manage customer payments. It should be noted however that these are unprecedented times and that new legislation, regulations or stakeholder expectation, along with the size of the impact on our customers and the economy, may override these regulatory protections.
- **We might experience changes to future growth of the asset base** – the medium to longer term economic impact of COVID-19 and the government responses in Australia is uncertain. Estimates are changing quickly as the situation unfolds and there are divergent views, however many economists expect Australia to enter a recession for the first time since 1991. An economic downturn likely to affect demand for electricity distribution and gas distribution and that may change network investment growth plans, including both regulated and unregulated assets for both new capacity, upgrades and maintenance of the existing asset base. The pipeline of growth projects available for AusNet Services to invest in may be affected by the economics and policy response to COVID-19.
- **We might be unable to obtain adequate funding for our expenditures, and/or the price for that funding is significantly higher than what is assumed by the AER** - AusNet Services has significant levels of gearing due to the capital-intensive nature of the business. AusNet Services maintains a strong investment grade credit rating and has mitigated financing risk by the early refinancing of maturing debt. Refer to 'Funding and market risks' section for further detail.

The COVID-19 event has resulted in enacting our Strategic Plan for Integrated Response & Contingency Systems (SPIRACS) procedures, including establishment of an Emergency Management Team and Business Continuity Team, which is responsible for monitoring critical business activities daily to ensure effective business continuity.

AusNet Services plays a pivotal role in delivering safe, reliable energy to customers every day through our network. Early indications are that demand in our distribution networks has not materially changed as a result of

Material risks and uncertainties (continued)

COVID-19 pandemic (continued)

COVID-19 actions. However, there is uncertainty about the length and severity of Government or regulatory intervention which could have unexpected impacts. A prolonged economic downturn could also lead to further Government or regulatory intervention and more adverse outcomes on our business.

Industry and regulatory risks

Industry developments

The energy industry is currently experiencing a period of unprecedented change and uncertainty, with concerns around environmental issues, energy security, reliability and affordability. Various political, regulatory and industry bodies continue to debate, recommend and implement various reform programs that could have significant impacts on the operation of the energy market and in turn on our business.

A number of regulatory and policy reviews have been undertaken in the current year including that in November 2019, the COAG Energy Council released a consultation package for a National Laws Enforcement and Penalties Framework. The framework potentially strengthens the AER’s enforcement regime, including extending and increasing civil penalty provisions and enhancing the AER’s information gathering powers.

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

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

Rapid Earth Fault Current Limiter (REFCL) program

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

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

	Tranche 1	Tranche 2	Tranche 3
Compliance period	1 May 2020 to 30 April 2021	1 May 2021 to 30 April 2023	1 May 2023 onwards
Zone substations	8	10	4
Minimum number of points* required by the Act	30	23 (53 total)	10 (63 total)
Direct spend approved by the AER ($M)	95	137	94
Zone substations commissioned	8	1	-

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

This program presents several risks, including funding, technology, vendor, compliance and delivery risks, which are being actively managed. Each Tranche faces these risks to varying degrees. In addition, the COVID-19 pandemic increases the risk around vendor and delivery, with additional mitigation required to ensure that our staff and suppliers are able to operate at a level to complete this project.

AusNet Services has all eight Tranche 1 zone substations commissioned with REFCL technology. Six of these have been assessed as compliant with the relevant legislation. The remaining two zone substations have time extensions until November 2020 and May 2021 to address the harmonics and damping issues currently prohibiting full compliance. We now believe that we have workable solutions to these issues that will take additional time to implement.

The amended Electricity Safety Act 1998 (Vic) (ESA) enables Energy Safe Victoria (ESV) or the Minister to apply to the Supreme Court of Victoria, seeking the imposition of significant financial penalties if AusNet Services fails to achieve the number of points prescribed by the Regulations throughout the applicable compliance period. The legislation provides that the Court can impose a maximum penalty of $2 million per point for each station that

Material risks and uncertainties (continued)

Industry and regulatory risks (continued)

AusNet Services has not achieved compliance. Accordingly, penalties of up to $10 million per zone substation can apply if AusNet Services fails to achieve the required capacity during the relevant compliance period. Additionally, the Court can impose a maximum daily penalty of $5,500 for each day AusNet Services remains non-compliant.

Tranche two is predominately in urban areas, with a number of high voltage customers connecting to these zone substations. While we continue to work with these customers, there is a risk of delay as a result of these customers requiring connection modifications. As a result, it is expected that a number of these zone substations will require extensions of time to meet the compliance period (1 May 2021). In the event that ESV does not agree to this request, ESV or the Minister could decide to file legal proceedings and the Court could impose pecuniary penalties on AusNet Services. ESV has sole discretion over whether any postponement is granted, and for how long.

Price determinations

The energy industry in Australia is highly regulated. The regulated component of our revenues (approximately 84 per cent of total revenues for the year ended 31 March 2020) 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 Services 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 approval periods are generally five years. The upcoming regulatory reset dates for our gas distribution network and electricity distribution network are 1 July 2023 and 1 July 2021, respectively.

Regulated charges do not necessarily reflect actual or projected operating costs, capital expenditure or the costs of capital. If the regulated charges set by the AER are lower than our costs, this may adversely affect our financial performance and position. In addition, we are exposed to cost changes within a regulatory control period and bear the risk of any shortfall in allowances for costs provided by regulatory determinations. The regulator applies benchmarking as it considers appropriate to each network business, having regard to an overall objective that only capital expenditure that is efficient should form part of the regulated asset base. Operating expenditure is particularly subject to benchmarking comparisons to set efficient levels going forward. Future regulatory determinations may be subject to further complexity given the COVID-19 pandemic responses initiated by Government and required of network service providers.

We carefully manage these risks in a number of ways. Prior to the commencement of a regulatory period, we develop a detailed plan of works to be undertaken and costs to be incurred as well as energy and maximum demand forecasts. Particular emphasis is placed on ensuring that we continue to maintain safe, resilient and reliable networks and that the costs to be incurred are efficient and prudent. We also introduced a Customer Forum to the 2021-25 EDPR process. This information is submitted to the AER as part of the determination process, and where appropriate the views of industry and other external experts are sought to be included in the submission.

During the regulatory period we continuously monitor and manage our costs through processes and systems which produce high quality data and enable efficiency, effectiveness and control. In addition, through our enterprise-wide efficiency program we aim to improve our benchmark performance.

Transition to metering competition in Victoria

On 26 November 2015 the Australian Energy Market Commission (AEMC) published its final determination and final rule on expanding competition in metering and related services (Power of Choice). In March 2017, the Victorian Government deferred the adoption of metering competition in Victoria. Victorian electricity distributors will remain responsible for metering services for all small customers until at least 1 January 2021 and the Victorian smart metering specification will remain in place. The Victorian Government expects to undertake a review prior to 1 January 2021 to determine whether metering competition should be introduced in Victoria, which will examine the benefits to Victorian electricity users of switching to the national regime, the impact of competition in metering services on particular customer groups, how potential barriers to distributors access to metering data can be addressed and the experience of other jurisdictions in implementing metering competition.

Network risks

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

Material risks and uncertainties (continued)

Network risks (continued)

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

We are also exposed to the cost of replacing faulty equipment. On rare occasions, faults in plant items are discovered only after the item has been installed within a network, requiring a large-scale replacement program.

Only some such incidents are covered by plant warranties and in some instances these warranties may only be partial. Additionally, incidents in our zone substations have property insurance cover, however incidents outside the boundaries of our zone substations are self-insured. Any forced replacement program, particularly if not insured or covered by warranties, could be costly and adversely affect our financial performance and position.

The COVID-19 pandemic and the restrictions on business and community activities has resulted in changes in consumption patterns. There is a risk that these changes could impact the reliability of the electricity distribution network.

Funding and market risks

We rely on access to financial markets as a significant source of funding for growth capital requirements not covered by operating cash flows. Our access to financial markets could be adversely impacted through various factors including, but not limited to, external changes in funding markets, a material adverse change in our business or a reduction in our credit rating. In addition, the COVID-19 pandemic has seen increased market volatility around the world and may ultimately impact the availability of certain sources of funds in the future and/or the cost of those funds. The inability to raise capital on favourable terms, particularly during times of uncertainty in the financial markets, could impact our ability to sustain and grow our capital-intensive businesses, and would likely increase our cost of capital. AusNet Services operates a Dividend Reinvestment Plan (DRP), with discount levels that have varied between zero and 2.5 per cent. The use of a DRP and the level of discounting is dependent upon growth capital funding requirements at a point in time.

Furthermore, we have a large amount of debt, with a net debt to Regulated and Contracted Asset Base ratio at 31 March 2020 of 67 per cent (excluding equity credit for the $706 million of hybrid instruments). The degree to which we may be leveraged in the future could affect our ability to service debt and other obligations, to pay dividends to shareholders, to make capital investments, to take advantage of certain business opportunities, to respond to competitive pressures or to obtain additional financing. In addition, we are exposed to a number of market risks associated with this debt, including interest rate and foreign currency risk.

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

Climate change and sustainability risks

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

Transition risks include the impacts of potential changes to energy policy, legislation and regulations as the energy industry moves to a lower carbon future, with increasing renewable and distributed generation. The implications of these changes are outlined in the industry and regulatory risks and network risks sections.

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

In January 2020, AusNet Services refreshed its climate-related risk assessment. Further activity is underway to embed the outcomes into existing risk management and governance processes. Scenario analysis to validate and identify physical and transitional risks to both the company strategy and business operations is ongoing. The scenarios were stated policies (base case), coordinated global action and runaway climate change. We have begun this work using the Task Force on Climate-related Disclosures (TCFD) framework, which will continue to be developed in FY2021 including formalising potential impacts on asset lives and embedding scenarios into impairment calculations.

Material risks and uncertainties (continued)

Climate change and sustainability risks (continued)

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. In FY2020 we further increased customer engagement on bushfire preparedness (see below), increased communications capability to alert customers about unplanned outages and load shedding, with particular focus on life support customers; and customer recruitment for the expansion of our "GoodGrid" residential demand management program.

Bushfire Risks

Recent fire events both domestically and overseas have resulted in substantial losses. These events are impacting the availability and pricing of bushfire liability insurance globally.

Risk management for these risks includes reviewing engineering standards and ratings for equipment, a significant annual investment in bushfire mitigation activities and the ongoing development and testing of emergency response plans. Investment is also being made in network resilience to strengthen critical parts of the electricity distribution network and enhance contingency planning. AusNet Services' safety record, network asset management and network maintenance programs are consistent with industry practice. We have achieved a targeted bushfire mitigation index of zero (a zero index means that no works are outstanding beyond their scheduled dates) by the bushfire season declaration and our vegetation management programs are prepared pursuant to the Electricity Safety (Bushfire Mitigation) Regulations. In addition, we continue our focus on customer engagement on community resilience, including pre-summer communications and media for customers to be bushfire ready.

AusNet Services has liability insurance which specifically provides cover for bushfire liability. AusNet Services 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. 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.

Information and communication technology risks

The drive to reduce carbon emissions, customers' increasing needs for higher levels of reliability and the reduction in the cost of digital technology have resulted in a greater role for technology in the enablement, management and operations of utility networks. The greater role of technology comes with an increased risk and potential impact of cyber-attacks. This increased focus on the role technology plays in the management and operations of utility networks will require the introduction of new digital technology platforms. In the event there is any significant delay in the development of new technology, this may negatively impact our revenue or require unforeseen capital investment to replace obsolete technology.

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

AEMC rule changes commence on 1 July 2021, which change the settlement period for the electricity spot price from 30 minutes to five minutes. In April 2020, the AEMC releases a statement titled 'Progress update on COVID-19', which included a delaying of commencement of five-minute settlement to 1 July 2022.This rule requires additional investment in metering and IT systems, with increased data collection and management requirements. Similar to metering contestability, the application of the AEMC rule is subject to approval from the Victorian Government. To mitigate these risks, we have established a centralised architecture, delivery and governance capability to ensure technology needs are designed and built to meet requirements with appropriate governance applied.

Taxation risks

As a large taxpayer, the Australian Tax Office (ATO) annually reviews the income tax return and various tax positions adopted by AusNet Services. There is the risk that changes in tax law, or changes in the way tax laws are interpreted, may materially impact the tax liabilities of the Group. AusNet Services manages this risk via a Board-approved Tax Risk Management policy which outlines a number of review and sign-off procedures, including the utilisation of external tax and legal advisors, for each tax position based on the assessed level of judgment of that position. AusNet Services continues to be under tax audit, with an uncertain tax position provision of $11.0 million included on the balance sheet at 31 March 2020.

Balance sheet and capital management

Total equity of the Group was $951.1 million as at 31 March 2020, a decrease of $490.9 million compared to the previous financial year, primarily attributed to the hedge reserve movement for the year.

Our current liabilities exceed current assets by $591.1 million at 31 March 2020. We have prepared the financial report on a going concern basis, which contemplates the continuity of normal trading operations. The Group is, and is expected to continue trading profitably, generating positive operating cash flows and successfully refinancing maturing debt. In making this assessment consideration has been given to potential impacts of COVID-19 on the Group's operations and forecast cash flows based on best estimates and a range of reasonably possible scenarios, noting that the rapidly evolving nature of COVID-19 makes it inherently difficult to forecast outcomes with certainty. This situation will be actively monitored. In addition, at 31 March 2020, the Group has available a total of $652.0 million of undrawn but committed bank debt facilities and $403.8 million of cash and short-term investments, with a further $500 million of bank debt facilities put in place on 7 May 2020.

Non-current assets increased by $1,102.0 million compared to prior year, due to $764.3 million increase in non-current derivatives, resulting from the large depreciation in the Australian Dollar, which increases the carrying value of debt and increases the derivative asset and $314.3 million growth in property, plant and equipment driven by $627.3 million of capital expenditure invested into the asset base offset by the depreciation of our assets.

Non-current liabilities increased by $1,727.3 million due primarily to a net increase in long term debt of $1,358.8 million, which reflects current year bond raisings of $1,156 million, revaluation to spot rate (offset in derivative asset increase as hedged) of $566.6 million less amounts reclassified to current borrowings of $811.8 million. Derivative liabilities also increased materially as a result of falling interest rates, which is reflected in the hedge reserve movement.

Capital management

We manage our capital structure in order to maximise the long-term return to shareholders and deliver sustainable dividend growth. We achieve this by being disciplined in the pursuit of the following objectives:

- Targeting credit metrics over the medium term that maintain an 'A' range credit rating, thereby providing financial flexibility and a low cost of capital.
- Manage financial risk prudently to ensure net exposures are maintained within target settings.
- Funding capital expenditure efficiently through various sources to support organic growth and other investment opportunities, while covering 100% of maintenance capital expenditure and a portion of growth capital expenditure from internal cash flows.

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 longer term, to invest in opportunities that grow the business and enhance shareholder value. Also, the Group is actively considering additional capital management initiatives to further support our significant growth pipeline and credit profile, which may include a pro-rata entitlement offer of ordinary shares (within existing shareholder approved parameters), the issuance of hybrid capital securities, additional debt and/or other funding initiatives in the near to medium term.

Debt raising

AusNet Services Holdings Pty Ltd is the AusNet Services Group's common or central funding vehicle (CFV) The AusNet Services Group has access to funds through the CFV.

In line with our Treasury Risk Policy, we maintain a diversified debt portfolio by maturity and source. AusNet Services has an A- credit rating from Standard and Poor's and A3 from Moody's Investor Services. This contributed to the successful completion of over $1 billion of debt raising in the current year as follows:

- an A$350 million 10-year bond issue in July 2019; and
- a EUR 500 million (A$806 million) 10.5-year bond issue in February 2020.

These bond issuances/facilities satisfy our refinancing requirements for the next twelve months. Current COVID-19 disruptions or other major economic events could substantially impact debt markets, which continues to be monitored to ensure compliance with policy and solvency declarations.

Introduction and Contents

This report sets out the executive remuneration outcomes for FY2020.

The report also explains the Board's reasoning and considerations on the design and application of the remuneration framework to deliver sustainable business performance, stakeholder outcomes and reward shareholders.

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

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

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

1 Key Management Personnel

AusNet Services' KMP are assessed each year by the Board and comprise the Directors of the company and Senior Executives. KMP have authority and responsibility for planning, directing and controlling the activities of AusNet Services.

Those that are assessed to be KMP for FY2020 were as follows:

Name	Position	Date Appointed as KMP
Executive KMP		
Nino **Ficca**	Managing Director	Ceased as KMP 31 October 2019
Tony **Narvaez**	Managing Director	1 November 2019
Mark **Ellul** [1]	Chief Financial Officer	21 September 2019
Chad **Hymas**	Executive General Manager, Mondo	April 2013
Adam **Newman**	Executive General Manager and Chief Financial Officer	Ceased as KMP 20 September 2019
Alistair **Parker**	Executive General Manager, Regulated Energy Services	April 2013
Mario **Tieppo** [2]	Executive General Manager, Technology	September 2013

1. Mr Ellul was appointed to the role of Acting Chief Financial Officer effective 21 September 2019. He was appointed Chief Financial Officer on a permanent basis effective 9 December 2019. All disclosures in this report specific to Mr Ellul are effective from 21 September 2019.
2. Mr Mario Tieppo ceased to be a KMP from 24 April 2020 as a result of his retirement in the role of EGM Technology.

2 Approach to executive remuneration

AusNet Services builds, manages and operates infrastructure and services investments over long-term time horizons. Our business decisions are made in this context and our approach to remuneration consciously focuses on outcomes which drive sustainable business performance.

We combine Fixed Annual Remuneration with Short and Long-Term Incentives to form an overall Total Remuneration position. This structure is intended to attract and retain key talent and capability and to drive sustainable performance over the short and long term.

Remuneration outcomes reflect both individual and overall company performance; this approach supports talent development and performance and aligns remuneration outcomes with shareholder outcomes.

The Board reviews the structure and effectiveness of the remuneration arrangements annually to ensure they support the business' performance and strategy.

Purpose of each remuneration component

Fixed Annual Remuneration (FAR)	Short-Term Incentive (at risk)	Long-Term Incentive (at risk)
To pay competitively, reflecting each role's core requirements and accountabilities and the incumbent's skills, experience, capability and ongoing performance.	This component seeks to: • Reward executives and other participants for achieving target business performance, as established through the agreed Strategic and Financial Plan; and • Reward outperformance - i.e. above target performance.	To reward executives and key contributors for long-term value creation.

2 Approach to executive remuneration (continued)

Remuneration principles: AusNet Services' remuneration:	
Principle	**Implications for Remuneration Framework Design and Operation**
Is aligned to strategy and business needs	• Remuneration mix (specifically, the weighting between fixed and variable remuneration) and incentive design will support achievement of the company's strategy. • Remuneration policies and practices will have regard to the company's risk framework. • Remuneration framework and mix will support the company's values and desired culture.
Is market competitive	• Decisions on the remuneration framework and mix will be informed by external market information and internal relativities. • Benchmarking will be undertaken against the relevant market(s) within which we compete for talent. • Total remuneration outcomes are generally targeted to be at the relevant market median.
Is performance-driven	• Remuneration outcomes will reflect short-term performance and long-term value creation. • Clawback applies to variable remuneration in the event of past performance misstatement or misconduct. • Performance ranges to be met for payment (at threshold, target and maximum) will be set after considering historical and forecast financial analysis. • Assessment will consider both assessed outcomes and behaviours.
Is simple and transparent	• The remuneration framework will be transparent and easy to explain to participants and the market.
Supports employee value proposition	• Remuneration is one component of AusNet Services' employee value proposition and will operate alongside initiatives that provide opportunities for career and professional development.
Is fair	• AusNet Services will provide fair and appropriate rewards to its employees, which reflect the principles of merit, diversity and inclusion.
Is subject to effective governance	• The Remuneration Committee and Board will ensure that remuneration outcomes reflect assessment of both risk and performance. • Remuneration outcomes will be aligned with shareholder outcomes and interests. • Regular reviews of these Remuneration Principles and the company's remuneration framework will occur to ensure that they remain effective.

3 At risk and incentive components

The following table summarises the relative size of the short-term incentive and long-term incentive rewards components for the managing director and other executive KPMG and the key performance measures applicable for the performance period ending FY2020. It also summarises the incentive award delivery mechanism, Board discretion and claw-back features of the plans.

<table>
<tr><th></th><th colspan="3">Short-Term Incentive
(at risk)</th><th colspan="2">Long-Term Incentive
(at risk)</th></tr>
<tr><td rowspan="2">Incentive Opportunity</td><td>Threshold</td><td>Target</td><td>Maximum</td><td>Threshold</td><td>Maximum</td></tr>
<tr><td colspan="5">Short and Long-Term Incentive opportunities are expressed as a percentage of FAR</td></tr>
<tr><td>Managing Director Mr Ficca</td><td>37.5%</td><td>75%</td><td>112.5%</td><td>21%</td><td>120%</td></tr>
<tr><td>Managing Director Mr Narvaez</td><td>30%</td><td>60%</td><td>90%</td><td>18%</td><td>100%</td></tr>
<tr><td>Executive General Manager (EGM) Mondo

Mr Hymas</td><td>30%</td><td>60%</td><td>90%</td><td rowspan="2">9%</td><td rowspan="2">50%</td></tr>
<tr><td>Other Executive KMP</td><td>20%</td><td>40%</td><td>60%</td></tr>
<tr><td>Performance measures</td><td colspan="3">• STI scorecard KPIs include selected financial and non-financial measures.
• Three financial measures – EBITDA, Return on Equity (ROE) and Company Opex (ex Mondo) reflect ability to grow revenues, exhibit cost control and effectively manage working capital.
• Non-financial measures drive importance of safety and individual contribution to strategic initiatives.
• STI outcome subject to gateway performance criteria relating to cash flow from operations and safety performance and a conduct, capability and culture moderator.</td><td colspan="2">• LTI KPIs are relative Total Shareholder Return (TSR) (50 per cent), Earnings per Share (EPS) growth (25 per cent) and Return on Invested Capital (ROIC) (25 per cent).
• TSR measures returns generated from the investments made against performance of comparator group.
• EPS provides tangible measure of shareholder value creation.
• ROIC measures returns generated from investments in operations.</td></tr>
<tr><td>Delivery mechanism</td><td colspan="3">• For the MD and EGM Mondo, two-thirds of the STI award is paid as cash and one-third is delivered as a share right (with a two-year deferral period).
• The number of share rights is determined by calculating the volume weighted average price (VWAP) of the AusNet Services Ltd (AST) share price over a five-day trading period commencing on the date AusNet Services releases its Financial Results.
• STI awards for the remaining Executive KMP are paid as cash.</td><td colspan="2">• The LTI award is granted as performance rights, subject to performance against the above measures, continued employment and Board discretion.
• Each recipient of vested share rights is subject to the AusNet Services Guidelines for Dealing in Securities and applicable laws, to sell, transfer or otherwise dispose of their securities.</td></tr>
<tr><td>Board Discretion and Clawback</td><td colspan="5">• The Board assesses performance against Short- and Long-Term criteria and has discretion to determine award outcomes at the end of the respective performance periods.
• The Board may determine that any awards be clawed back or cancelled for a broad range of events or circumstances in the event an unfair benefit has or will be obtained. This could be as a result of, but not limited, to fraud, dishonesty, gross misconduct or breach of obligations</td></tr>
</table>

3 At risk and incentive components (continued)

Remuneration mix – at a glance

The respective total reward mix for all Executive KMP are as follows, assuming business performance results in target vesting for STI and maximum vesting for LTI.

4 FY2020 performance and remuneration summary

For FY2020, business performance was sound with financial performance in EBITDA and Return on Equity above target. However, operating costs were higher than target as a result of unbudgeted costs associated with external events and internal initiatives (such as the bushfire restoration works over summer 2019/20 and completion of outsourcing arrangements). These costs were offset by higher revenues, particularly in relations to customer works.

In assessing performance and remuneration outcomes for FY2020, the Board considered both the individual items contributing to performance and the combined impact. This scrutiny was designed to ensure that the assessed outcomes accord with the Remuneration Principles and do not undermine the role of remuneration design in supporting business performance.

As a result, the Board applied discretion to quarantine revenue associated with prior year gifted assets in assessing performance, for both STI and LTI financial outcomes. This reduced raw STI vesting by around 5 per cent and LTI vesting by 8 per cent.

The Board awarded STI vesting outcomes of 82.0 per cent of target pro-rata to the former Managing Director, reflecting a combination of financial and strategic outcomes. New Managing Director Mr Narvaez received an at target (100 per cent) pro rata outcome reflecting the agreed terms for remuneration for the remainder of FY2020 since his appointment.

Performance over the FY2018 to FY2020 performance period gave rise to a moderated 65.6% per cent LTI vesting.

The table and charts below show key financial performance outcomes for the current and past reporting periods. Executive remuneration outcomes, STI and LTI awards correlate to business performance and shareholder outcomes for the period FY2016 – FY2020.

Financial performance	FY16[1]	FY17[2]	FY18	FY19	FY20
NPAT ($m) [1]	489	255	291	254	291
EBITDA ($m)	1,143	1,073	1,143	1,134	1,196
Return on Equity (%)	14.0	7.0	8.0	7.3	9.2
Total Shareholder Return (TSR) Percentile Ranking - relative performance	71.4	68.6	64.2	63.9	67.8
Earnings Per Share (EPS) (%) 3-year compound annual growth rate (CAGR)	17.8	3.4	130.4	(21.0)	3.3
Return on Invested Capital (ROIC) (%) 3-year average	4.82	4.89	5.67	4.70	4.82
Share price at 31 March ($)	1.490	1.685	1.675	1.755	1.710
Dividends (cents per share) [2]	8.53	9.80	9.25	9.72	10.2
STI % [3]	127.1	107.6	N/A	N/A	N/A
STI vested as % of target – former MD	115.7	96.8	110.0	105.0	82.0
STI vested as % of target – new MD [4]	-	-	-	-	100
LTI vested as % of target – former MD [5]	104.9	70.6	85.9	54.3	65.6
LTI vested as % of target – other Executive KMP	120.3	76.1	85.9	54.3	65.6

1. FY2016 net profit after tax includes one-off tax benefits of $163.1 million associated with our corporate restructure ($135.0 million) and settlement of the IP dispute with the ATO ($28.1 million).
2. FY2017 dividends consist of 8.80 cents per share ordinary dividend plus 1.0 cents per share special dividend.
3. Corporate STI Scorecard outcome from FY2016 to FY2017, individual scorecard from FY2018.
4. FY2020 Board assessed STI Scorecard outcome and applied on a pro rata basis for former Managing Director Mr Ficca.
5. New Managing Director Mr Narvaez received an at target (100 per cent) pro rata outcome as an undertaking given by the Board on his appointment.
5. Board assessed LTI outcome applicable to former Managing Director Mr Ficca on a pro rata basis. Mr Narvaez was not eligible for FY2018-20 LTI vested awards as grants to these awards were made prior to his commencement.

4 FY2020 performance and remuneration summary (continued)

Summary – Key remuneration outcomes for FY2020

Executive Fixed Remuneration	During FY2020 the board appointed ad new MD, Mr Narvaez. In addition, Mark Ellul was appointed as CFO in December 2018 following the resignation of Adman Newman. Mr. Narvaez and Mr Ellul's fixed annual remuneration levels were set after considering external market information, their respective roles and accountabilities and their respective experience and capabilities. Some changes were made to executive roles and responsibilities to support strategic and business performance initiatives. As a result, adjustments were made to Mr Hymas and Mr Parker's fixed annual remuneration effective 1 April 2019.
Assessment of Short- and Long-term incentive outcomes	In general, the Board's policy is not to adjust the statutory financial performance when assessing remuneration incentive outcomes against targets. However, the Board considers it is prudent and appropriate to apply discretion when assessing outcomes affected by unforeseen events and known but unquantifiable events. For FY2020, the Board has exercised its discretion to moderate down both Short and Long Term assessed outcomes as a result of outperformance generated from higher levels of unbudgeted revenues outside of Management's control.
FY2020 Short Term Incentive Plan outcomes	Former MD Mr Ficca's STI outcome was 82.0 per cent of target which compares to 105.0 per cent of target for FY2019. The outcome was applied on a pro rata basis for the period of employment up to his retirement on 31 October 2019 resulting in an award of $466,908. The new Managing Director Mr Narvaez's contractual arrangements include an STI award equivalent to a pro rata payment of the target award being $287,500 for FY2020. Other Executive KMP STI scorecard outcomes varied between 82.0 per cent and 98.0 per cent of target which compares to between 93.0 per cent and 109.0 per cent for FY2019. Further details of the FY2020 STI plan and outcomes can be found in Section 5.
Vesting of 2017 Long-Term Incentive Plan awards (FY2018-FY2020 performance period)	The LTI awards granted in 2017, (applicable for the FY2018 – FY2020 performance period), were tested against performance criteria, resulting in a moderated vesting outcome of 65.6 per cent. The statutory assessed outcome was moderated down 8 per cent to reflect $19 million for revenue that the Board determined was uncontrollable and resulted in the EPS KPI not achieving threshold. The LTI vesting outcome reflects: • relative total shareholder return ranking of 67.8 percentile, • return on invested capital of 4.82 per cent • compound annual earnings per share growth (EPS CAGR) of 3.30 per cent. Further details of the LTI plan and LTI vesting can be found in Section 5.
Managing Director 2019 Long-Term Incentive Plan grant (FY2020-FY2022 performance period)	As approved by shareholders at the July 2019 AGM, the former and new Managing Director's 2019 LTI grants were on a pro rata basis reflecting their respective periods of employment during FY2020. Mr Ficca's grant was based on a maximum grant value of 120 per cent of fixed remuneration. Mr Narvaez's grant was based on a maximum vesting opportunity of 100 per cent of fixed remuneration. The 2019 LTI grant will be tested and assessed for vesting at the conclusion of the FY2020 – FY2022 three-year performance period.

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

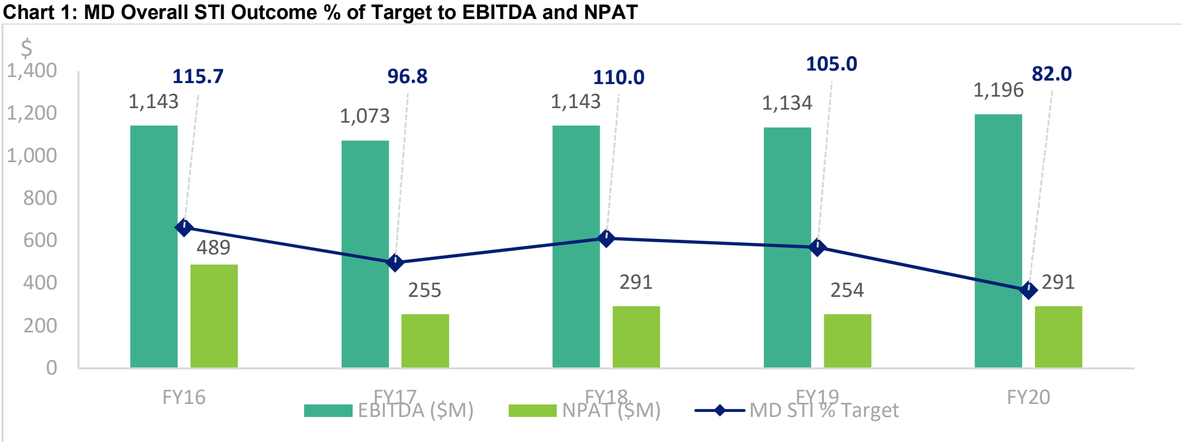
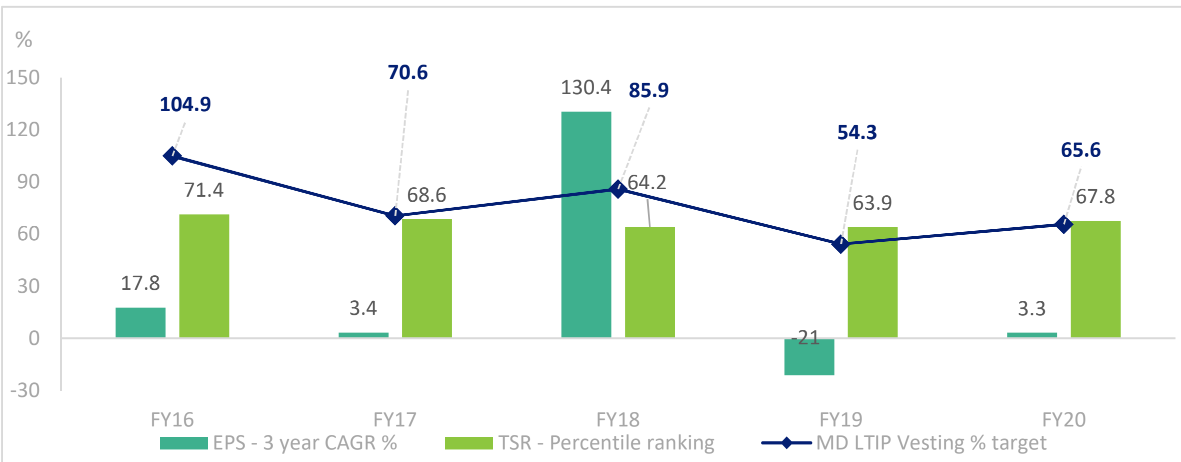


Chart 2: MD Overall LTI Outcome % of Maximum to EPS and TSR Percentile Ranking

(Note FY20 MD LTI vesting % outcome related to former MD Mr Ficca's assessment. New MD Mr Narvaez was not eligible to receive an award under the 2017 LTI grant)



5 FY2020 Executive KMP Incentive Plans - Detailed outcomes

FY2020 Short-Term Incentive Plan

The FY2020 STI Plan continues to use a single additive scorecard covering financial and non-financial measures. Key features of the Plan are set out as follows:

Board discretion

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

STI Opportunity

STI opportunity is expressed as a percentage of the participant's FAR at target performance as per design detailed in Section 3.

STI Performance gateways and moderator

STI payments are subject to two gateways:

- cash flow from operational performance provides the company with the ability to pay shareholder dividends in accordance with AusNet Services' dividend guidance targets for the relevant year.
- in the event of a fatality, the Board retains complete discretion to adjust any STI award for the Managing Director, other Executive KMP or other employees.

The Board considers the link between delivering on business performance and driving the right culture, behaviours and capability is critical to the delivery of sustainable business performance.

As such, all STI award outcomes are subject to a conduct, capability and culture moderator, which can result in a reduction of STI award outcomes the Board may deem appropriate.

STI Performance Measures and weightings

MD and Executive KMP (ex EGM Mondo)

Financial			Non-financial	
EBITDA	Return on equity	Company Opex (ex Mondo)	HSEQ Index	KPIs aligned to strategic priorities
30%	20%	10%	5%	35%

EGM Mondo

Financial				Non-financial	
EBITDA	Return on equity	Company Opex (ex Mondo)	Mondo Growth	HSEQ Index	KPIs aligned to strategic priorities
20%	10%	5%	35%	5%	25%

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

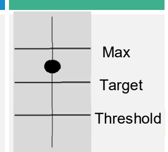
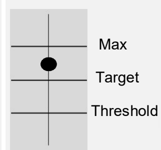
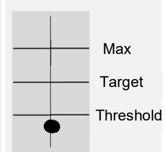
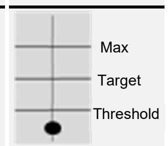
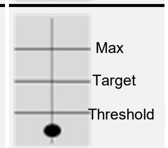
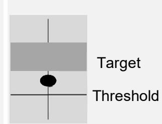
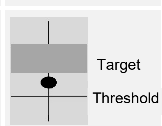
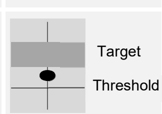
KPIs aligned to strategic priorities are set by the Board for the Managing Director. For FY2020 the Board set the Managing Director's strategic KPIs to be aligned to our growth in our unregulated asset base across our Mondo Business, transmission network strategic planning, bushfire mitigation strategy and organisational capability and culture.

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

5 FY2020 Executive KMP Incentive Plans - Detailed outcomes (continued)

FY2020 Managing Director STI scorecard performance outcomes are set out in the table below:

Design aspect	Managing Director FY2020 STI Scorecard
Eligibility & performance gates	The Board assessed the financial and safety performance gateways, which are preconditions for any STI payment and determined that FY2020 performance met gateway criteria.
Assessment of KPIs	The Board reviewed the former Managing Director, Mr Ficca's FY2020 STI scorecard performance, including performance in relation to Conduct, Capability and Culture moderator, progress on strategic measures and contribution during the leadership transition. The resulting outcome of 82.0 per cent of target performance applied on a pro rata basis. The new Managing Director Mr Narvaez's contractual arrangements include an STI award of at least $287,500 for FY2020, representing a pro rata 'at target' award.

	Measure	Strategy, Performance and Reward alignment	Weighting	FY2020 Vesting Outcome	Outcome Commentary
Financial	EBITDA	EBITDA is considered the most relevant financial performance measure in the utilities industry as it represents a proxy for cash generation, which influences dividend growth and is aligned with shareholder outcomes.	30%		EBITDA of $1,196m achieved for the year was moderated down by $19m for revenue that the Board determined was uncontrollable. The above target performance is reflective of both revenue outperformance and cost control relative to the target set.
	Return on Equity	Return on equity is an important measure in demonstrating relative financial performance and aligns with shareholder outcomes.	20%		Return on equity (after adjusting for revenue item) of 8.8 per cent was above target as a result of the above target EBITDA offset by higher interest and depreciation.
	Company Operating Expenditure (excluding Mondo)	Constraining operating expenditure for the regulated business is critical to our benchmarking outcomes and considered a key lever in improving financial performance.	10%		Company operating expenditure (excluding Mondo) of $372.1m was below threshold performance, the higher costs include expenditure incurred in relation to bushfire response and transformational initiatives that were not self-funding within the financial year. Notwithstanding the legitimacy of these costs, the Board's preference and policy is assess outcomes based on reported results.
Safety	HSEQ Index	This index blends key lead and lag indicators focussed on the ongoing improvement of our safety performance and culture.	5%		The HSEQ Index score of 60 was below threshold performance. Strong improvements in our lead indicators were offset by declines in performance of our lag measures.
Strategic	Unregulated growth	Our long-term target of unregulated infrastructure asset base resulted in a target being set for growth in the FY2020 year that would continue the trajectory towards that growth target.	10%		Contracts executed were below anticipated levels for FY2020 however significant milestones have been achieved towards the overall long-term target including the awarding of the Western Victorian Transmission Network Project.
	Transmission Planning	AusNet Services is supporting arrangements around the planning of the Victorian Transmission Network to provide reliability and security for customers over the long-term.	10%		Ongoing progress has been made throughout FY2020 towards co-ordinated transmission planning.
	Bushfire Mitigation Strategy	Ensures stakeholder outcomes through strategic and operational management and mitigation of bushfire risks.	5%		Partial progress towards achieving longer term certainty of legislative and regulatory implications.
	Capability, Culture and Engagement	Aligned culture, capability and engaged people are critical to the delivery of our strategy.	10%		Four percentage point uplift on prior year employee engagement results together with year on year improvement in a range of key organisational capabilities.

5 FY2020 Executive KMP Incentive Plans - Detailed outcomes (continued)

Design aspect	Managing Director FY2020 STI Scorecard
Delivery Mechanism	Two-thirds of the Managing Director's STI award is paid in cash with one-third deferred into share rights held over a two-year period. The number of share rights is determined by dividing one-third of the Managing Directors FY2020 STI award by the allocation price. The allocation price is determined by calculating the volume weighted average price (VWAP) of AusNet Services Ltd (AST) share price over a five-day trading period commencing on the date AusNet Services releases its FY2020 Financial Results unless otherwise determined by the Board. The Board intends to seek shareholder approval for the granting of the Managing Directors FY2020 Deferred STI Rights.
Deferred Share Rights	The Deferred STI share rights are not subject to any additional performance testing. The share rights are subject to forfeiture in the event of resignation or termination for cause. Shares are held in Trust on behalf of the Managing Director throughout the two-year deferral period and will be transferred to the Managing Director at the conclusion of the two-year deferral period. Whilst the Managing Director does not have a right to receive dividends during the two-year deferral period, a cash-based Dividend Equivalent Payment will be made at the conclusion of the deferral period. This payment will be based on the equivalent value of dividends that would have been ordinarily received during the deferral period if the shares were held directly and is not adjusted for franking credits.
Executive KMP Scorecard Outcomes	
Executive KMP STI Outcomes	Executive KMP STI scorecards included the same assessed financial and safety weightings as for the Managing Director (except for EGM of Mondo, which has a higher financial weighting as shown at the start of Section 5) with individual strategic KPIs determined for each role. In addition, each Executives KMP's performance is assessed in accordance with the Conduct, Capability and Culture performance moderator. The range of FY2020 STI outcomes for Executive KMP was between 82.0 per cent of target and 98.0 per cent of target STI opportunity, or 54.7 per cent to 65.3 per cent of maximum STI opportunity.
Delivery Mechanism	All Executive KMP awards are paid in cash except for EGM Mondo, Mr Hymas who has two-thirds of his STI award paid in cash with one-third deferred into share rights held over a two-year period under the same terms and conditions as set out for the Managing Director above.

5 FY2020 Executive KMP Incentive Plans - Detailed outcomes (continued)

Long-Term Incentive Plan 2019 Grant

The terms of the 2019 LTIP Grant made are summarised below. These grants were made to Executive KMP in May 2019.

Design aspect	Commentary		
Eligibility	Executive KMP. The Board has discretion to invite additional employees to participate in the LTI plan.		
Performance period	The 2019 LTI grant is for the three-year performance period commencing 1 April 2019 and ending on 31 March 2022 (FY2020 to FY2022).		
Opportunity	The LTI award opportunity is based on a percentage of the participant's FAR as at the grant date. The number of performance rights granted is the LTI award opportunity divided by the volume weighted average share price (VWAP) over the five-trading day period commencing on 13 May 2019 being the date on which AusNet Services released its FY2019 results. Former Managing Director Mr Ficca – 120 per cent of FAR at maximum performance. New Managing Director Mr Narvaez – 100 per cent of FAR at maximum performance. Mr Ficca and Mr Narvaez' grants were adjusted on a pro rata basis to reflect their respective FY2020 service periods. The former Managing Director Mr Ficca was made a pro rata grant shortly after shareholders voted and elected to approve his grant at the AGM held in July 2019. Mr Narvaez's pro rata grant, which was also approved by shareholders at that same AGM were granted to him shortly after Mr Narvaez's commencement in November 2019. All other participants, including Executive KMP grants were made in May 2019. Other Executive KMP – 50 per cent of FAR at maximum performance with the exception of Mr Ellul for whose 2019 grant was based on the role he previously occupied.		
Performance measures	**Total Shareholder Return (TSR)**	**Earnings Per Share (EPS)**	**Return on Invested Capital (ROIC)**
	The comparator group used for the TSR performance measure is the S&P/ASX 100 index (without exceptions). In assessing whether performance hurdles have been met, the Board receives an independent calculation of relative TSR growth for the performance period ranked against companies in the comparator groups	EPS is calculated by taking the company's net profit after tax divided by the weighted average number of shares on issue. The EPS growth measure is based on achieving a nominal compound annual growth rate (CAGR) over the three-year performance period.	The ROIC measure is designed to measure how effectively we use funds (borrowed and owned) invested in our operations. ROIC is calculated over a three-year performance period and equals (NPAT + Finance Cost adjusted for Tax) / (Average Equity + Average Debt). Average debt includes finance lease liabilities arising from the implementation of AASB 16 *Leases* from 1 April 2019. Finance costs include associated finance lease income and expense.
Weighting, targets and vesting scales	**Weighting 50%**	**Weighting 25%**	**Weighting 25%**
	Threshold Performance 50th percentile - 35 per cent vesting	Threshold Performance 2.5 per cent CAGR - 0 per cent vesting	Threshold Performance 4.42 per cent - 0 per cent vesting
	Maximum performance 75th percentile - 100 per cent vesting	Maximum performance 7.5 per cent CAGR - 100 per cent vesting	Maximum performance 4.62 per cent - 100 per cent vesting
	The vesting of each of the above KPIs will occur on a linear basis between the threshold and maximum ranges.		
Unvested rights and dividends	No dividends or dividend equivalent payments accrue to unvested rights during the performance period.		
Discretion and change of control	Performance against the Long-Term criteria is assessed, and award outcomes determined by the Board at its absolute discretion at the end of the respective performance periods. If a Change of Control Event occurs, or the Board determines such event is likely to occur, the Board has absolute discretion to determine the treatment of any or all of the Participant's unvested Performance Rights		

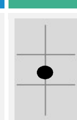
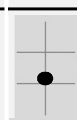
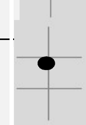
5 FY2020 Executive KMP Incentive Plans - Detailed outcomes (continued)

2017 LTI Grant - Performance assessment and outcomes

The Board-assessed performance of the 2017 LTI Award is set out below. For participants to qualify for an award under the ROIC measure, a safety performance gateway of zero fatalities for our employees in the 12-month period prior to vesting must be achieved.

Design aspect	Commentary		
Performance period	The 2017 LTI grant is for the three-year performance period commencing 1 April 2017 and ending on 31 March 2020 (FY2018 to FY2020).		
Opportunity	The LTI award is calculated as a percentage of the participant's FAR as at the grant date. The number of performance rights issued is the percentage of FAR divided by the volume weighted average price (VWAP) over the five-trading day period commencing on the date AusNet Services released its FY2016 results. The 2017 LTI grant price was therefore $1.7549. Former Managing Director Mr Ficca - 120 per cent of FAR (at grant date) at maximum performance. Mr Ficca's grant was made shortly after shareholders voted and elected to approve his grant at our AGM held in July 2017. As a result of Mr Ficca's retirement on 31 October 2019, Mr Ficca's 2017 grant is adjusted on a pro-rata basis to reflect his actual period of employment over the three- year performance period. New Managing Director Mr Narvaez was not eligible as grants to these awards were made prior to his commencement. Other Executive KMP – 50 per cent of FAR (at grant date) at maximum performance with the exception of Mr Ellul for which the 2017 grant was based on the role he previously occupied. These grants were made to all other participants including Executive KMP in May 2017.		
Performance measures	**Total Shareholder Return (TSR)**	**Earnings Per Share (EPS)**	**Return on Invested Capital (ROIC)**
Weighting, targets and vesting scales	**Weighting 50%**	**Weighting 25%**	**Weighting 25%**
	Threshold Performance 50th percentile - 35 per cent vesting	Threshold Performance 2.5 per cent CAGR – 0 per cent vesting	Threshold Performance 4.35 per cent - 50 per cent vesting
	Maximum performance 75th percentile - 100 per cent vesting	Maximum performance 5.0 per cent CAGR - 100 per cent vesting	Maximum performance 4.55 per cent - 100 per cent vesting
	The vesting outcome for each of the above KPIs occurs on a linear basis between the threshold and maximum performance targets.		

	2017 LTI Grant - Performance Outcomes
Assessed KPIs and outcome	The Board assessed the performance of the LTI awards granted in 2017, over the FY2018 – FY2020 performance period. The performance criteria tested were relative total shareholder return, earnings per share growth and return on invested capital. The Board used its discretion to reduce the vesting 65.6 per cent of maximum (100 per cent) opportunity as set out below. The statutory assessed outcome was moderated down 8% to reflect $19m for revenue that the Board determined was uncontrollable and resulted in the EPS KPI not achieving threshold.

Performance measures	Measure	Strategy, Performance and Reward alignment	Weighting	FY2020 Outcome	Performance Outcome
	TSR	TSR measures returns generated from the investments made against performance of comparator group. For the 2017 grant the comparator group was the ASX 200 (changed to ASX100 from the 2018 grant).	50%		67.8 percentile ranking
	EPS (CAGR)	EPS provides tangible measure of shareholder value creation.	25%		3.30 per cent (moderated nil vesting)
	ROIC	ROIC measures returns generated from investments in operations.	25%		4.82 per cent

6 Executive KMP remuneration

Mr Ficca retired as Managing Director effective 31 October 2019. The terms of employment up until his retirement and treatment of Mr. Ficca's remuneration on retirement are set out in the following table.

Managing Director – Mr. Ficca – 1 April 2019 to 31 October 2019	
Term of Agreement	Permanent, subject to six months' notice of termination by either party.
Fixed annual remuneration (FAR)	Fixed annual remuneration includes base salary and superannuation. As at 31 October 2019, Mr. Ficca's FAR was $1,300,000.
Short-term incentive (at risk)	Annual short-term incentive of 75 per cent of FAR for on-target performance STI awards are delivered as two-thirds in cash payment and one-third in deferred rights, with a two-year deferral period. Unless otherwise determined by the Board, STI awards are forfeited if terminated for cause or resignation prior to vesting date.
Long-term incentive (at risk)	Long-term incentive is expressed of 120 per cent of FAR for maximum performance Treatment of LTI awards are stated in the LTI plan rules and the specific terms of grant. In general, unless otherwise determined by the Board, LTI awards lapse upon resignation or termination for cause and for termination without cause will remain on foot on a pro-rata basis, to be tested against the relevant performance conditions at the vesting date. Annual invitation to participate with three-year performance period and no retesting of performance measures in subsequent years. Clawback provisions apply in plan rules.
Termination benefits	Termination benefits calculated at three weeks' pay for every year of service paid at the Managing Director's FAR rate and capped at six months.
Remuneration on Retirement - Mr Ficca	
FAR & Leave entitlements	Paid in full immediately upon retirement based on all accrued entitlements.
Short-term incentive (at risk)	The Board has assessed the outcome of the FY2020 STI performance together with Mr Ficca's contribution to the business for the pro rata period up to his retirement. Details of the FY2020 STI Scorecard assessments are outlined further in this report. Two-thirds of this award was paid in cash with one-third deferred for a two-year period in the form of share rights. Shareholders have approved grants of Deferred Share rights applicable for the FY2018 and FY2019 performance years. These deferred rights are eligible for vesting at the conclusion of two-year deferral periods subject to Board consideration. The Deferred Rights are not eligible to receive dividends throughout the deferral period however a cash equivalent payment will be made based on the equivalent value of dividends payable had the rights been issued as shares at the time of grant.
Long-term incentive (at risk)	At the AusNet Services July 2019 Annual General Meeting, shareholders approved a grant of 164,881 performance rights applicable the 2019 Grant. This number of rights represents the pro rata portion of rights applicable to Mr Ficca's date of retirement. Details of the 2019 LTI Grant are set out further in this report. The performance of these rights will be tested by the Board in May 2022 in accordance with the Board approved parameters. Shareholders have approved grants of performance rights for the 2017 and 2018 LTI. The 2017 Grant has been assessed by the Board resulting 65.6 per cent vesting. Mr Ficca's 2017 grant has been prorated for the period up to his retirement date which equates to a total of 765,655 eligible rights. Based on the vesting percentage of 65.6 per cent, a total of 502,270 rights will vest. Mr Ficca's 2018 grant has been be pro-rated to reflect his services up to his retirement date which equates to a total of 489,538 eligible rights. The performance of these rights will be tested by the Board in May 2021 in accordance with the Board approved parameters.

6 Executive KMP remuneration (continued)

Mr Narvaez was appointed Managing Director effective 1 November 2019. The terms of employment for Mr. Narvaez are set out below

Managing Director – Mr. Narvaez – From 1 November 2019	
Term of Agreement	Permanent, subject to six months' notice of termination by either party.
Fixed annual remuneration	Fixed annual remuneration includes base salary and superannuation. For the period from 1 November 2019 to 31 March 2020, Mr. Narvaez's annualised FAR was $1,150,000. Fixed annual remuneration is reviewed periodically against market by the Remuneration Committee and the Board, with no guarantee of annual increase.
Short-term incentive (at risk)	Annual invitation to participate with a one-year performance period. STI awards are delivered as two-thirds in cash payment and one-third in deferred rights, with a two-year deferral period. Unless otherwise determined by the Board, STI awards are forfeited if terminated for cause or resignation prior to vesting date. Clawback provisions apply in Deferred Short-Term incentive plan rules.
Long-term incentive (at risk)	Annual invitation to participate with three-year performance period and no retesting of performance measures in subsequent years. Treatment of LTI awards are stated in the LTI plan rules and the specific terms of grant. In general, unless otherwise determined by the Board, LTI awards lapse upon resignation or termination for cause and for termination without cause will remain on foot on a pro-rata basis, to be tested against the relevant performance conditions at the vesting date. Clawback provisions apply in plan rules.

On his appointment, Mr Narvaez's contract of employment contained several one-off arrangements which are outlined in the following table:

Remuneration on appointment – Mr Narvaez	
One-Off Payment	To compensate for incentives no longer eligible to be received from his previous employer, a one-off incentive totalling $750,000 was payable. Forty per cent of this incentive ($300,000) was paid in cash immediately upon commencement of his employment. The remaining $450,000 payment was awarded in the form of deferred share rights. The total number of rights issued was the value ($450,000) divided by the Volume Weighted Average Price (VWAP) ($1.8152) of AusNet Services shares for the 5-day trading period immediately after the announcement of our half year results in November 2019. 247,907 share rights were granted to Mr Narvaez on 26 November 2019. The share rights will vest after a two-year deferral period commencing from the grant date and any unvested share rights will immediately lapse in the event of resignation or termination for cause, subject to the Board determining otherwise.
Relocation Costs	To assist Mr Narvaez and his family relocate from New South Wales to Victoria, an all-inclusive relocation payment of $100,000 (gross) was paid upon his commencement.
Short-Term Incentive (at risk)	For FY2020, the Board gave an undertaking that, on the basis the performance gateways required to be eligible for an STI award were achieved, a STI award of at least $287,500 would be payable, representing a pro rata 'at target' award. The Board has assessed the outcome of the FY2020 STI performance measures and Mr Narvaez's contribution to the business for the pro rata period from his appointment. Two-thirds of this award was paid in cash with one-third deferred for a two-year period in the form of share rights.
Long-Term Incentive (at risk)	At AusNet Services' AGM held in July 2019, shareholders approved a grant of 260,459 performance rights applicable to the 2019 LTI Grant. This number of rights represented the pro rata portion for the period of employment in FY2020.The performance of these rights will be tested by the Board in May 2022 in accordance with the Board approved parameters. Details of the 2019 LTI Grant are set out further in this report.

6 Executive KMP remuneration (continued)

Executive KMP	
Term of Agreement	Permanent, subject to three months' notice of termination by either party.
Short-term incentive (at risk)	Annual short-term incentive is expressed as a percentage of FAR for on-target performance. Mr Hymas – 60 per cent (increased from 40 per cent in FY2019). STI awards for Mr Hymas are delivered as two-thirds in cash payment and one-third in deferred rights, with a two-year deferral period. Unless otherwise determined by the Board, STI awards are forfeited if terminated for cause or resignation prior to vesting date. Other Executive KMP – 40 per cent. STI awards are delivered as a cash payment.
Special Purpose Performance Incentive	During FY2020, the Board put in place a special purpose performance incentive opportunity for EGM Regulated Energy Services Mr Parker. Key features of the plan are as follows: Valued at $200,000 at the date of commencement being 17 May 2019. Offered by way of 108,713 performance share rights - issued at $1.8397. Will be assessed by the Board against specific contribution and performance criteria relating to Transmission Planning at the conclusion of a two-year performance period ending May 2021. The Board's assessment and any approved outcomes will be outlined in the FY2021 Remuneration Report.
Long-term incentive (at risk)	Long-term incentive is 50 per cent of FAR for maximum performance. Treatment of LTI awards are stated in the LTI plan rules and the specific terms of grant. In general, unless otherwise determined by the Board, LTI awards lapse upon resignation or termination for cause and for termination without cause will remain on foot on a pro-rata basis, to be tested against the relevant performance conditions at the vesting date. Annual invitation to participate with three-year performance period and no retesting of performance measures in subsequent years. Clawback provisions apply in plan rules.
Termination benefits	Termination benefits calculated at three weeks' pay for every year of service paid at the Executive KMP's FAR rate and capped at six months.

7 Remuneration governance

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

Clear roles assist efficient assessment and decision-making: The Board and Committee Charters establish clear roles for the Board and Remuneration Committee in relation to MD remuneration and the overall remuneration framework. The Remuneration Committee Charter was revised and updated by the Board in March 2020.

<table>
<tr><td rowspan="6">Stakeholders</td><th colspan="2">Board</th></tr>
<tr><td colspan="2">The Board oversees AusNet Services' remuneration arrangements. It is accountable for the remuneration of executives and of Non-executive Directors, and the policies and processes governing remuneration.

The Board's Remuneration Principles serve as a reference point for decisions on remuneration matters. These principles set out in Section 2 of this report were reviewed in March 2020.

The Board assesses the performance of the Managing Director and oversees executive KMP performance and approves all related reward outcomes.

The Board's stakeholder engagement plan includes regular remuneration related interactions and formal meetings, which inform the Board's thinking and decisions on remuneration. In addition, the Board seeks input from external advisors to challenge its thinking and to support informed and independent decision-making by the Board.</td></tr>
<tr><th colspan="2">Remuneration Committee</th></tr>
<tr><td colspan="2">The Remuneration Committee reviews and make recommendations to the Board on matters of remuneration frameworks and structure, non-executive remuneration levels and executive remuneration, including fixed and variable pay elements.

Directors regularly receive and review current remuneration market practices and emerging trends and assess their relevance to AusNet Services.

The Committee undertakes rigorous historical analysis and forecasting when considering short and long-term performance criteria. In addition, the Committee monitors internal and external trends on pay compression, diversity and gender pay relativities.</td></tr>
<tr><th>External Advisors</th><th>Management</th></tr>
<tr><td>The Remuneration Committee has appointed Ernst and Young (EY) as its Remuneration Advisor and engages other external advisors as required. No remuneration recommendations, as defined by the Corporations Act 2001, were provided to the Remuneration Committee or the Board by EY during the reporting period. Advice provided to the Remuneration Committee by EY during the reporting period focussed on overall executive remuneration market practices and frameworks in addition to executive remuneration benchmarking.</td><td>Management provides information and insights on contemporary remuneration practices and obtains remuneration information from external advisors to assist the Remuneration Committee.</td></tr>
</table>

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

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

8 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 [2,5]				Post-employment	Equity based payments [3]	Other long-term benefits [4,5]		Total
	FY	Cash salary and fees [5]	STI [1]	Annual Leave taken	Annual Leave Balance Net Change	Car Park	One-off relocation and incentive	Super-annuation		Long Service Leave taken	Long Service Leave Balance Net Change	
Nino **Ficca** [6]	**2020**	**591,333**	**466,908**	**109,169**	**(60,768)**	**5,814**		**66,548**	**161,071**		**19,591**	**1,359,666**
	2019	1,018,912	1,023,750	163,754	(79,696)	10,769	-	112,353	596,806	-	32,375	2,879,023
Tony **Narvaez** [6]	**2020**	**465,517**	**287,500**	**-**	**88,123**	**4,129**	**400,000**	**10,385**	**68,163**		**11,894**	**1,335,711**
Mark **Ellul** [6]	**2020**	**213,504**	**80,483**	**14,559**	**24,596**	**5,243**	**-**	**13,173**	**10,875**		**51,560**	**413,993**
Chad **Hymas**	**2020**	**445,104**	**277,020**	**17,663**	**29,200**	**9,943**	**-**	**25,192**	**63,765**		**28,103**	**895,990**
	2019	397,318	196,200	26,054	6,896	10,769	-	25,000	93,752	-	11,207	767,196
Adam **Newman** [6]	**2020**	**277,031**	**-**	**39,576**	**(14,248)**	**4,700**	**-**	**11,538**	**(169,488)**		**11,546**	**160,655**
	2019	619,219	257,735	46,058	5,310	10,769	-	25,000	153,320	-	17,255	1,134,666
Alistair **Parker** [7]	**2020**	**482,759**	**180,400**	**44,253**	**1,268**	**9,943**	**-**	**25,192**	**153,592**		**18,718**	**916,125**
	2019	410,939	190,000	16,379	21,072	10,769	-	25,000	100,713	49,138	(39,272)	784,738
Mario **Tieppo**	**2020**	**379,406**	**158,400**	**47,222**	**(15,518)**	**9,943**	**-**	**25,192**	**42,554**		**11,208**	**658,407**
	2019	397,318	178,200	26,054	8,136	10,769	-	25,000	104,454	-	13,852	763,783
Total KMP	**2020**	**2,854,654**	**1,450,711**	**272,442**	**52,653**	**49,715**	**400,000**	**177,220**	**330,532**		**152,620**	**5,740,547**
	2019	2,843,706	1,845,885	278,299	(38,282)	53,845	-	212,353	1,049,045	49,138	35,417	6,329,406

1. FY2020 STI includes amounts in respect of performance for the year ended 31 March 2020. These amounts have been approved and will be payable in June 2020. Mr Ficca also includes an amount of $34,021 being the Dividend Equivalent payment relating to the 2017 STI Deferred Share Rights that vested in July 2019.
2. *Other short-term benefits* include car parking benefits and the accrual of annual leave entitlements. The allocation of the premium for Directors' and Officers' insurance is not included as under the terms of the current policy this information cannot be disclosed.
3. As the performance period over which the LTI awards vest is three years, the amount included in *Equity-based payments* is one-third of the amount estimated to vest at the end of the performance period for each outstanding award. This estimated amount is based on certain assumptions regarding the achievement of performance targets, which are reviewed and adjusted annually. Any adjustments to previously recognised amounts, both positive and negative, are included in the current year. The actual amounts vested under these awards will not be known until the end of the performance period. For Mr Ficca this includes the full estimated cost of on-foot grants.
4. *Other long-term benefits* include the accrual of long service leave entitlements.
5. The above table represents the accounting value of KMP remuneration, calculated in accordance with accounting standards. As a result, annual leave and long service leave entitlements are recognised as remuneration when they accrue rather than when they are taken. This has the impact of reducing the cash salary and fees remuneration disclosed in the table above when these leave entitlements are ultimately taken by the KMP. In addition, any changes to the value of leave entitlements (for example, because of changes in FAR or long service leave entitlements not vesting) are recognised as remuneration, either positive or negative, in the year that the change occurs. These accounting adjustments to remuneration values are reflected in the *Cash salary and fees*, *Other short-term benefits* and *Other long-term benefits* disclosed in the table.
6. Represents the pro-rata values applicable for the period of employment as a KMP in FY2020, except for the long service leave balance net change which reflects revaluation of the balance for the year.
7. Equity based payment value for Mr Parker contains a value attributed to his enhanced incentive plan to be tested in May 2021

8 Statutory Remuneration Disclosures (continued)

Short-Term Incentive

The percentage of the available STI that was paid, or that vested, and percentage of target that was lapsed in the financial years ended 31 March 2019 and 31 March 2020, are set out below.

	FY2020 STI					FY2019 STI				
	STI payable ($)[1]	STI deferred ($)[2]	Total STI payable ($)	% of target payable/ (lapsed)		STI paid ($)	STI deferred ($)[3]	Total STI paid ($)	% of target payable/ (lapsed)	
Nino **Ficca**	311,272	155,636	**466,908**	82	18	682,500	341,250	**1,023,750**	105	-
Tony **Narvaez**	191,667	95,833	**287,500**	100	-	-	-	**-**	-	-
Mark **Ellul**[4]	80,483	-	**80,483**	98	2	-	-	**-**	-	-
Chad **Hymas**	184,680	92,340	**277,020**	95	5	196,200	-	**196,200**	109	-
Adam **Newman**[5]	-	-	**-**	-	-	257,735	-	**257,735**	93	7
Alistair **Parker**	180,400	-	**180,400**	82	18	190,000	-	**190,000**	95	5
Mario **Tieppo**	158,400	-	**158,400**	88	12	178,200	-	**178,200**	99	**1**

1. Incentive payments for the performance year ended 31 March 2020 have been approved and will be payable in June 2020.
2. One-third of the Former and Current Managing Director's and EGM Mondo FY2020 award will be deferred into share rights to be held for a period of two years. STI is paid in cash for all other executives.
3. Under the terms of the Deferral Plan, the deferred STI component of Mr Ficca's FY2019 STI was allocated by way of deferred rights to be held for a period of two years. The number of deferred rights issued was 185,492 for Mr Ficca. The number of deferred rights was issued by dividing the value by the share price of $1.8397. The share price was calculated based on the volume weighted average price (VWAP) over the five-trading day period commencing on the date AusNet Services released its FY2019 results.
4. Mr Ellul represents amounts relating to 21 September 2019 to 31 March 2020. Amounts payable relating to Mr Ellul's pre-KMP period have been excluded from this table.
5. Mr Newman was not eligible for an STI following his resignation during FY2020.

Long-Term Incentive

FY2020 LTI vesting outcomes

The performance rights vesting in FY2020 were granted to the Managing Director and other Executive KMP under the terms and conditions of the 2017 grant. The performance outcome, outlined in section 4 of this report for the 2017 grant, resulted in 65.6 per cent of performance rights vesting as shown in the table blow:

		2017 LTI Performance Rights		
	Granted	Vested	Forfeited	Lapsed
Nino **Ficca**	888,939	502,270	123,284	263,385
Mark **Ellul** [1]	42,035	27,575	-	14,460
Chad **Hymas**	128,212	84,107	-	44,105
Adam **Newman**	197,400	-	197,400	-
Alistair **Parker**	142,458	93,452	-	49,006
Mario **Tieppo**	121,192	79,502	-	41,690

1. Mr Ellul's 2017 grant was made under the role he previously occupied.

8 Statutory Remuneration Disclosures (continued)

LTI performance rights allocation

The following table shows the number and value of grants subject to current vesting and future performance testing. The performance periods for the grants made in 2018 and 2019 are still in progress and, as such vesting has not been assessed against the performance conditions at the date of this report.

KMP	Maximum total value of grant ($) [1,2]	Performance rights granted	Maximum total value of grant ($) [2]	Performance rights granted	Maximum total value of grant ($) [2]	Performance rights granted
Grant	**2017**		**2018**		**2019**	
Test / Vesting date	**31 Mar 2020**		**31 Mar 2021**		**31 Mar 2022**	
Nino **Ficca**[3]	1,075,617	888,939	978,420	927,412	192,912	164,882
Tony **Narvaez**	-	-	-	-	304,737	260,459
Mark **Ellul**[4]	50,859	42,035	47,207	44,746	49,141	42,001
Chad **Hymas**	155,137	128,212	141,118	133,761	154,542	132,087
Alistair **Parker**	172,374	142,458	156,798	148,623	174,893	149,481
Mario **Tieppo**	146,642	121,192	141,118	133,761	143,094	122,303
Total	**1,600,629**	**1,322,836**	**1,464,661**	**1,388,303**	**1,019,319**	**871,213**

1. These grants have vested. In determining LTIs for the 2017 grant, vesting outcomes were moderated as set out in section 5 of this report
2. Amounts represent the value of the performance rights on grant date. Refer to Note F.3 in the financial statements for further details.
3. Mr Ficca's 2017 grant has forfeited 123,284 performance rights and his 2018 grant has forfeited 437,476 performance rights as a result of his retirement on 31 October 2019
4. Mr Ellul was granted performance rights in the capacity of his previous role.

Shareholdings of KMP

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

The KMP of AusNet Services have disclosed direct, indirect or beneficial interests in shares as at 31 March 2020 as follows:

Name	Number of shares at 1 April 2019	Granted during the year as compensation	Acquisitions / (disposals)	Number of shares at 31 March 2020
Executive KMP[1]				
Nino **Ficca** [2]	2,263,183	555,416	-	2,818,599
Tony **Narvaez** [3]	-	-	-	-
Mark **Ellul** [3]	-	-	-	-
Chad **Hymas**	264,783	57,221	(113,179)	208,825
Adam **Newman** [2]	388,190	117,235	-	505,425
Alistair **Parker**	347,165	70,895	(57,486)	360,574
Mario **Tieppo**	246,111	71,975	(71,975)	246,111

1. Total shareholdings include shares held by KMP and their related parties.
2. Mr Ficca and Mr Newman's shareholding at 31 March 2020 represent shareholding when they ceased to be KMP
3. Mr Narvaez and Mr Ellul's shareholding at 1 April 2019 represents the number of shares held at commencement date as KMP.

Meetings of Directors

The number of meetings of the Board of Directors of AusNet Services Holdings Pty Ltd held during the year ended 31 March 2020, 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
Mark Ellul[1]	4	4
Nino Ficca[2]	5	5
Tony Narvaez[3]	5	5
Adam Newman[4]	3	3
Alistair Parker	8	9

1. Mr. Ellul was appointed as a Director effective 9 December 2019
2. Mr Ficca retired as a Director effective 8 December 2019
3. Mr Narvaez was appointed as a Director effective 1 November 2019.
4. Mr Newman resigned as a Director effective 31 October 2019

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

Indemnification and insurance of officers and auditors

During the financial year, we paid a premium to insure the Directors and Company Secretaries of the Australian-based subsidiaries and the Executive General Managers of AusNet Services. The Directors have not included details of the nature of the liabilities covered or the amount of the premium paid in respect of the insurance policy, as (in accordance with normal commercial practice) such disclosure is prohibited under the terms of the policy. No insurance premiums are paid by us in regard to insurance cover provided to the auditor of the Group, KPMG. The auditor is not indemnified, and no insurance cover is provided to the auditor.

Non-audit services

We may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor’s expertise and experience with the relevant company are important. Details of the amounts paid or payable to the auditor, KPMG, for audit and non-audit services provided during the year are set out in Note F.1 of the financial report.

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

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

A copy of the auditor’s independence declaration as required under section 307C of the *Corporations Act* is set out on page 34.

Environmental regulation and climate change

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

Under the *National Greenhouse and Energy Reporting (NGER) Act 2007 (Cth)*, corporations that meet or exceed thresholds are required to report greenhouse gas emissions and energy usage by 31 October each year. We meet these thresholds and have lodged our NGER reporting with the Clean Energy Regulator for the period from 1 July 2018 to 30 June 2019.

Significant changes in the state of affairs

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

Rounding of amounts

AusNet Services 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 year

(a) New financing facilities

On 7 May 2020, AusNet Services secured a further $500 million of bank facilities for terms ranging between two and five years. These facilities remain undrawn and have been secured to provide additional liquidity.

(b) COVID-19 pandemic

The spread of novel coronavirus (COVID-19) was declared a public health emergency by the World Health Organisation on 31 January 2020 and upgraded to a global pandemic on 11 March 2020. The rapid rise of the virus has seen an unprecedented global response by governments, regulators and numerous industry sectors. The Australian Federal Government enacted its emergency plan on 29 February 2020. This has led to the closure of Australian borders from 20 March, an increasing level of restrictions on corporate Australia's ability to operate, significant volatility and instability in financial markets and the release of a number of government stimulus packages to support individuals and businesses as the Australian and global economies face significant slowdown and uncertainties.

On 2 April 2020, we announced a suite of measures to provide support to customers enduring hardship as a result of the COVID-19 pandemic, including rebating or deferring network charges from 1 April 2020 to 30 June 2020 for customers meeting certain hardship criteria. On 6 May 2020, the AER lodged with the Australian Energy Market Commission a proposal for an urgent change to the National Electricity Rules to extend deferral of retailer payment terms through to 31 December 2020.

AusNet Services plays a pivotal role in delivering safe, reliable energy to customers every day through our network. Early indications are that demand in our distribution networks has not materially changed as result of COVID-19 actions. However, there is uncertainty about the length and severity of Government or regulatory intervention which could have unexpected impacts. A prolonged economic downturn could also lead to further Government or regulatory intervention and more adverse outcomes on our business.

(c) Other matters

There has been no matter or circumstance that has arisen since 31 March 2020 up to the date of issue of this financial report that has significantly affected or may significantly affect:

(a) the operations in financial years subsequent to 31 March 2020 of the Group;

(b) the results of those operations; or

(c) the state of affairs, in financial years subsequent to 31 March 2020, of the Group.

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

Tony Narvaez
Managing Director

Melbourne
11 May 2020

AusNet Services Ltd

Lead auditor's independence declaration

Consolidated income statement
For the year ended 31 March 2020

	Notes	2020 $M	2019 $M
Revenue	B.1	**1,239.2**	1,162.8
Use of system and associated charges		**(120.6)**	(99.5)
Employee benefits expenses		**(119.8)**	(130.6)
External maintenance and contractors' services		**(120.1)**	(102.3)
Materials		**(39.2)**	(24.3)
Information technology and communication costs		**(43.1)**	(40.0)
Lease expenses		**(1.9)**	(7.4)
Administrative expenses		**(30.4)**	(20.9)
Service level payments		**(12.9)**	(8.0)
Disposal of property, plant and equipment		**(13.1)**	(19.1)
Other costs		**(25.3)**	(26.2)
Total expenses excluding depreciation, amortisation, interest and tax		**(526.4)**	(478.3)
Earnings before interest, tax, depreciation and amortisation		**712.8**	684.5
Depreciation and amortisation	C.1, C.2	**(342.4)**	(347.7)
Profit from operating activities		**370.4**	336.8
Finance income	D.4	**110.1**	114.4
Finance costs	D.4	**(355.3)**	(340.1)
Net finance costs		**(245.2)**	(225.7)
Profit before income tax		**125.2**	111.1
Income tax expense	B.4	**(37.6)**	(39.8)
Profit for the year		**87.6**	71.3

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

Consolidated statement of comprehensive income
For the year ended 31 March 2020

	Notes	**2020 $M**	2019 $M
Profit for the year		**87.6**	71.3
Other comprehensive income			
Items that will not be reclassified to profit or loss in subsequent periods			
Movement in defined benefit fund	F.2	**(5.9)**	(4.7)
Income tax on movement in defined benefit fund	B.4	**1.8**	1.4
		(4.1)	(3.3)
Items that may be reclassified to profit or loss in subsequent periods			
Movement in hedge reserve		**(463.5)**	(291.2)
Income tax on movement in hedge reserve	B.4	**139.0**	93.1
	D.3	**(324.5)**	(198.1)
Other comprehensive loss for the year, net of tax		**(328.6)**	(201.4)
Total comprehensive loss for the year		**(241.0)**	(130.1)

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

Consolidated statement of financial position

As at 31 March 2020

	Notes	2020 $M	2019 $M
ASSETS			
Current assets			
Cash and cash equivalents		**154.1**	337.3
Receivables	B.3	**134.6**	260.9
Other financial assets	C.3	**249.9**	-
Inventories	B.3	**40.4**	46.6
Derivative financial instruments	D.3	**194.7**	139.2
Other assets	B.3	**20.0**	21.9
Total current assets		**793.7**	805.9
Non-current assets			
Receivables	E.3	**2,494.7**	2,479.2
Property, plant and equipment	C.1	**6,645.3**	6,331.0
Intangible assets	C.2	**502.7**	509.8
Other financial assets	C.3	**6.3**	-
Derivative financial instruments	D.3	**1,237.3**	473.0
Other assets	B.3	**36.3**	27.6
Total non-current assets		**10,922.6**	9,820.6
Total assets		**11,716.3**	10,626.5
LIABILITIES			
Current liabilities			
Payables and other liabilities	B.3	**376.4**	487.8
Lease liabilities	D.5	**5.4**	-
Provisions	B.3	**41.8**	61.2
Borrowings	D.2	**955.2**	979.7
Derivative financial instruments	D.3	**6.0**	2.7
Total current liabilities		**1,384.8**	1,531.4
Non-current liabilities			
Deferred revenue	B.3	**116.0**	98.3
Lease liabilities	D.5	**45.4**	-
Provisions	B.3	**58.7**	54.3
Borrowings	D.2	**8,325.5**	6,966.7
Derivative financial instruments	D.3	**776.1**	347.2
Deferred tax liabilities	B.4	**58.7**	186.6
Total non-current liabilities		**9,380.4**	7,653.1
Total liabilities		**10,765.2**	9,184.5
Net assets		**951.1**	1,442.0
EQUITY			
Contributed equity	D.6	**1,436.4**	1,308.3
Reserves		**(638.6)**	(314.4)
Retained profits		**153.3**	448.1
Total equity		**951.1**	1,442.0

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

Consolidated statement of changes in equity

For the year ended 31 March 2020

	Notes	Contributed equity $M	Share based payment reserve (ii) $M	Hedge reserve (i) $M	Retained profits $M	Total equity $M
31 March 2020						
Balance as at 1 April 2019		1,308.3	0.7	(315.1)	448.1	1,442.0
Total comprehensive income/(loss) for the year						
Profit for the year		-	-	-	87.6	87.6
Other comprehensive loss		-	-	(324.5)	(4.1)	(328.6)
Total comprehensive income/(loss) for the year		**-**	**-**	**(324.5)**	**83.5**	**(241.0)**
Transactions with owners, recorded directly in equity						
Dividends	D.7	-	-	-	(378.3)	(378.3)
Equity injection	D.6	127.2	-	-	-	127.2
Share based payment reserve	D.6	0.9	0.3	-	-	1.2
Total transactions with owners		**128.1**	**0.3**	**-**	**(378.3)**	**(249.9)**
Balance as at 31 March 2020		**1,436.4**	**1.0**	**(639.6)**	**153.3**	**951.1**
31 March 2019						
Balance as at 1 April 2018		1,064.9	0.7	(117.0)	898.5	1,847.1
Total comprehensive income/(loss) for the year						
Profit for the year		-	-	-	71.3	71.3
Other comprehensive loss		-	-	(198.1)	(3.3)	(201.4)
Total comprehensive income/(loss) for the year		**-**	**-**	**(198.1)**	**68.0**	**(130.1)**
Transactions with owners, recorded directly in equity						
Dividends	D.7	-	-	-	(518.4)	(518.4)
Equity injection	D.6	242.5	-	-	-	242.5
Share based payment reserve	D.6	0.9	-	-	-	0.9
Total transactions with owners		**243.4**	**-**	**-**	**(518.4)**	**(275.0)**
Balance as at 31 March 2019		**1,308.3**	**0.7**	**(315.1)**	**448.1**	**1,442.0**

(i) The hedge reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments. These gains or losses are transferred to the income statement when the hedged item affects income, except for highly probable forecast purchases of an asset where the gains or losses are included in the initial measurement of that asset.

(ii) The share based payment reserve represents the tax-effected fair value of the performance rights granted under the long term incentive plan. This takes into account estimated vesting and service conditions as at 31 March 2020.

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

Consolidated statement of cash flows

For the year ended 31 March 2020

	Notes	2020 $M	2019 $M
Cash flows from operating activities			
Profit for the year		**87.6**	71.3
Add back interest, tax, depreciation		**625.2**	613.2
Other non-cash items		**(83.7)**	(26.3)
Non-cash intercompany transactions		**(123.5)**	(11.2)
Working capital movement		**74.4**	(90.3)
Net interest paid		**(337.3)**	(298.7)
Net cash inflow from operating activities		**242.7**	258.0
Cash flows from investing activities			
Payments for property, plant and equipment (i)		**(522.1)**	(551.7)
Proceeds from sale of property, plant and equipment		**13.9**	1.2
Receipts from financial assets	C.3	**0.1**	-
Payments for financial assets(ii)	C.3	**(249.7)**	-
Net cash outflow from investing activities		**(757.8)**	(550.5)
Cash flows from financing activities			
Repayments of related party loans		**(126.4)**	(9.7)
Payments for lease liabilities	D.5	**(5.4)**	-
Proceeds from borrowings	D.2	**1,282.1**	574.2
Repayment of borrowings	D.2	**(818.4)**	(537.5)
Net cash inflow from financing activities		**331.9**	27.0
Net (decrease)/increase in cash held		**(183.2)**	(265.5)
Cash and cash equivalents at the beginning of the year		**337.3**	602.8
Cash and cash equivalents at the end of the year		**154.1**	337.3

(i) Net finance costs include a credit of $9.2 million (2019: $10.9 million) for capitalised finance charges which is included in payments for property, plant and equipment.

(ii) During the year, $249.7 million was invested in short term deposits maturing in July 2020 and February 2021.

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

Contents

Section A Overview

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

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

(a) Basis of preparation

The consolidated general purpose financial report, prepared by a for-profit entity and presented in Australian dollars, represents the consolidated financial statements of AusNet Services Holdings Pty Ltd (the Company) and its subsidiaries. The consolidated group is collectively referred to as the Group. The ultimate Australian parent of the Company is AusNet Services Ltd, which is part of a consolidated group trading as AusNet Services (referred to as the AusNet Services Group, we, us or our). The financial statements were approved by the Board of Directors on 11 May 2020.

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 $591.1 million at 31 March 2020. The Group is, and is expected to continue trading profitably, generating positive operating cash flows and successfully refinancing maturing debt. In making this assessment consideration has been given to potential impacts of COVID-19 on the Group's operations and forecast cash flows based on the estimates and reasonably possible scenarios, noting the rapidly evolving nature of COVID-19 makes it inherently difficult to forecast outcomes with certainty. In addition, at 31 March 2020, the Group has available a total of $652.0 million of undrawn but committed bank debt facilities and $403.8 million of cash and short term investments; and
- under the historical cost convention, except for certain financial assets and liabilities (including derivative financial instruments) measured at fair value and with amounts rounded off to the nearest hundred thousand dollars, unless otherwise stated, in accordance with Instrument 2016/191 issued by the Australian Securities and Investments Commission.

Except for the adoption of AASB 16 *Leases* and AASB 2019-3 *Amendments to Australian Accounting Standards – Interest Rate Benchmark Reform*, 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 2019.

(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.4 - Timing and availability of tax deductions
- C.1 - Useful lives of property, plant and equipment
- C.3 - Determination of Cash-Generating Units and 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

(c) Change in accounting policies – AASB 16 *Leases*

i. As a lessee

On adoption of AASB 16, the Group recognised lease liabilities and right–of-use assets in relation to leases which had previously been classified as 'operating leases' under the principles of AASB 117 *Leases.* AASB 16 was adopted from 1 April 2019, using the modified retrospective transition method.

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).

At transition, the right-of-use asset is measured at the same value as the lease liability and is subsequently measured at cost less any accumulated depreciation and impairment losses, and adjusted for certain remeasurements of the lease liability.

The Group has elected not to recognise right-of-use assets and lease liabilities for some leases of low value and/or that expire within 12 months of lease term. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

ii. As a lessor

Under AASB 16, the Group has determined that its dedicated unregulated customer connection assets now meet the new 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 is equivalent to its fair value.

The Group continues to act as lessor in certain operating lease arrangements and the accounting treatment of these is unchanged by AASB 16.

iii. Reconciliation of FY2019 operating lease commitments to AASB 16 lease liability:

	1 April 2019 $M
Operating lease commitments at 31 March 2019	76.1
Discounted using the incremental borrowing rate at 1 April 2019 (i)	55.8
Lease liabilities recognised at 1 April 2019	**55.8**

(i) When measuring lease liabilities, the Group discounted lease payments using its incremental borrowing rate at 1 April 2019. The weighted-average rate applied was 5.23%.

(c) Change in accounting policies – AASB 16 *Leases* (continued)

Impacts on financial statements:

The following tables summarise the impact of adopting AASB 16 on the Group's consolidated statement of financial position as at 31 March 2020, the Group's consolidated income statement and consolidated statement of cash flows for the year then ended.

	Before adoption of AASB 16 $M	Impact of AASB 16 (lessor) $M	Impact of AASB 16 (lessee) $M	Reported $M
ASSETS				
Current assets				
Other financial assets	249.7	0.2	-	249.9
Total current assets	**793.5**	**0.2**	**-**	**793.7**
Non-current assets				
Property, plant and equipment	6,603.5	(6.6)	48.4[i]	6,645.3
Other financial assets	-	6.3	-	6.3
Total non-current assets	**10,874.5**	**(0.3)**	**48.4**	**10,922.6**
Total assets	**11,668.0**	**(0.1)**	**48.4**	**11,716.3**
LIABILITIES				
Current liabilities				
Payables and other liabilities	378.7	-	(2.3)	376.4
Lease liabilities	-	-	5.4[ii]	5.4
Total current liabilities	**1,381.7**	**-**	**3.1**	**1,384.8**
Non-current liabilities				
Lease liabilities	-	-	45.4[ii]	45.4
Deferred tax liabilities	57.1	-	1.6	58.7
Total non-current liabilities	**9,333.4**	**-**	**47.0**	**9,380.4**
Total liabilities	**10,715.1**	**-**	**50.1**	**10,765.2**
Net assets	**952.9**	**(0.1)**	**(1.7)**	**951.1**
Equity				
Retained profits	155.1	(0.1)	(1.7)	153.3
Total equity	**952.9**	**(0.1)**	**(1.7)**	**951.1**

(i) Includes transition adjustment of $55.8 million and $0.7 million of new costs during FY2020 less $8.1 million of depreciation

(ii) Includes transition adjustment of $55.8 million ($10.8 million current, $45.0 million non-current), $0.4 million of new leases during FY2020, less $5.4 million of repayments

(c) Change in accounting policies – AASB 16 *Leases* (continued)

Consolidated income statement for the year ended 31 March 2020

	Before adoption of AASB 16 $M	Impact of AASB 16 (lessor) $M	Impact of AASB 16 (lessee) $M	Reported $M
Revenue	1,239.5	(0.3)	-	1,239.2
Lease expense	(10.5)	-	8.6	(1.9)
Other costs	(25.7)	-	0.4	(25.3)
Earnings before interest, tax, depreciation and amortisation	**704.1**	**(0.3)**	**9.0**	**712.8**
Depreciation and amortisation	(334.3)	-	(8.1)	(342.4)
Net finance costs	(242.2)	0.2	(3.2)	(245.2)
Profit before income tax	**127.6**	**(0.1)**	**(2.3)**	**125.2**
Income tax expense	(38.2)	-	0.6	(37.6)
Profit for the year	**89.4**	**(0.1)**	**(1.7)**	**87.6**

Consolidated statement of cash flows for the year ended 31 March 2020

	Before adoption of AASB 16 $M	Impact of AASB 16 (lessor) $M	Impact of AASB 16 (lessee) $M	Reported $M
Cash flows from operating activities				
Profit for the period	89.4	(0.1)	(1.7)	87.6
Add back interest, tax, depreciation	614.7	(0.2)	10.7	625.2
Working capital movement	74.8	-	(0.4)	74.4
Net interest received/(paid)	(334.3)	0.2	(3.2)	(337.3)
Net cash inflow from operating activities	**237.4**	**(0.1)**	**5.4**	**242.7**
Cash flows from investing activities				
Receipts from financial assets	-	0.1	-	0.1
Net cash (outflow) from investing activities	**(757.9)**	**0.1**	**-**	**(757.8)**
Cash flows from financing activities				
Payments for lease liabilities	-	-	(5.4)	(5.4)
Net cash (outflow) from financing activities	**337.3**	**-**	**(5.4)**	**331.9**

(d) Change in accounting policies – Adoption of AASB 2019-3 *Amendments to Australian Accounting Standards - Interest Rate Benchmark Reform*

Interbank offered rates (IBORs), such as the London Interbank Offered Rate (LIBOR), play a critical role in global financial markets, serving as reference rates for derivatives, loans and securities, and as parameters in the valuation of financial instruments. Market-led working groups in respective jurisdictions have recommended alternative risk-free reference rates, which are gradually being adopted.

We have elected to early adopt AASB 2019-3 *Amendments to Australian Accounting Standards – Interest Rate Benchmark Reform* issued by the AASB in October 2019. The amendments include a number of reliefs that apply to all hedging relationships directly affected by interest rate benchmark reform. A hedging relationship is affected if interest rate benchmark reform gives rise to uncertainties about the timing and/or amount of benchmark-based cash flows of the hedged item or hedging instrument.

AusNet Services hedging derivatives portfolio is exposed to a number of benchmark rates, predominately Euribor, US dollar LIBOR and BBSW. We are monitoring the developments of international regulators to assess the impact of the introduction of alternative risk-free rates, which is expected to occur at the end of calendar 2021.

The notional value of our LIBOR-benchmarked exposure as at 31 March 2020 was $5,328 million.

The adoption of the amendments had no impact on AusNet Services' financial results for the year ended 31 March 2020.

Section B Operating our business

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

Note B.1 Segment results

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

(a) Description of reportable segments

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

(i) Electricity distribution

The electricity distribution network carries electricity from the high voltage transmission network to end users, including metering. We charge retailers and some large customers regulated rates for the use of the electricity distribution network. The performance obligation is the provision of the access to the network and as such use of system revenue is recognised over the contract period which is deemed to be the regulatory reset period. The transaction price is deemed to be the determined recoverable revenue over that period. Variable consideration relating to volumes is constrained to the period in which it occurs, and volume over or under recoveries under the revenue cap are not considered to comprise variable consideration in accordance with AASB 138 *Intangible Assets.*

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

Customer Contributions

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

Non-refundable contributions received from customers towards the cost of extending or modifying our networks are generally recognised as revenue and an asset respectively once control is gained of the contribution or asset and it is operating as intended. The performance obligation is at a point in time being the time at which the customer is connected to the network.

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

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

(ii) Gas distribution

The gas distribution network carries natural gas to commercial and residential end users, including metering. We charge retailers and some large customers regulated rates for the use of the gas distribution network. The performance obligation is the provision of the access to the network and as such use of system revenue is recognised over the contract period which is deemed to be the regulatory reset period. The transaction price is deemed to be the determined recoverable revenue over that period. Variable consideration, being the volume fluctuations or true ups for unaccounted for gas are constrained to the period to which they apply. The gas distribution segment does not purchase or sell gas. Our gas distribution network covers central and western Victoria.

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

Note B.1 Segment results (continued)

(iii) Mondo

The Mondo business provides contracted infrastructure asset services and specialised technology solutions to enable energy data and asset intelligence services. The contracted infrastructure asset services business unit owns and operates a portfolio of assets that fall outside the regulated asset base. The investments are made through directly negotiated agreements, pursuant to which Mondo typically receives fixed fee revenue over the contract period in exchange for the infrastructure and operational services provided. The performance obligation is the provision of the access to the connection assets and as such revenue is recognised over the contract period. Variable consideration includes penalty regimes for unplanned outages, early completion bonuses and other incentives/penalties which vary between contracts and is constrained to the period in which it arises. All contracted infrastructure projects where there is a dedicated customer asset are accounted for under AASB 16 *Leases*.

Specialised technology solutions relate to the development and maintenance of asset management software solutions for utility and rail customers. Performance obligations are over time being the term of the contract. There is no variable consideration in these contracts.

The Mondo business also provides various services to customers in the utility, renewables and essential infrastructure sectors of electricity, water, gas and rail. Revenue for these services is recognised at a point in time as the services are rendered.

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

Note B.1 Segment results (continued)

(b) Reportable segment financial information

	Electricity distribution	Gas distribution	Mondo	Consolidated
2020	**$M**	**$M**	**$M**	**$M**
Regulated revenue	824.9	213.6	-	**1,038.5**
Customer contributions	91.2	8.5	-	**99.7**
Service revenue	-	-	60.4	**60.4**
Other revenue	21.0	1.7	17.9	**40.6**
Total segment revenue	**937.1**	**223.8**	**78.3**	**1,239.2**
Segment operating expense	(373.0)	(64.8)	(88.6)	**(526.4)**
Segment result - EBITDA (i)	**564.1**	**159.0**	**(10.3)**	**712.8**
Lease interest income	**-**	**-**	**0.2**	**0.2**
EBITDAaL (ii)	**564.1**	**159.0**	**(10.1)**	**713.0**
Depreciation and amortisation	(261.4)	(62.1)	(18.9)	(342.4)
Capital expenditure	501.5	104.9	20.9	627.3
2019				
Regulated revenue	784.4	202.4	-	**986.8**
Customer contributions	70.2	7.4	-	**77.6**
Service revenue	-	-	68.1	**68.1**
Other revenue	11.6	5.3	13.4	**30.3**
Total segment revenue	**866.2**	**215.1**	**81.5**	**1,162.8**
Segment operating expense	(337.7)	(62.6)	(78.0)	**(478.3)**
Segment result - EBITDA (i)	**528.5**	**152.5**	**3.5**	**684.5**
Lease interest income	**-**	**-**	**-**	**-**
EBITDAaL (ii)	**528.5**	**152.5**	**3.5**	**684.5**
Depreciation and amortisation	(284.4)	(51.8)	(11.5)	(347.7)
Capital expenditure	461.0	106.8	16.7	584.5

(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).

31 March 2020	Electricity distribution	Gas distribution	Mondo	Total
	$M	$M	$M	$M
Timing of recognition				
At a point in time	129.5	20.1	53.9	203.5
Over time	806.0	203.7	24.4	1,034.1
Revenue from contracts with customers	**935.5**	**223.8**	**78.3**	**1,237.6**
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	**937.1**	**223.8**	**78.3**	**1,239.2**

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

(i) Government grant income 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

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		Liabilities	
	2020	2019	**2020**	2019
	$M	$M	**$M**	$M
Accounts receivable/payable	**35.7**	34.9	**(15.3)**	(14.1)
Related party receivables/payables	**3.8**	72.1	**(169.3)**	(310.2)
Accrued revenue - other/accrued expenses	**7.8**	5.7	**(117.0)**	(85.9)
Accrued revenue - contract assets (i)	**86.5**	90.1	**-**	-
Deferred revenue - contract liabilities (ii)	**-**	-	**(29.9)**	(31.8)
Deferred revenue - government grants	**-**	-	**(1.5)**	(1.3)
Deferred revenue - other	**-**	-	**(0.1)**	(0.1)
Other receivables/payables	**0.3**	57.9	**(5.2)**	(0.1)
Interest receivables/payables	**0.5**	0.2	**(38.1)**	(44.3)
Total current receivables/payables and other liabilities	**134.6**	260.9	**(376.4)**	(487.8)
Current other assets	**20.0**	21.9	**-**	-
Non-current other assets (iii)	**35.8**	27.0	**-**	-
Non-current accounts receivable	**0.5**	0.6	**-**	-
Current inventory	**40.4**	46.6	**-**	-
Current provisions	**-**	-	**(41.8)**	(61.2)
Non-current provisions	**-**	-	**(58.7)**	(54.3)
Non-current deferred revenue - contract liabilities (ii)	**-**	-	**(40.4)**	(32.0)
Non-current deferred revenue - government grants	**-**	-	**(75.6)**	(66.2)
Non-current deferred revenue - other	**-**	-	**-**	(0.1)
Defined benefit and share based payment reserve	**-**	-	**(12.8)**	(18.7)
Working capital	**231.3**	357.0	**(605.7)**	(720.3)

(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. We assess these balances as fully recoverable, noting that our COVID-19 customer relief package commences for charges incurred from 1 April 2020.

(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 FY2020 that was included in the contract liability balance at 1 April 2019 was $36.8 million.

Of the total contract liabilities of $70.3 million we expect that approximately 42.5 per cent of these performance obligations will be satisfied in the next twelve months, with the remainder satisfied over the long term.

(iii) Includes $34.1 million (2019: $23.6 million) defined benefit surplus, refer to Note F.2 for further details.

Note B.3 Working capital (continued)

(a) Accounts receivable

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

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

Accounts receivable are non-interest bearing and the average credit period is fifteen 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
	2020	**2020**	2019	2019
	$M	**$M**	$M	$M
Electricity Distribution	12.6	-	10.4	(0.1)
Gas Distribution	12.7	(0.1)	11.5	(0.1)
Mondo	13.9	(2.4)	14.9	(1.7)
Total	**39.2**	**(2.5)**	36.8	(1.9)

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

	2020	2019
	$M	$M
Opening loss allowance as at 1 April	(1.9)	(0.8)
Increase in loss allowance recognised in profit or loss during the year	(1.4)	(1.6)
Receivables written off during the year as uncollectible	0.8	0.5
Closing loss allowance as at 31 March	**(2.5)**	(1.9)

Of those debts that are past due, the majority are receivable from high credit quality counterparties. Receivables relating to regulated revenue streams (which account for approximately 84 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.

Mondo receivables are primarily 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. We have reassessed expected credit losses in light of current COVID-19 pandemic impacts on customers as at 31 March 2020. The impact of this reassessment was not material.

(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

	2020 $M	2019 $M
Current provisions		
Employee benefits (i)	36.2	55.1
Sundry provisions (ii)	3.8	4.5
Redundancy provision	1.8	0.9
Environmental provision (iii)	-	0.7
Total current provisions	41.8	61.2
Non-current provisions		
Employee benefits (i)	10.1	7.3
Environmental provision (iii)	37.4	35.1
Make good provision	11.2	11.9
Total non-current provisions	58.7	54.3
Total provisions	100.5	115.5

(i) Employee benefits provisions represent provisions for annual and long service leave for our employees as well as provisions for employee bonuses. Liabilities for annual leave and long service leave are measured at the present value of expected future payments for services provided by employees up to the reporting date, including on costs. Consideration is given to expected future wage and salary levels, experience of employee, departures and periods of service. Expected future payments are discounted using interest rates on corporate bonds with a term to maturity and currency that match, as closely as possible, the estimated future cash outflows. Current employee benefits provisions decreased in FY2020 due to 240 employees transferring to Downer as part of the electricity distribution operations and maintenance transfer in September 2019.

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

(iii) The environmental provision represents an estimate of the costs of rehabilitating sites, including the estimated costs to remediate soil and water contamination on gas sites which were previously used as coal gas production facilities. The provision is based on the estimated costs and timing of remediation/refurbishment, taking into account current legal requirements, the estimated extent of the contamination, the nature of the site and surrounding areas, and the technologies and methods available.

Note B.4 Taxation

Key estimates and judgements – 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 Group. Judgement is required in determining the timing of deductibility of expenditure, which impacts the amount of income tax payable and whether deferred tax balances are to be recognised in the statement of financial position. Changes in tax legislation or the interpretation of tax laws by tax authorities may affect the amount of provision for income taxes and deferred tax balances recognised.

The ATO is conducting an audit review in relation to the profile of capital allowances (tax depreciation profile and entitlements) following the corporate restructure in June 2015. AusNet Services has been engaging with the ATO on this matter over the past year. A tax risk provision of $11.0 million was recognised in March 2019 based on a probability-weighted range of possible outcomes and continues to be recognised. AusNet Services continues to engage cooperatively with the ATO through the course of the audit.

Note B.4 Taxation (continued)

(a) Effective tax rate reconciliation

	2020 $M	2019 $M
Profit before income tax	**125.2**	111.1
Tax at the Australian tax rate of 30.0% (2019: 30.0%)	**37.5**	33.3
Tax effect of amounts which are not (taxable)/ deductible in calculating taxable income:		
Prior year under provisions	**-**	0.4
Tax risk provision	**-**	11.0
Sundry items	**0.1**	(4.9)
Income tax expense	**37.6**	39.8
Consists of:		
Current tax	**11.6**	(7.1)
Prior year under/(over) provision – current tax	**12.8**	3.5
Deferred tax	**26.0**	46.5
Prior year (over)/under provision – deferred tax	**(12.8)**	(3.1)
Income tax expense	**37.6**	39.8

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

(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

2020	**1 April 2019 $M**	**Prior year (under)/overs $M**	**(Charged)/ credited to income statement $M**	**Charged/ (credited) directly in equity $M**	**31 March 2020 $M**
Employee benefits	18.8	-	(5.2)	-	13.6
Other accruals and provisions	55.2	(0.2)	4.3	0.3	59.6
Derivative financial instruments and fair value adjustments on borrowings	113.3	1.7	17.6	139.0	271.6
Defined benefit funds	(7.1)	-	(5.1)	1.8	(10.4)
Intangibles	(26.7)	-	-	-	(26.7)
Property, plant and equipment	(340.1)	11.3	(37.6)	-	(366.4)
Net deferred tax liabilities	**(186.6)**	**12.8**	**(26.0)**	**141.1**	**(58.7)**

Note B.4 Taxation (continued)

(c) Deferred tax (continued)

2019	1 April 2018 $M	Prior year (under)/overs $M	(Charged)/ credited to income statement $M	Charged/ (credited) directly in equity $M	31 March 2019 $M
Employee benefits	17.6	-	1.2	-	18.8
Other accruals and provisions	47.8	0.1	7.7	(0.4)	55.2
Derivative financial instruments and fair value adjustments on borrowings	11.4	(1.1)	9.9	93.1	113.3
Defined benefit funds	(9.4)	-	0.9	1.4	(7.1)
Intangibles	(26.7)	-	-	-	(26.7)
Property, plant and equipment	(278.0)	4.1	(66.2)	-	(340.1)
Net deferred tax liabilities	**(237.3)**	**3.1**	**(46.5)**	**94.1**	**(186.6)**

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

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

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

(i) Tax consolidation

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

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

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

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

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

Section C Investing in our business

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

Note C.1 Property, plant and equipment

Key estimates and judgements – Useful 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. Any reassessment for useful lives in a particular year will affect the deprecation 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. These are disclosed as right-of-use assets as at 31 March 2020, and are reconciled from the transition adjustment at 1 April 2019. Further details on adjustments recognised on adoption of AASB 16 are presented in Section A(c).

The other transition adjustment involves the removal of assets where the Group is a lessor, which are now presented in Note C.3.

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.

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.

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(i)	n/a	
2020									
Carrying amount as at 1 April 2019	24.5	74.7	4.6	4,249.1	1,605.1	94.4	-	278.6	**6,331.0**
AASB 16 initial recognition	-	-	-	-	-	-	55.8	-	**55.8**
AASB 16 lease cost	-	-	-	-	-	-	0.7	-	**0.7**
AASB 16 lessor transfers	-	-	-	-	-	-	-	(6.6)	**(6.6)**
Additions	-	-	-	-	-	-	-	596.7	**596.7**
Transfers	-	16.2	-	366.4	96.4	21.2	-	(500.2)	**-**
Disposals	-	-	-	(9.5)	(5.3)	(12.8)	-	-	**(27.6)**
Depreciation expense	-	(1.9)	-	(200.5)	(54.7)	(39.5)	(8.1)	-	**(304.7)**
Carrying amount as at 31 March 2020	**24.5**	**89.0**	**4.6**	**4,405.5**	**1,641.5**	**63.3**	**48.4**	**368.5**	**6,645.3**
Cost	24.5	101.9	4.6	6,735.3	2,314.2	549.0	56.2	368.5	**10,154.2**
Accumulated depreciation	-	(12.9)	-	(2,329.8)	(672.7)	(485.7)	(7.8)	-	**(3,508.9)**
Carrying amount as at 31 March 2020	**24.5**	**89.0**	**4.6**	**4,405.5**	**1,641.5**	**63.3**	**48.4**	**368.5**	**6,645.3**

(i) Useful life for lessee right-of-use asset reflects remaining lease term (including extension options that are reasonably certain to be exercised).

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

	Freehold land	Buildings	Easements	Electricity distribution network	Gas distribution network	Other plant and equipment	Capital work in progress	Total
	$M	$M	$M	$M	$M	$M	$M	$M
Useful life (years)	Indefinite	40-99	Indefinite	5-70	15-80	3-12	n/a	
2019								
Carrying amount as at 1 April 2018	24.5	63.2	4.6	4,051.0	1,546.6	129.9	283.1	**6,102.9**
Additions	-	-	-	-	-	-	550.1	**550.1**
Transfers (i)	-	12.8	-	400.8	110.5	31.4	(554.6)	**0.9**
Disposals	-	-	-	(13.2)	(6.4)	(0.7)	-	**(20.3)**
Depreciation expense	-	(1.3)	-	(189.5)	(45.6)	(66.2)	-	**(302.6)**
Carrying amount as at 31 March 2019	**24.5**	**74.7**	**4.6**	**4,249.1**	**1,605.1**	**94.4**	**278.6**	**6,331.0**
Cost	24.5	85.6	4.6	6,397.8	2,230.5	559.5	278.6	**9,581.1**
Accumulated depreciation	-	(10.9)	-	(2,148.7)	(625.4)	(465.1)	-	**(3,250.1)**
Carrying amount as at 31 March 2019	**24.5**	**74.7**	**4.6**	**4,249.1**	**1,605.1**	**94.4**	**278.6**	**6,331.0**

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

Note C.2 Intangible assets

	Distribution licences (i)	**Goodwill** (ii)	**Software** (iii)	**Other intangible assets**	**Total**
	$M	**$M**	**$M**	**$M**	**$M**
Useful life (years)	Indefinite	Indefinite	3-10	3-10	
2020					
Carrying amount as at 1 April 2019	354.5	35.9	119.2	0.2	**509.8**
Additions	-	-	30.6	-	**30.6**
Disposals	-	-	-	-	**-**
Amortisation expense	-	-	(37.5)	(0.2)	**(37.7)**
Carrying amount as at 31 March 2020	**354.5**	**35.9**	**112.3**	**-**	**502.7**
Cost	354.5	35.9	518.0	4.1	**912.5**
Accumulated amortisation	-	-	(405.7)	(4.1)	**(409.8)**
Carrying amount as at 31 March 2020	**354.5**	**35.9**	**112.3**	**-**	**502.7**
2019					
Carrying amount as at 1 April 2018	354.5	12.1	120.3	0.4	**487.3**
Additions	-	-	34.4	-	**34.4**
Transfers (iv)	-	23.8	9.6	-	**33.4**
Disposals	-	-	(0.2)	-	**(0.2)**
Amortisation expense	-	-	(44.9)	(0.2)	**(45.1)**
Carrying amount as at 31 March 2019	**354.5**	**35.9**	**119.2**	**0.2**	**509.8**
Cost	354.5	35.9	487.5	4.1	**882.0**
Accumulated amortisation	-	-	(368.3)	(3.9)	**(372.2)**
Carrying amount as at 31 March 2019	**354.5**	**35.9**	**119.2**	**0.2**	**509.8**

(i) Distribution licences

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

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

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

Note C.2 Intangible assets (continued)

(ii) Goodwill

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

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

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

(iii) Software

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

(iv) Transfers

Net transfers represents transfer of the Geomatic Technologies business into the Group in FY2019.

Note C.3 Other financial assets

	Note	Lessor finance receivable	Short term investments	Total
		$M	**$M**	**$M**
Carrying amount at 1 April 2019		-	-	-
Transfers from capital work in progress	C.1	6.6	-	6.6
Principal repayments		(0.1)	-	(0.1)
Short term investments		-	249.7	249.7
Carrying amount at 31 March 2020		**6.5**	**249.7**	**256.2**
Comprising of:				
Current assets		0.2	249.7	249.9
Non-current assets		6.3	-	6.3
Total other financial assets		**6.5**	**249.7**	**256.2**

Lessor finance receivables

As disclosed within Section A(c), as a result of the adoption of AASB 16, the Group has determined that its dedicated unregulated customer connection assets meet the new 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 is equivalent to its fair value.

Short term investments

Short term investments are term deposits greater than 90 days that mature within the next financial year. These short term deposits do not meet the definition of cash and cash equivalents as they can not be utilised immediately without penalty.

Note C.4 Impairment of non-current assets

At each reporting date we review the carrying amounts of our tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. An impairment loss occurs when an asset's carrying amount exceeds its recoverable amount. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, we estimate the recoverable amount of the cash generating unit (CGU) to which the asset belongs. A CGU is the smallest group of assets that generate largely independent cash inflows.

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

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

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

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

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

Key estimates and judgements have also been applied in the discount rate and terminal value multiples used in the measurement of recoverable amount, the details of which are provided as follows. These assumptions have been determined with reference to historical information, current performance and expected changes (including assumptions regarding the impact of COVID-19), and take into account external information such as input costs and supply and demand. Such estimates may change as new information becomes available.

Note C.4 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)		**Carrying value**	
	2020	2019	**2020**	2019	**2020**	2019
Regulated CGUs	**years**	years	**%**	%	**$M**	$M
Electricity distribution (distribution licence)	**10**	20	**4.2**	5.1	**117.2**	117.2
Electricity distribution (goodwill)	**10**	20	**4.2**	5.1	**19.0**	19.0
Gas distribution (distribution licence)	**10**	20	**4.2**	5.1	**237.3**	237.3
Unregulated CGUs						
Mondo – field services (goodwill)	**5**	5	**10.2**	10.2	**16.5**	16.5

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. In the current year, this cash flow projection was revised down to 10 years following a rebuild of the financial planning model and to factor in the inherent uncertainty in cash flows beyond the next regulatory resets.

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

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

The estimated recoverable amount of the Mondo – Field Services CGU is sensitive to the cash flow forecast assumptions. In light of the significant market uncertainty as a result of COVID-19, Management has identified that a significant cash flow reductions in these assumptions could cause the carrying amount to exceed the recoverable amount.

Note C.5 Capital Commitments

(a) Capital commitments

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

	2020	2019
	$M	$M
Property, plant and equipment	**176.0**	145.5

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 an 'A' 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 support organic growth and other investment opportunities, while covering 100 per cent of maintenance capital expenditure and a portion of growth capital expenditure from internal cash flows.

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. In addition, the group is actively considering additional capital management initiatives to further support our significant growth pipeline and credit profile, which may include a pro-rata entitlement offer of ordinary shares (within existing shareholder approved parameters), the issuance of hybrid capital securities, additional debt and/or other funding initiatives in the near to medium term.

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

- Regulated Asset Base (RAB), which is subject to some estimation as the AER ultimately determines the RAB of each network; and
- The value of contracted network assets whose revenues and returns are set through a negotiated process. This includes the value of network assets that will form part of the RAB at the next regulatory period.

The movement of this metric over time demonstrates how the business is funding its capital expenditure in terms of debt versus income generating assets.

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

	2020	2019
	%	%
Net debt to R&CAB	**67.4**	67.1

This ratio does not include equity credits in relation to $706 million of hybrid securities.

Note D.2 Borrowings

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

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

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

Note D.2 Borrowings (continued)

		Carrying Value		Face Value (i)	
		2020	2019	**2020**	2019
	Maturity date	**$M**	$M	**$M**	$M
Current borrowings					
Swiss francs (CFH) senior notes		**-**	389.5	**-**	283.2
Bank debt facilities	October 2020	**48.0**	22.0	**48.0**	22.0
Domestic medium term notes		**-**	341.1	**-**	335.2
Hong Kong dollar (HKD) senior notes		**-**	127.1	**-**	100.0
Floating rate note		**-**	100.0	**-**	100.0
Euro (EUR) senior notes	July 2020	**907.2**	-	**709.7**	-
Total current borrowings		**955.2**	979.7	**757.7**	840.4
Non-current borrowings					
Hong Kong dollar (HKD) senior notes	2021-2034	**1,119.6**	876.5	**751.4**	751.5
Domestic medium term notes	2021-2043	**2,351.0**	1,949.5	**2,235.0**	1,885.0
Bank debt facilities	2023	**98.1**	-	**100.0**	-
Euro (EUR) senior notes	2024-2030	**3,058.8**	2,637.1	**2,426.2**	2,329.8
Japanese yen (JPY) senior notes	2024	**78.6**	66.3	**62.6**	62.6
US dollar (USD) senior notes	2026	**145.6**	118.7	**107.0**	107.0
Norwegian kroner (NOK) senior notes	2027-2029	**620.4**	596.4	**565.8**	565.8
US dollar (USD) hybrid securities (ii)	2076	**619.5**	513.7	**505.7**	505.7
Singapore dollar (SGD) hybrid securities (ii)	2076	**233.9**	208.5	**199.6**	199.6
Total non-current borrowings		**8,325.5**	6,966.7	**6,953.3**	6,407.0
Total borrowings		**9,280.7**	7,946.4	**7,711.0**	7,247.4
less:					
cash and cash equivalents		**154.1**	337.3	**154.1**	337.3
Short term investments		**249.7**	-	**249.7**	-
Net debt		**8,876.9**	7,609.1	**7,307.2**	6,910.1

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

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

(a) Foreign currency translation

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

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

(b) Fair values of financial instruments

We have a number of financial assets and liabilities which are not measured at fair value in the consolidated statement of financial position. With the exception of borrowings outlined above, the carrying amounts of these items are considered to be a reasonable approximation of their fair value as at 31 March 2020. The fair value of total borrowings as at 31 March 2020 was $10,002.4 million (2019: $8,562.0 million).

Note D.2 Borrowings (continued)

(c) Financial covenants

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

(d) Other bank guarantees

Certain entities 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 $6.5 million was provided to third parties at 31 March 2020 (2019: $6.1 million).

(e) Changes in liability arising from financing activities

The table below details the movements in the Group's interest-bearing liabilities for the year ended 31 March 2020:

		Cash flow movements (financing activities)		Non-cash flow movements				
	1 April 2019	Proceeds	Repayments	Reclassification	Foreign exchange movements	Fair value adjustment	Funding costs	31 March 2020
	$M	$M	$M	$M	$M	$M	$M	$M
Current	979.7	26.0	(818.4)	811.8	(22.3)	(22.2)	0.6	955.2
Non-current	6,966.7	1,256.1	-	(811.8)	588.9	329.0	(3.4)	8,325.5
Total	**7,946.4**	**1,282.1**	**(818.4)**	**-**	**566.6**	**306.8**	**(2.8)**	**9,280.7**

Note D.3 Financial risk management

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

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

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

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

Note D.3 Financial risk management (continued)

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

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

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

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

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

(a) Interest rate risk

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

The objective of hedging activities carried out by us in relation to interest rate risk is to minimise the exposure to changes in interest rates by aligning the actual cost of debt with the cost of debt assumed by the regulator. The exposure is managed by maintaining the percentage of fixed rate debt to total debt at a level between 90 per cent and 100 per cent for the relevant business. We therefore consider net interest rate exposure, after hedging activities, to be minimal for the Group. The percentage of fixed rate debt to total debt (on a net debt basis) as at 31 March 2020 was 94.6 per cent (2019: 98.5 per cent).

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

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

	2020	2019
	$M	$M
Financial assets		
Related party receivables (i)	**2,494.7**	2,479.2
Fixed rate instruments	**399.7**	327.0
Financial liabilities (ii)		
Fixed rate instruments	**(6,915.0)**	(6,816.5)
Floating rate instruments	**(796.1)**	(430.9)

Note D.3 Financial risk management (continued)

(a) Interest rate risk (continued)

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

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

Our exposure to changes in interest rates is limited to exposures denominated in Australian dollars due to our policy of mitigating interest rate risk exposure on foreign currency debt. As a result, the sensitivity analysis below has only been performed based on movements in Australian interest rates. As at reporting date, if Australian interest rates had increased and decreased by 67 basis points as at 31 March 2020 (2019: 47 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)**	
	2020	2019	**2020**	2019
	$M	$M	**$M**	$M
Increase in Australian interest rates with all other variables held constant	**0.3**	1.0	**102.2**	169.7
Decrease in Australian interest rates with all other variables held constant	**(2.0)**	(1.9)	**(383.4)**	(176.6)

The judgements of reasonably possible movements were determined using statistical analysis of the 95th percentile best and worst expected outcomes having regard to actual historical interest rate data over the previous five years based on the three-month bank bill swap rate. We consider that past movements are a transparent basis for determining reasonably possible movements in interest rates, including in light of recent market volatility related to COVID-19.

Due to our interest rate risk management policies, the exposure to interest rate movements at any point in time is minimal. Therefore, the impact of a reasonably possible movement in interest rates on net profit after tax is minimal. The impact on equity due to any valuation change of derivative financial instruments in cash flow hedges will unwind to zero at maturity of the derivative.

(b) Currency risk

We are exposed to currency risk due to funding activities in offshore debt markets as a means of providing cost effective and efficient funding alternatives, as well as a result of undertaking certain transactions denominated in foreign currencies. Exchange rate exposures are managed within approved policy parameters. The objective of our currency risk management program is to eliminate all foreign exchange risk on funding activities and material foreign exchange related transaction risk by utilising various hedging techniques as approved by the Board. Therefore, we consider our currency risk exposure to be minimal and no sensitivity analysis is required.

Note D.3 Financial risk management (continued)

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

(i) Accounting for financial instruments

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

<table>
<tr><th></th><th>Fair value hedges</th><th>Cash flow hedges</th></tr>
<tr><td>Objective of the hedge</td><td>To mitigate the exposure to changes in fair value of certain borrowings. Fair value hedges are generally fixed rate designated for the terms of borrowings that fall outside of the price review periods for the regulated businesses.</td><td>To mitigate the variability in cash flows attributable to variable interest rate and/or foreign currency movements on borrowings or highly probable forecast transactions.</td></tr>
<tr><td>Treatment of changes in fair value of qualifying hedges</td><td>Recognised immediately in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.</td><td>The effective portion is recognised directly in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Amounts accumulated in the hedge reserve are recycled in the income statement when the hedged item affects the income statement (generally when the forecast transaction that is hedged takes place). However, when the forecast transaction results in the recognition of a non-financial asset, the gains and losses are transferred from the hedge reserve and included in the measurement of the initial carrying amount of the asset.</td></tr>
<tr><td>Documentation of the hedge relationship</td><td colspan="2">To ensure derivative financial instruments qualify for hedge accounting we document, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as our risk management objectives and strategy for undertaking various hedge transactions. We also document our assessment, both at hedge inception and on an ongoing basis, of whether the derivative financial instruments that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.</td></tr>
<tr><td rowspan="2">Discontinuation of hedge accounting</td><td colspan="2">Hedge accounting is discontinued when the hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting.</td></tr>
<tr><td>After discontinuation, the previously hedged asset or liability is no longer revalued for changes in fair value.</td><td>At that time, any cumulative gain or loss existing in the hedge reserve remains in hedge reserve and is recognised when the forecast transaction is ultimately recognised in the income statement.

When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in the hedge reserve is immediately recognised in the income statement.</td></tr>
</table>

Note D.3 Financial risk management (continued)

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

(ii) Measurement and classification

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

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

	Interest rate swaps	Forward foreign currency contracts	Cross- currency swaps	Total net derivative financial instruments
	$M	$M	$M	$M
2020				
Current assets	-	0.5	194.2	194.7
Non-current assets	121.9	0.5	1,114.9	1,237.3
Current liabilities	(5.5)	(0.5)	-	(6.0)
Non-current liabilities	(775.7)	(0.4)	-	(776.1)
Total derivative financial instruments	**(659.3)**	**0.1**	**1,309.1**	**649.9**
Consists of:				
- fair value hedges	122.4	-	494.5	616.9
- cash flow hedges	(781.7)	0.1	815.8	34.2
- not in a hedge relationship	-	-	(1.2)	(1.2)
Total derivative financial instruments	**(659.3)**	**0.1**	**1,309.1**	**649.9**
2019				
Current assets	5.6	0.2	133.4	139.2
Non-current assets	72.3	-	400.7	473.0
Current liabilities	(2.5)	(0.2)	-	(2.7)
Non-current liabilities	(346.7)	-	(0.5)	(347.2)
Total derivative financial instruments	**(271.3)**	**-**	**533.6**	**262.3**
Consists of:				
- fair value hedges	78.8	-	207.7	286.5
- cash flow hedges	(350.1)	-	327.1	(23.0)
- not in a hedge relationship	-	-	(1.2)	(1.2)
Total derivative financial instruments	**(271.3)**	**-**	**533.6**	**262.3**

Note D.3 Financial risk management (continued)

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

(ii) Measurement and classification (continued)

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

Credit risk is included in the fair value of derivative financial instruments based on a bilateral credit risk adjustment obtained using credit default swap curves. Credit risk is obtained directly from the observable Credit Default Swap curves within Bloomberg for each of the relevant counterparties, with the Bilateral Credit Risk applied uniformly across all asset and liability positions as at the reporting date. The difference between the fair value of derivatives and their transaction price at inception due to credit valuation adjustments is recognised progressively over the period to maturity. The unamortised value of the deferred credit risk adjustment for derivative financial instruments as at 31 March 2020 is $22.4 million (2019: $25.8 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. These observable inputs from 31 March 2020 reflect market volatility as a result of COVID-19, including significant movements in credit risk. These inputs are appropriate to use and represent orderly transactions in an active market as required by AASB 13. Appropriate transaction costs and risk premiums are included in the determination of net fair value.

(iii) Offsetting derivative financial instruments

Derivative assets and liabilities are presented on a gross basis. Certain derivative assets and liabilities are subject to enforceable master netting arrangements with individual counterparties if they were subject to default. Notwithstanding that these financial assets and liabilities do not meet the criteria for being presented on a net basis, if these netting arrangements were applied to the derivative portfolio as at 31 March 2020, derivative assets and liabilities would be reduced by $756.4 million respectively (2019: $332.7 million). Refer to the below table:

	Gross amounts in the financial statements	Amounts subject to master netting arrangements	Net amount
	$M	$M	$M
2020			
Derivative financial assets	1,432.0	(756.4)	675.6
Derivative financial liabilities	(782.1)	756.4	(25.7)
	649.9	**-**	**649.9**
2019			
Derivative financial assets	612.2	(332.7)	279.5
Derivative financial liabilities	(349.9)	332.7	(17.2)
	262.3	**-**	**262.3**

Note D.3 Financial risk management (continued)

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

(iv) Cash flow hedges

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

	Change in value of hedged item used to measure ineffectiveness (i)	**Change in value of hedging instrument used to measure ineffectiveness** (i)	**Nominal amounts of hedging instruments** (i)
	$M	**$M**	**$M**
Interest rate risk	389.2	(386.3)	14,316.6
Foreign currency risk – debt	(456.2)	443.3	8,041.1
Foreign currency risk – capital expenditure	(0.1)	0.1	21.6

(i) Nominal amounts represent the total principal in each hedging instrument (derivative) in cash flow hedges. For hedging purposes derivatives are split into multiple hedging components becoming hedging instruments in each hedge relationship. The nominal amounts in the table above are based on these multiple hedging components. The nominal value for all external derivatives in both cash flow and fair value hedges is $14,496.9 million.

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

	2020	2019
	$M	$M
Opening balance of cash flow hedge reserve	**(315.1)**	(117.0)
Amounts recognised in other comprehensive income, net of income tax:		
Changes in fair value of cash flow hedges (excluding foreign currency basis spreads)	**(602.4)**	(356.1)
Amounts reclassified to interest expense for effective hedges	**121.1**	79.6
Changes in foreign currency basis spreads	**17.8**	(14.7)
Tax effect	**139.0**	93.1
Total amounts recognised in other comprehensive income, net of income tax	**(324.5)**	(198.1)
Closing balance of cash flow hedge reserve	**(639.6)**	(315.1)

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

	2020	2019
	$M	$M
Borrowings:		
Less than 1 year	**68.3**	(65.8)
1 – 2 years	**(119.9)**	17.1
2 – 5 years	**(183.3)**	(141.7)
Greater than 5 years	**79.7**	(58.5)
	(155.2)	(248.9)

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

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	(2,496.9)	(126.9)	(46.0)	43.7	1,273.0
Foreign currency denominated borrowings	(6,783.8)	(1,471.0)	(283.5)	273.5	9,532.0

(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 $14,496.9 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)

2020	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		154.1	154.1	154.1	154.1	-	-	-
Accounts and other receivables	B.3, E.3	2,629.3	2,629.3	2,629.3	134.6	-	-	2,494.7
Other financial assets	C.3	256.2	256.2	259.7	250.4	1.3	1.4	6.6
Derivative financial assets		-	1,432.0	1,194.6	267.0	231.4	165.3	530.9
			4,471.6	**4,237.7**	**806.1**	**232.7**	**166.7**	**3,032.2**
Financial liabilities								
Trade and other payables	B.3	344.9	344.9	344.9	344.9	-	-	-
Lease liability	D.5	50.8	50.8	66.2	8.8	16.6	11.6	29.2
Bank debt facilities		148.0	146.1	155.3	155.3	-	-	-
Domestic medium term notes		2,235.0	2,351.0	2,980.6	104.6	345.3	669.5	1,861.2
Foreign senior notes		4,622.7	5,930.2	6,239.2	1,016.7	182.7	973.6	4,066.2
Hybrid securities (i)		705.4	853.4	912.9	47.8	865.1	-	-
Derivative financial liabilities		-	782.1	839.5	126.9	123.4	267.2	322.0
			10,458.5	**11,538.6**	**1,805.0**	**1,533.1**	**1,921.9**	**6,278.6**
Net cash outflow				**(7,300.9)**	**(998.9)**	**(1,300.4)**	**(1,755.2)**	**(3,246.4)**
2019								
Financial assets								
Cash and cash equivalents		337.3	337.3	337.3	337.3	-	-	-
Accounts and other receivables	B.3, E.3	2,740.1	2,740.1	2,740.1	260.9	-	-	2,479.2
Derivative financial assets		-	612.2	336.8	141.6	95.1	40.5	59.6
			3,689.6	**3,414.2**	**739.8**	**95.1**	**40.5**	**2,538.8**
Financial liabilities								
Trade and other payables	B.3	454.6	454.6	454.6	454.6	-	-	-
Bank debt facilities		22.0	22.0	22.0	22.0	-	-	-
Domestic medium term notes		2,220.2	2,290.6	2,997.2	453.1	95.5	795.8	1,652.8
Foreign senior notes		4,199.8	4,811.6	5,340.0	626.9	892.6	870.9	2,949.6
Hybrid securities (i)		705.4	722.2	840.9	42.0	41.8	757.1	-
Floating rate notes		100.0	100.0	103.5	103.5	-	-	-
Derivative financial liabilities		-	349.9	408.6	62.8	62.8	143.2	139.8
			8,750.9	**10,166.8**	**1,764.9**	**1,092.7**	**2,567.0**	**4,742.2**
Net cash outflow				**(6,752.6)**	**(1,025.1)**	**(997.6)**	**(2,526.5)**	**(2,203.4)**

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

Note D.3 Financial risk management (continued)

(ii) Financing facilities

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

	2020			2019		
Financing facilities (face value)	**Amount used**	**Amount unused**	**Total**	Amount used	Amount unused	Total
Unsecured bank overdraft facility, reviewed annually and payable at call	**-**	**2.5**	**2.5**	-	2.5	2.5
Unsecured working capital facility, reviewed annually	**48.0**	**52.0**	**100.0**	22.0	78.0	100.0
Unsecured bank loan facility with various maturity dates and which may be extended by mutual agreement	**100.0**	**600.0**	**700.0**	-	700.0	700.0
Total financing facilities	**148.0**	**654.5**	**802.5**	22.0	780.5	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 B.4). Our exposure and the credit ratings of our counterparties are continuously monitored and the aggregate values of transactions concluded are spread amongst approved counterparties. Therefore, we consider the credit risk exposure to be minimal.

In accordance with the Treasury Risk Policy, treasury counterparties each have an approved limit based on the lower of Standard & Poor's or Moody's credit rating. Counterparty limits are reviewed and approved by the Audit and Risk Management Committee and any changes to counterparties or their credit limits must be approved by the Chief Financial Officer and the Managing Director and must be within the parameters set by the Board as outlined in the Treasury Risk Policy. The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies. At balance date we had $399.7 million on term deposit and $1,276.7 million of cross currency and interest rate swaps with 'A' rated or higher Australian and international banks.

Credit risk is included in the fair value of derivative financial instruments based on a bilateral credit risk adjustment obtained using credit default swap curves. The difference between the fair value of derivatives and their transaction price at inception due to credit valuation adjustments is recognised progressively over the period to maturity. Except as detailed in the following table, the carrying amount of financial assets recorded in the financial statements, net of any allowances for losses, represents our maximum exposure to credit risk. The values disclosed below represent the market values in the event of early settlement (in the money market values), which differ from the carrying values and as such do not agree to the statement of financial position. The values below exclude any offsetting financial liabilities with the particular counterparty.

	2020	2019
	$M	$M
Financial assets and other credit exposures		
Cross currency swaps	**1,328.1**	548.3
AUD interest rate swaps	**137.7**	95.5

Note D.4 Net finance costs

	2020 $M	2019 $M
Finance income (i)		
Interest income	**2.4**	6.4
Interest income – related parties	**107.5**	108.0
Return on other financial assets	**0.2**	-
Total finance income	**110.1**	114.4
Finance costs (ii)		
Interest expense	**328.6**	323.2
Interest expense – leases	**3.2**	-
Other finance charges – cash	**3.3**	3.4
Other finance charges – non cash	**4.8**	5.1
Loss on fair value hedges	**12.3**	9.5
Loss on transactions not in a hedge relationship	**-**	0.7
Loss/(gain) on ineffective portion of cash flow hedges	**9.9**	3.4
Unwind of discount on provisions	**3.3**	6.7
Defined benefit net interest income	**(0.9)**	(1.0)
Capitalised finance charges (iii)	**(9.2)**	(10.9)
Total finance costs	**355.3**	340.1
Net finance costs	**245.2**	225.7

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

(ii) All borrowing costs are recognised in the income statement using the effective interest rate method, other than borrowing costs directly attributable to a qualifying asset which are capitalised into the cost of that asset.

(iii) The capitalisation rate used to determine the amount of borrowing costs to be included in the cost of qualifying assets is the average interest rate of 4.2 per cent (2019: 4.6 per cent) applicable to our outstanding borrowings at the end of the period.

Note D.5 Lease liabilities

	Note	2020 $M	2019 $M
Opening carrying value at 1 April 2019		-	-
Additions recognised on adoption of AASB 16	A(c)	55.8	-
New lease costs		0.4	-
Principal repayments		(5.4)	-
Closing carrying value at 31 March 2020		**50.8**	-
Comprising of:			
Current liability		5.4	-
Non-current liability		45.4	-
Total lease liabilities		**50.8**	**-**

Note D.5 Lease liabilities (continued)

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. As at 31 March 2020 the weighted-average rate applied was 5.77% (adoption date: 5.23%).

Payments associated with short-term leases and low-value assets are recognised on a straight-line basis as an expense within "Other costs" in the consolidated income statement. Short-term leases are leases with a contractual term of 12 months or less. Low-value assets comprise IT equipment and small items of office furniture. 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 year ended 31 March 2020, $1.9 million of short-term or low value lease and non-lease payments have been recognised directly within the consolidated income statement.

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

		2020	2019
Share capital	**Notes**	**Shares**	Shares
Ordinary shares – fully paid (million)	(a), (b)	**1,436.4**	1,308.3

(a) Ordinary shares

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

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

Note D.6 Equity (continued)

(b) Movements in ordinary share capital

Date	Details	Number of shares	$M
1 April 2019	Opening balance	1,305,946,133	1,308.3
31 March 2020	Equity injection (i)	127,216,825	127.2
31 March 2020	Contribution from AusNet Services Ltd (ii)	-	0.9
31 March 2020	**Closing balance**	**1,433,162,958**	**1,436.4**
1 April 2018	Opening balance	1,063,361,942	1,064.9
31 March 2019	Equity injection (i)	242,584,191	242.5
31 March 2019	Contribution from AusNet Services Ltd (ii)	-	0.9
31 March 2019	**Closing balance**	**1,305,946,133**	**1,308.3**

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

Note D.7 Dividends

FY2020 Dividend	Date declared	Cents per share	Total dividend $M
Funding for AusNet Services Ltd interim FY2020 dividend	30 September 2019	14.40	188.2
Funding for AusNet Services Ltd final FY2020 dividend	31 March 2020	13.26	190.1
Total dividend		**27.66**	**378.3**

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

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**	**2020**	2019
AusNet Services Holdings Pty Ltd	**Australia**	**Ordinary**	**%**	**%**
AusNet Electricity Services Pty Ltd	Australia	Ordinary	100.0	100.0
AusNet Asset Services Pty Ltd	Australia	Ordinary	100.0	100.0
AusNet (No. 8) Pty Ltd*	Australia	Ordinary	-	100.0
AusNet (No. 9) Pty Ltd*	Australia	Ordinary	-	100.0
AusNet Gas Services Pty Ltd	Australia	Ordinary	100.0	100.0
Mondo Power Pty Ltd	Australia	Ordinary	100.0	100.0

* In August 2019, these dormant companies were de-registered by ASIC.

Note E.2 Parent entity information

(a) Statement of financial position

	2020	2019
	$M	$M
Current assets	**430.4**	352.6
Non-current assets	**10,654.2**	9,784.1
Total assets	**11,084.6**	10,136.7
Current liabilities	**1,196.1**	1,229.7
Non-current liabilities	**8,840.4**	7,197.8
Total liabilities	**10,036.5**	8,427.5
Contributed equity	**1,433.2**	1,305.9
Reserves	**(639.7)**	(315.2)
Retained profits	**254.6**	718.5
Total equity	**1,048.1**	1,709.2

(b) Statement of comprehensive income

	2020	2019
	$M	$M
Loss for the year	**(42.0)**	(105.5)
Total comprehensive loss for the year	**(366.5)**	(267.4)

(c) Contingent liabilities

The Directors are not aware of any contingent liabilities of the parent entity as at 31 March 2020 (2019: $0).

Note E.3 Related party transactions

(a) Major shareholders

The immediate parent of the Company is AusNet Services (Distribution) Pty Ltd. During the year the AusNet Services Group underwent a restructure. In the prior year, the immediate parent of the Company was AusNet Holdings (Partnership) Limited Partnership. The ultimate parent of the Company is AusNet Services Limited, a company incorporated in Australia, which is part of a listed group trading as AusNet Services.

AusNet Services Ltd has two shareholders with a significant investment and board representation, being Singapore Power International Pte Ltd (SPI) and State Grid Corporation of China (State Grid). SPI's ultimate parent is Temasek Holdings (Private) Ltd (Temasek). State Grid has a controlling stake in Jemena Asset Management Pty Ltd (referred to as Jemena). Under applicable accounting standards, Temasek and its subsidiaries (including SPI) and State Grid and its subsidiaries (including Jemena) are considered to be related parties of AusNet Services. These entities are not considered related parties under the *Corporations Act 2001*.

(b) Key management personnel

	2020	2019
	$	$
Short-term employee benefits	**5,080,175**	4,983,453
Post-employment benefits	**177,220**	212,353
Equity-based payments	**330,532**	1,049,045
Other long-term benefits	**152,620**	84,555
	5,740,547	6,329,406

The Remuneration Report within the Directors' report contains details of the remuneration paid or payable to each member of the Group’s key management personnel for the year ended 31 March 2020.

Note E.3 Related party transactions (continued)

(c) Transactions with related parties

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

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

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

(c) Transactions with related parties (continued)

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:

	2020	2019
	$'000	$'000
Sales of goods and services		
Regulated revenue (i)	**4,628**	5,237
Services revenue	**1,242**	1,389
Purchases of goods and services		
Other expenses	**1,146**	3,612
Property, plant and equipment (construction services)	**32,861**	62,011
Dividends	**378,300**	518,400

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

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

	2020	2019
	$'000	$'000
Current receivables (sale of goods and services)		
Other entities in the AusNet Services Group	**3,279**	71,773
Jemena (i)	**543**	339
Non-current receivables		
Other entities in the AusNet Services Group	**2,494,677**	2,479,160
Current payables and other liabilities (purchase of goods)		
Other entities in the AusNet Services Group	**163,223**	299,125
Jemena	**6,132**	11,084

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

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

Section F Other disclosures

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

Note F.1 Remuneration of auditors

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

	2020 $'000	2019 $'000
Audit and review services		
Audit and review of financial statements	**968**	1,221
Audit of regulatory returns (i)	**602**	313
Total remuneration for audit and review services	**1,570**	1,534
Other services		
Taxation services	**11**	90
Other services (ii)	**269**	4
Total remuneration for other services	**280**	94
Total remuneration of auditors	**1,850**	1,628

(i) It is our policy to employ KPMG to perform the audit of regulatory returns as these returns represent an extension of statutory audit services and we gain efficiencies when the services are performed by the same audit firm.

(ii) Other services primarily relate to review of cash flow forecast model as required by ASIC regulatory guide RG-231 and assurance processes in relation to the February 2020 bond raising under the medium term note programme.

Note F.2 Defined benefit obligations

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

During FY2020, we merged our two defined benefit plans, with members of the AusNet Transmission Group Pty Ltd plan transferring to the AusNet Electricity Services Pty Ltd plan. The net impact of the transfer was a $7.0 million surplus, which was funded by intercompany loan.

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.

Note F.2 Defined benefit obligations (continued)

	2020 $M	2019 $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	**(173.7)**	(175.2)
Fair value of plan assets	**207.8**	198.8
Net asset arising from defined benefit obligations	**34.1**	23.6

	2020 $M	2019 $M
Amounts recognised in the income statement in respect of the defined benefit plan are as follows:		
Current service cost	**4.1**	4.5
Curtailment gain on transfer to third party (i)	**(12.9)**	-
Net interest income on defined benefit obligation	**(0.9)**	(1.0)
Total	**(9.7)**	3.5
Remeasurement (loss)/gains recognised during the year in other comprehensive income	**(5.9)**	(4.7)

(i) Curtailment gain on transfer of 87 members to third party defined benefit funds as part of the electricity distribution and electricity transmission operations and maintenance transfer in September 2019 and March 2020 respectively.

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.

(a) Movement in defined benefit obligation

	2020 $M	2019 $M
Movements in the present value of the defined benefit obligations were as follows:		
Opening defined benefit obligation	**175.2**	167.6
Current service cost	**4.1**	4.5
Interest cost	**6.5**	6.0
Transfer of obligations to third parties	**(81.4)**	-
Transfers from related parties	**107.6**	-
Contributions by plan participants	**1.8**	1.7
Actuarial loss/(gain)	**(3.7)**	8.5
Benefits, taxes and premiums paid	**(36.4)**	(13.1)
Closing defined benefit obligations	**173.7**	175.2

Note F.2 Defined benefit obligations (continued)

(a) Movement in defined benefit obligation (continued)

	2020	2019
	$M	$M
Movements in the fair value of plan assets were as follows:		
Opening fair value of plan assets	**198.8**	198.6
Interest income	**7.4**	7.0
Actual return on fund assets less interest income	**(9.6)**	3.8
Transfer of assets to third parties	**(68.5)**	-
Transfer from related parties	**114.3**	-
Contributions from the employer	**-**	0.8
Contributions by plan participants	**1.8**	1.7
Benefits, taxes and premiums paid	**(36.4)**	(13.1)
Closing fair value of plan assets	**207.8**	198.8

The actual return on plan assets was a gain of $2.2 million (2019: gain of $10.8 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 plans' 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:

	2020	2019
	%	**%**
Investments quoted in active markets:		
Australian equities	**11**	11
International equities	**17**	18
Fixed interest securities	**17**	17
Unquoted investments:		
Property	**7**	7
Growth alternative	**11**	11
Defensive alternative	**13**	9
Cash	**24**	27
	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	
	2020	2019	**2020**	2019
	%	%	**%**	%
Key assumptions				
Discount rate	**3.3**	3.7	**2.4**	3.3
Expected salary increase rate	**3.0**	3.8	**3.0**	3.8

As at 31 March 2020, the weighted average duration of the defined benefit obligation was 10 years (2019: 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)	(6.8)	7.4
Expected salary increase rate (0.5 per cent movement)	3.8	(3.5)

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

(e) Defined contribution expense

During the year, we contributed $14.1 million of defined contribution benefit to employees (2019: $12.6 million).

Note F.3 Share-based payments

We provide benefits to some of our employees (including key management personnel) in the form of share-based payments, whereby part of an employees' remuneration is or may be provided in exchange for shares or rights over shares (equity settled transactions) in order to align to shareholder outcomes. The granting of such shares or rights may be subject to satisfaction of certain conditions.

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

(a) Long term incentive plan

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

Note F.3 Share-based payments (continued)

(a) Long term incentive plan (continued)

AusNet Services Ltd's performance rights are granted to employees of subsidiary companies within the Group. The fair value of each performance right is estimated on the grant date using the Black-Scholes model. This model used the following inputs for each tranche of rights:

	MD LTIP 2019	LTIP 2019	LTIP 2018	LTIP 2017
Share price at grant date ($)	1.87	1.81	1.61	1.77
Exercise price ($)	0.0	0.0	0.0	0.0
Expected volatility (%)	17.5	17.5	20	20
Risk-free interest rate (%)	1.10	1.10	2.19	1.70
Dividend yield (%)	5.59	5.59	5.50	5.75
Expected life of performance rights (months)	36	36	36	36

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

An expense of $0.6 million has been recognised for the year ended 31 March 2020 (2019: $1.08 million) in relation to equity-settled share-based payments.

Note F.4 Contingent liabilities and contingent assets

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

AusNet Services has eight zone substations commissioned with REFCL technology. In April 2019, ESV confirmed that six of the eight zone substations for Tranche 1 (totalling 23 points) have achieved conditional compliance. In December 2019, Energy Safe Victoria (ESV) approved full compliance for these zone substations following completion of works required to achieve required capacity.

Two zone substations have not achieved conditional compliance. In November 2019, ESV granted time-extensions to postpone the commencement of the Tranche 1 Compliance Period for one of these zone substations until November 2020 and the other until May 2021 to address the harmonics and damping issues prohibiting full compliance. We believe that we have workable solutions in relation to these issues that will be completed by those respective dates.

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

AusNet Services is required to report monthly to ESV to demonstrate progress. In the event that ESV is not satisfied with our progress, ESV or the Minister could decide to file legal proceedings and the Court could impose pecuniary penalties on AusNet Services. ESV has sole discretion over whether any postponement is granted, and for how long.

(b) Other

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

Other than as listed above, we are not aware of any contingent liabilities or assets as at 31 March 2020 (2019: $0)

Note F.5 Events occurring after the balance sheet date

(a) COVID-19 pandemic

The spread of novel coronavirus (COVID-19) was declared a public health emergency by the World Health Organisation on 31 January 2020 and upgraded to a global pandemic on 11 March 2020. The rapid rise of the virus has seen an unprecedented global response by governments, regulators and numerous industry sectors. The Australian Federal Government enacted its emergency plan on 29 February 2020. This has led to the closure of Australian borders from 20 March, an increasing level of restrictions on corporate Australia's ability to operate, significant volatility and instability in financial markets and the release of a number of government stimulus packages to support individuals and businesses as the Australian and global economies face significant slowdown and uncertainties.

On 2 April 2020, we announced a suite of measures to provide support to customers enduring hardship as a result of the COVID-19 pandemic, including rebating or deferring network charges from 1 April 2020 to 30 June 2020 for customers meeting certain hardship criteria. On 6 May 2020, the AER lodged with the Australian Energy Market Commission a proposal for an urgent change to the National Electricity Rules to extend deferral of retailer payment terms through to 31 December 2020.

AusNet Services plays a pivotal role in delivering safe, reliable energy to customers every day through our network. Early indications are that demand in our distribution networks has not materially changed as result of COVID-19 actions. However, there is uncertainty about the length and severity of Government or regulatory intervention which could have unexpected impacts. A prolonged economic downturn could also lead to further Government or regulatory intervention and more adverse outcomes on our business.

(b) New debt facilities

On 7 May 2020, AusNet Services secured a further $500 million of bank facilities for terms ranging between two and five years. These facilities remain undrawn and have been secured to provide additional liquidity.

(c) Other matters

There has been no matter or circumstance that has arisen since 31 March 2020 up to the date of issue of this financial report that has significantly affected or may significantly affect:

(a) the operations in financial years subsequent to 31 March 2020 of the Group;

(b) the results of those operations; or

(c) the state of affairs, in financial years subsequent to 31 March 2020, 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 35 to 84, and the remuneration disclosures that are contained in the Remuneration report set out on pages 12 to 31 in the Directors' report, are in accordance with the *Corporations Act 2001*, including:

(i) complying with Australian Accounting Standards and the Corporations Regulations 2001; and

(ii) giving a true and fair view of the consolidated entity's financial position as at 31 March 2020 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
Managing Director

Melbourne
11 May 2020

Independent auditor's report to the members of AusNet Services Holdings Pty Ltd

Auditor's Opinion

In our opinion:

(a) the financial report of AusNet Services Holdings Pty Ltd is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Company's financial position as at 31 March 2020 and of its performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001,

(b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

[Enter place of signing]