ASX Announcement

12 May 2021

AusNet Services Holdings Pty Ltd 2020/2021 Full Year Results

Please find attached the Consolidated Financial Report of AusNet Services Holdings Pty Ltd for the financial period ended 31 March 2021.

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AusNet Services Holdings Pty Ltd
ACN 603 317 559

Financial Report

For the financial year ended 31 March 2021

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 2021.

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 2021 (FY2021). The financial report is for AusNet Services Holdings Pty Ltd and its controlled entities (we, us, our, AusNet 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.

Tony **Narvaez** *(Managing Director)*

Mark **Ellul**

Alistair **Parker** (ceased as director on 18 December 2020)

Operating & Financial Review

The year was highlighted by a challenging and rapidly changing external environment. Against this backdrop we delivered a solid performance across a number of important outcomes, including:

- We reprioritised, deferred and stopped several non-critical works and projects to minimise customer disruption and support our people;
- We concluded our 2021-26 Electricity Distribution Price Review (EDPR). The final outcome supports our customers while also allowing for expenditures to maintain and improve network reliability and safety;
- We demonstrated our emergency management capability in our response to several major customer interruptions during the year;
- We strengthened our balance sheet in order to take advantage of future growth opportunities; and
- After adjusting for a number of one-off and unusual items, we delivered slightly improved financial performance across all key metrics.

Going forward, the external environment will continue to present challenges that may impact our future performance and will require us to adapt, manage and respond

Financial performance

$M	FY2021	FY2020	Movement	%
Revenue	**1,214.3**	1,239.2	(24.9)	(2.0)
EBITDA	**689.0**	712.8	(23.8)	(3.3)
NPAT	**114.4**	87.6	26.8	30.6

The declines in both revenue and EBITDA were impacted by several material items across both FY2020 and FY2021:

- In the current year we recognised a $30.7 million impairment charge against the goodwill and certain software assets of our Geospatial business that services both our internal regulated businesses as well as external customers. This impairment is as a result of a change in strategic direction to explore partnership models with specialist providers.
- The prior year included additional revenues from our catch-up recognition of historical gifted assets ($19.1 million), and $14.7 million of bushfire remediation costs as a result of the major bushfire event in December 2019 / January 2020.
- There were several items that had a material impact on revenues but only a minimal impact on EBITDA. These were the cessation of our material sales business in Growth & Future Networks in late FY2020 ($16.2 million), and the prior year sale of inventory ($12.8 million) to Downer as part of our transfer of electricity distribution maintenance functions.

After excluding these items, underlying revenue and EBITDA increased by $23.2 million and $11.3 million respectively. The increase in revenue is largely reflective of $26.7 million higher Transmission Use of System (TUoS) recoveries, which is a combination of prior year under recovery and higher current year TUoS expense of $13.8 million.

Operating expenses (after excluding the items noted above) were comparable year on year.

Directors' Report (continued)

Operating & Financial Review (continued)

Consolidated financial performance (continued)

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

While EBITDA was $23.8 million lower, net profit after tax increased by $26.8 million or 30.6 per cent. Net finance charges were reduced due to reversal of previous hedge accounting losses, while a $13.3 million income tax credit was recognised as a result of amended tax returns for the 2016-2019 period that were lodged in the current year.

The operating and financial performance of each of our individual businesses for the financial year ended 31 March 2021 is discussed below. During FY2021, the Mondo segment was renamed 'Growth & Future Networks' and now includes network innovation functions that were previously included in the Electricity Distribution businesses, as well as Mondo. Comparatives have been restated for consistency**.**

Electricity distribution

	FY2021	FY2020 (restated)	Movement	%
Revenue ($M)	**922.7**	934.7	(12.0)	(1.3)
EBITDA ($M)	**545.4**	566.4	(21.0)	(3.7)
Volume (GWh)	**7,426**	7,531	(105)	(1.4)
Connections	**768,460**	753,601	14,859	2.0
Capital expenditure ($M)	**405.8**	497.1	(91.3)	(18.4)

The decline in the reported results for the electricity distribution business is attributable to the unusual and non-recurring items noted above, namely the prior year $12.8 million inventory sale to Downer and $19.1 million gifted asset catch-up. In addition, $19.0 million of the Geospatial impairment recognised has been allocated to this segment.

After accounting for these items, the electricity distribution business has delivered solid financial performance in FY2021. The residual revenue increase of $19.9 million is due to higher TUoS recovery. Note that electricity distribution tariffs declined by 9.5 per cent from 1 January 2021, which along with lower consumption due to a mild summer, largely reversed the revenue growth seen in the first half of FY2021. Partially offsetting higher TUoS recovery has been softer customer contributions and gifted assets which have been impacted by COVID-19.

A cost increase of $2.8 million (excluding inventory sale and impairment) was due to $13.8 million higher TUoS expense, partly offset by the prior year including additional bushfire remediation costs and outsourcing transition one-offs.

Capital expenditure declined substantially due to:

- a $25.6 million decrease in the Rapid Earth Fault Current Limiter (**REFCL**) program spend as the current year focus has been on Tranche 2 compliance, with much of the build of both Tranches 1 and 2 being in FY2020;
- our response to minimising disruptions to households facing COVID-19 restrictions which resulted in the deferral of certain replacement expenditure; and
- lower growth in business and residential new connections compared with FY2020.

<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:

- Our tariff period is changing from a calendar year basis to being a financial year basis ending 30 June, effective 1 July 2021. In the year to 30 June 2022, our regulated revenue will be reduced by $17.0 million, to account for our cumulative over-recovery (at 31 March 2021) of volume charges above those assumed in our pricing structures.
- In November 2020, the Australian Energy Regulator (AER) approved pass-through revenue of $14.7 million for costs associated with the 2019-20 bushfires, which will be recovered over the five-year period commencing 1 July 2021.

Operating & Financial Review (continued)

Electricity distribution (continued)

- The July 2021 to June 2022 tariffs include a Service Target Performance Incentive Scheme (STPIS) penalty of $5.8 million as a result of our CY2019 network reliability performance. Preliminary CY2020 network reliability performance indicates that we will be penalised in the order of around $7 million in FY23/24 tariffs. We are targeting network reliability improvements under our transformation program.

Gas distribution

Our gas distribution business performed well in FY2021, with continued residential customer growth.

	FY2021	FY2020	Movement	%
Revenue ($M)	**224.9**	223.8	1.1	0.5
EBITDA ($M)	**167.9**	159.0	8.9	5.6
Volume (PJ)	**70.2**	68.3	1.9	2.8
Connections	**752,882**	732,479	20,403	2.8
Capital expenditure ($M)	**100.2**	104.9	(4.7)	(4.5)

Regulated revenue increased by $6.5 million due to volume outperformance during the winter months. This movement was largely offset due to FY2020 including $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). FY2021 unaccounted for gas outcome did not result in any significant revenue or expense.

Operating expenditure decreased by $7.8 million, due to FY2020 including $4.5 million of unaccounted for gas costs (associated with the revenue increase) as well as $3.0 million reduction in asset retirements, which were elevated in FY2020 due to an acceleration of the gas meter replacement project.

The capital expenditure decrease is mostly due to lower business supply projects and major alterations.

Growth & Future Networks (including Mondo)

Growth & Future Networks provides energy services, as well as a range of asset and utility services to support the management of electricity, gas, and water networks. Dedicated customer connections are treated as finance lease receivables, with proceeds received from these assets split between revenue, lease interest income and principal repayments.

	FY2021	FY2020 (restated)	Movement	%
Revenue ($M)	**66.7**	80.7	(14.0)	(17.3)
EBITDA ($M)	**(24.3)**	(12.6)	(11.7)	92.9
Lease interest income ($M)	**0.6**	0.2	0.4	200.0
EBITDA after lease income (EBITDAaL) ($M)	**(23.7)**	(12.4)	(11.3)	91.1
EBITDAaL Margin (%)	**(36.1)**	(15.3)	(20.8)	(135.9)
Capital expenditure ($M)	**19.4**	25.3	(5.9)	(23.3)

The decline in EBITDA is primarily due to $11.7 million of the geospatial impairment recognised that has been allocated to this segment. The decline in revenue is primarily due to the cessation of Growth & Future Networks' low margin material sales business, reducing revenues by $16.2 million with minimal impact on EBITDA.

The residual increase in revenue of $2.2 million is primarily due to growth in field services revenue, and the residual increase in expenses of $1.5 million is due to restructuring costs and higher corporate cost allocations.

Material risks and uncertainties

The Board reviews and guides AusNet's system of risk management, compliance and internal controls, including setting the risk appetite. The ARC assists the Board in discharging these responsibilities. The ARC oversees the adequacy and effectiveness of AusNet's audit program, risk management processes and internal control systems, including the monitoring of material business risks (financial and non-financial) and corporate compliance and the assessment of whether the business is operating within risk appetite.

The Managing Director is accountable to the Board and the ARC 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.

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

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 performance and position.

Industry and regulatory risks

Industry developments

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

Recent legal, regulatory and policy changes or reviews include:

- The AER has commenced consultation on specific topics in the lead up to its Rate of Return Instrument Review which will be finalised in December 2022. This will be binding on networks and the AER and may adversely affect revenues in regulatory determinations made after this date.
- Significant changes to the foreign investment and acquisition laws in Australia directed at national security took effect on 1 January 2021. The changes create additional approval requirements, and circumstances for review, for critical infrastructure businesses (among others) such as AusNet and certain of its shareholders. The changes could, among other things, make it more difficult for AusNet to grow or expand its business or result in certain future investments being reviewed.
- The AER is reviewing the national electricity distribution and transmission ring-fencing guidelines, and recently had its enforcement powers strengthened, including with respect to the scope and quantum civil penalty provisions, as well as information gathering powers. Any expanded ring-fencing requirements following these reviews could result in additional compliance costs, execution complexities and risk of penalties.

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 th trial of new technologies on our network. Our objective is to actively participate in shaping industry development and to lead and deliver the transformation required in the energy sector.

Directors' Report (continued)

Material risks and uncertainties (continued)

Industry developments (continued)

Rapid Earth Fault Current Limiter (REFCL) program

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

AusNet 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	By 1 May 2019	By 1 May 2021	By 1 May 2023
Zone substations	8	9	5
Minimum number of points* required by the Act	30	25 (55 total)	9 (64 total)
Direct spend approved by the AER ($M)	95	137	94**
Points achieved	32	12 (44 total)	-

* 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.
** The recent EDPR decision approved an additional $10.5 million for the Kalkallo zone sub-station, in addition to the Tranche 3 Contingent Project Allowance.

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.

AusNet has all eight Tranche 1 zone substations commissioned with REFCL technology, which have all demonstrated compliance with the legislated performance standards.

Tranche 2 is predominately in urban areas, with a number of high voltage customers connecting to these zone substations. An extension of time request was approved by ESV in relation to three of the nine zone substations (totalling 8 points) to enable a high voltage customer to complete their REFCL readiness works on these networks, and for one zone substation (totalling 3 points) where compliance was not demonstrated on one feeder. As a result we have achieved the updated minimum points (44 points) by 1 May 2021. A further three points are required by 1 November 2021 and eight points by 1 November 2022. Compliance has been demonstrated at the remaining five zone substations. Tranche 3 delivery is underway with the balance of the funding for one zone substation approved by the AER as part of the 2021-26 Electricity Distribution Price Review (EDPR) regulatory determination.

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

Price determinations

The energy industry in Australia is highly regulated. The regulated component of our revenues (approximately 88 per cent of total revenues for the year ended 31 March 2021) is subject to periodic pricing resets by the AER, where revenue or prices will be determined for each of the networks for the specified regulatory period. AusNet has no ability or flexibility to charge more for regulated services than is provided for under the relevant AER determination (for electricity distribution), or the approved access arrangement (in respect of gas distribution), without regulatory approval. Regulatory control periods are generally five years. The upcoming regulatory reset dates for our electricity distribution network, and gas distribution network are 1 July 2021 and 1 July 2023 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, including revenues and cash flows. In addition, we are exposed to cost changes within a regulatory control period and bear the risk of any shortfall in allowances 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. The regulatory regime also offers limited pass-through protection. Our risk management approach includes developing detailed plans of works to be undertaken and costs to be incurred as well as energy and maximum demand forecasts prior to the commencement of a regulatory period.

Directors' Report (continued)

Material risks and uncertainties (continued)

Industry developments (continued)

Price determinations (continued)

Emphasis is placed on ensuring that we continue to maintain safe, resilient and reliable networks and that the costs to be incurred are efficient and prudent. This information is submitted to the AER as part of the determination process and, where appropriate, the views of industry and other external experts are sought to be included in the submission. We also utilised a Customer Forum in the 2021-26 EDPR process to include inputs from customer representatives.

During the regulatory period we continuously monitor and manage our costs and through our enterprise-wide transformation program we aim to improve our benchmark performance.

Network risks

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

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

AusNet is also exposed to risks regarding its design and installation, information technology and other service providers. We rely on the expertise, qualifications and adequacy and sustainability of financial and other resources of these service providers. We are also exposed to the cost of replacing faulty equipment. On rare occasions, faults in plant items are discovered only after the item has been installed within a network, requiring a large-scale replacement program, which may not be partly or fully covered by warranties.

Plant warranties may not be available or may only partially respond. Additionally, while incidents in our zone substations and terminal stations have property insurance cover, incidents outside the boundaries of our zone substations and terminal stations are self-insured. Any forced replacement program, particularly if not insured or covered by warranties, could be costly and adversely affect our financial performance and position.

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

Directors' Report (continued)

Material risks and uncertainties (continued)

Taxation risks

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

AusNet regularly engages with the ATO regarding its tax returns. At present there are several tax positions being reviewed by the ATO, including but not limited to:

- An objection lodged by AusNet seeking a refund of tax paid in relation to certain gifted assets received.
- An objection lodged by AusNet in relation to certain tax consolidation and capital allowance positions arising from the corporate restructure completed in June 2015.

In relation to the gifted asset matter, AusNet has recognised a $37.5 million non-current tax receivable representing the refund claimed. As this was previously recognised as a timing difference, it does not have an income tax expense impact. There is a risk that the ATO may ultimately reject this objection, in which case this value will be claimed over the life of the assets via depreciation deductions.

The tax consolidation element of the 2015 corporate restructure objection contends that a higher uplift in tax base occurred as a result of the restructure. Based on several assumptions, AusNet estimates the tax effect of this potential uplift to be up to $485 million which, if successful, would be realised over the life of the assets. However, as some of this benefit relates to prior periods any immediate refund of tax may also trigger franking deficit tax. The ultimate outcome of the objection is inherently uncertain. There is a risk that our objection is ultimately unsuccessful, or if successful or otherwise resolved, any benefit is materially lower than our estimate.

AusNet's financial statements do not reflect the potential uplift in tax base arising from the tax consolidation uplift. If we are ultimately unsuccessful, no prior year lump sum primary tax or interest penalty should arise, as we have conservatively adopted the ATO's position with effect from the 2015 restructure and have paid tax accordingly.

In relation to the capital allowances element of the 2015 corporate restructure objection as well as all other matters currently being reviewed by the ATO, we have assessed the current status of these matters and as a result continue to carry an $11.0 million net tax risk provision as at 31 March 2021. There is a risk that the final outcome of the ATO review of these matters may result in a larger tax liability.

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 refinance existing debt or raise new debt and hence to sustain and/or grow our capital-intensive businesses, and would likely increase our cost of capital.

AusNet may only raise additional equity (e.g. issues of shares) with the prior ordinary approval of the Company in general meeting. While this has been obtained in the past in relation to pro-rata issues up to 10 per cent of prevailing share capital and for dividend reinvestment plans, there is a risk it will not be obtained, or on the same terms, in the future. In addition, the issue of shares in certain circumstances may be subject to review (for a period of 10 years) on national security grounds under the foreign investment and acquisition laws that took effect on 1 January 2021 described in further detail above.

AusNet has issued significant amounts of hybrid securities, which provide certain equity credit under rating agencies' methodologies. Rating agencies impose a cap in relation to the levels of hybrid securities that can attract equity credit. In the event that credit rating agencies modify their methodology, or we are unable to refinance our hybrids in a timely manner and lose their equity credit status, we may experience adverse credit rating impacts and higher cost of debt.

AusNet has historically operated 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 (if any) is at the discretion of AusNet and decisions around whether to operate a DRP, and on what terms, may take into account growth capital funding requirements.

Furthermore, we have a large amount of debt, with a net debt to Regulated and Contracted Asset Base ratio at 31 March 2021 of 67 per cent (excluding equity credit for the $2.4 billion 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.

Directors' Report (continued)

Material risks and uncertainties (continued)

Funding and market risks (continued)

We manage these risks in accordance with our Treasury Risk Policy which is approved by the Board and reviewed by the Audit and Risk 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 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 risks and opportunities for our business.

In addition to the risks identified above, community sentiment to remove all fossil fuels from the economy may drive policy action to transition away from gas causing high rates of residential disconnection, as electrification is encouraged along with increased appliance efficiency. As a result, gas demand could fall, as new subdivisions are not equipped with gas. Mitigating some of these risks in Victoria, is that gas is currently the predominant fuel for heating. In addition, as a member of the Australian Hydrogen Centre, AusNet has been selected for a feasibility project to assess the ability to produce and distribute hydrogen in regional towns.

Infrastructure Victoria has been asked to provide the Victorian Government with advice relating to Victoria’s gas transmission and distribution networks under a range of 2050 energy sector scenarios. A final report is to be provided by 31 December 2021.

In FY2021, AusNet completed its first report under the Task Force on Climate-related Financial Disclosures (TCFD) framework, which is published on our website. The report includes a point in time scenario analysis to validate and identify physical and transitional risks to both the company strategy and business operations. The analysis is subject to assumptions, risk, uncertainties, and other factors and while our approach continues to evolve, climate related risk and opportunity identification and assessments forms part of our risk management, governance and strategic planning processes. This work will continue to be developed in FY2022 including formalising potential impacts on asset lives and embedding scenarios into impairment calculations.

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.

Directors' Report (continued)

Material risks and uncertainties (continued)

Climate change and sustainability risks (continued)

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

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

In February 2021, the AER issued a draft guidance note on insurance coverage pass-through events. The AER has noted recent changed insurance market conditions, characterised by rising insurance premiums and withdrawn capacity, and the impact of recent major bushfire events across Australia. The draft guidance note sets out the AER's expectations with respect to the types of information that should be kept and the related processes that should be adopted to facilitate AER assessment of an insurance coverage event. The final guidance note is due to be issued in July 2021. AusNet will continue to engage with the AER on this matter to provide clarity on this risk.

Risk management for these risks includes a significant annual investment in bushfire mitigation activities, the ongoing development and testing of emergency response plans and reviewing engineering standards and ratings for equipment. Investment is also being made in network resilience to strengthen critical parts of the electricity distribution network and enhance contingency planning. AusNet's 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.

Information technology and security risks

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

On 6 August 2020, the Federal Government published its 2020 Cyber Security Strategy and Regulatory Framework Paper. The Regulatory Consultation paper released together with the Cyber strategy proposes an enhanced regulatory framework (building on the prevailing Federal security of critical infrastructure legislation) and covers not just cyber but also physical, personnel and supply chain protections for critical infrastructure businesses. The legislation relating to the updated strategy is currently before the Federal Parliament. Potential impacts include legislation directing levels of capability required and time frames to achieve this goal, increased Board level responsibilities in planning and managing security and resilience and direct government assistance in the event of a major event.

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

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

AEMC rule changes commence on 1 October 2021, which change the settlement period for the electricity spot price from 30 minutes to five minutes. This rule requires additional investment in metering and digital systems, with increased data collection and management requirements.

To mitigate these risks, we have established a centralised architecture, delivery and governance capability with a focus on technology needs, designing and building to meet requirements and governance.

Balance sheet and capital management

Total equity of the Group was $1,261.8 million as at 31 March 2021, an increase of $310.7 million compared to the previous financial year, primarily attributed to the unwinding of the hedge reserve through other comprehensive income.

Our current assets exceed current liabilities by $963.1 million at 31 March 2021, due to significant debt raising undertaken in FY2021, the funds of which are held on deposit in advance of debt repayments, including the non-current hybrids ($706 million) with a first call date in September 2021, which management intend to repay using these funds. The Group is, and is expected to continue trading profitably, generating positive operating cash flows and successfully refinancing maturing debt. In addition, at 31 March 2021, the Group has available a total of $800.0 million of undrawn but committed bank debt facilities and $1,496.1 million of cash and short term investments.

Non-current assets decreased by $734.9 million compared to the prior year, due to $913.4 million decrease in non-current derivatives, resulting from the large depreciation in the Australian Dollar, which decreases the carrying value of debt and decreases the derivative asset, partly offset by $178.0 million of growth in property, plant and equipment driven by $525.4 million of capital expenditure invested into the asset base offset by the depreciation of our assets.

Non-current liabilities increased by $508.6 million due primarily to a net increase in long term debt of $543.3 million, which reflects current year hybrid and bond raisings of $2,131.9 million, reduced by revaluation to spot rate (offset in derivative asset decrease as hedged) of $1,178.8 million and amounts reclassified to current borrowings of $318.4 million. Derivative liabilities also decreased $266.2 million as a result of rising interest rates, which is reflected in the hedge reserve movement, while deferred tax liabilities increased $253.3 million primarily due to the tax effect of the change in derivative values.

Capital management

Our approach to capital management has 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% of maintenance capital expenditure and a portion of growth capital expenditure from internal cash flows.

Debt raising

The Company is the central funding vehicle (CFV) for the AusNet Services Group.

In line with our Treasury Risk Policy, we maintain a diversified debt portfolio by maturity and source. AusNet has an A- credit rating from Standard and Poor's and A3 from Moody's Investor Services. The following debt raisings were completed during the year:

- A$400 million of 10-to-20-year bond issues in July 2020;
- A$650 million 60-year hybrid security issue in the form of non-convertible subordinated notes in September 2020;
- EUR 700 million (A$1,082 million) 60-year hybrid security issue in the form of non-convertible subordinated notes in March 2021.

These issuances, in addition to our existing bank debt facilities, satisfy our refinancing requirements for the next 12 months and have increased the tenor of our debt portfolio.

Introduction and Contents

This report sets out the executive remuneration outcomes for FY2021.

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's 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.

Those that are assessed to be KMP for FY2021 were as follows:

Name	Position	Date Appointed as KMP
Executive KMP		
Tony **Narvaez**	Managing Director	November 2019
Prue **Crawford-Flett**	Executive General Manager, Network Operations	20 May 2020[1]
Mark **Ellul**	Chief Financial Officer	September 2019
Chad **Hymas**	Executive General Manager, Mondo	April 2013
Alistair **Parker**	Executive General Manager, Regulated Energy Services	Ceased as KMP on 18 December 2020
Mario **Tieppo**	Executive General Manager, Technology	Ceased as KMP on 23 April 2020

1 Ms Crawford-Flett has been part of the Executive Leadership Team since April 2019 and became KMP following an operating model review announced in May 2020.

2 Approach to executive remuneration

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

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

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

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

Purpose of each remuneration component

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

2 Approach to executive remuneration (continued)

Remuneration Principles	
Principle	**Implications for Remuneration Framework Design and Operation**
Is aligned to strategy and business needs	• Remuneration frameworks and mix will operate in support of our purpose, values and strategy inclusive of our 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 structured to drive and reflect performance	• Remuneration outcomes will reflect short-term performance and long-term value creation, with appropriate differentiation to encourage high performance. • 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 analysis. • Assessment will consider both assessed outcomes and behaviours.
Is simple and transparent	• The remuneration framework will be easy to explain to participants, and the market.
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 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 reward components for the Managing Director and other Executive KMP and the key performance measures applicable for the performance period ending 31 March 2021. It also summarises the incentive award delivery mechanism, Board discretion and claw-back features of the plans.

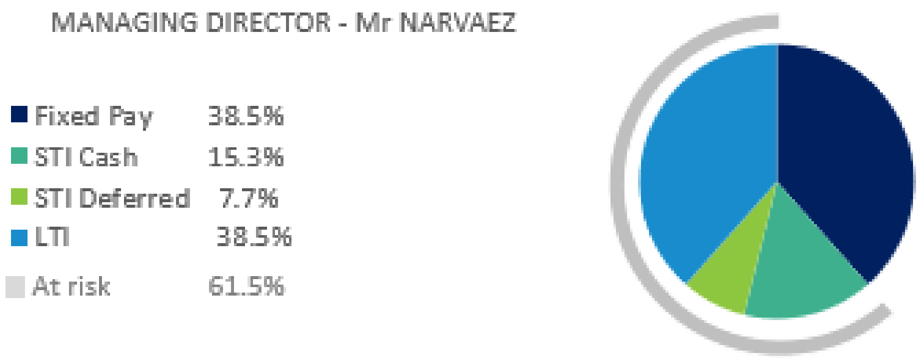
	Short-Term Incentive (at risk)			Long-Term Incentive (at risk)	
Incentive Opportunity	**Threshold**	**Target**	**Maximum**	**Threshold**	**Maximum**
	Short and Long-Term Incentive opportunities are expressed as a percentage of FAR				
Managing Director Mr Narvaez	30%	60%	90%	18%[1]	100%
Executive General Manager G&FN Mr Hymas **Chief Financial Officer Mark Ellul from 11 Nov 20**	30%	60%	90%	9%	50%
Other Executive KMP	20%	40%	60%	9%	50%
Performance measures	• STI scorecard KPIs include selected financial and non-financial measures. • Three financial measures – EBITDA, Return on Equity (ROE) and Company Opex (ex G&FN) focus on ability to grow revenues, control costs and effectively manage working capital. • Non-financial measures drive the importance of health, safety and environment and contribution to strategic initiatives. • STI outcome subject to gateway performance criteria relating to cash flow from operations and safety performance.			• 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 the performance of a comparator group. • EPS compound annual growth rate (CAGR) provides a tangible measure of shareholder value. • ROIC measures returns generated from investments.	
Delivery mechanism	• For the MD, CFO (from 11 November 2020), and EGM G&FN, 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 AusNet Services Ltd (AST) share price over a five-day trading period commencing on the date AusNet releases its Financial Results. • STI awards for the remaining Executive KMP are paid as cash.			• The LTI award is granted as performance rights, subject to testing against the above performance measures, continued employment and Board discretion. • Each recipient of vested share rights is subject to the AusNet Share Trading Policy and applicable laws, to sell, transfer or otherwise dispose of their securities.	
Board Discretion and Clawback	• 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 in response to 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.				

[1] Threshold performance reflects 0 per cent outcomes for ROIC and EPS and 35 per cent outcome for TSR.

3 At risk and incentive components (continued)

Remuneration mix – at a glance

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



4 FY2021 performance and remuneration summary

For FY2021, business performance was solid and financial performance was not affected significantly due to internal initiatives taken at the beginning of the COVID-19 global pandemic and the broader economic response. Net profit after tax improved on FY2020 as a result of underlying revenue growth, operating cost constraint, prudent capital management and two significant one-off non cash adjustments to net finance costs and income tax expense also contributed positively.

When initially setting targets for FY2021, the Board took into consideration a number of key assumptions with respect to the potential financial impact of COVID-19 on the business. In its assessment of FY2021 STI outcomes, management and the Board took into account actual business performance against these assumptions which resulted in the Board moderating outcomes for the EBITDA and Return on Equity (ROE) KPIs.

In assessing performance and remuneration outcomes for FY2021, 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.

The Board awarded STI vesting outcomes of 102.0 per cent of target to the MD, reflecting a combination of financial and strategic outcomes.

Performance over the FY2019 to FY2021 performance period gave rise to a 37.5 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 FY2017 – FY2021.

Financial performance	FY17[1]	FY18	FY19	FY20	FY21
NPAT ($m)	255	291	254	291	302
EBITDA ($m)	1,073	1,143	1,134	1,196	1,155
Return on Equity (%)	7.0	8.0	7.3	9.2	9.4
Total Shareholder Return (TSR) Percentile Ranking - relative performance	68.6	64.2	63.9	67.8	60.6
Earnings Per Share (EPS) (%) 3-year compound annual growth rate (CAGR)	3.4	130.4	(21.0)	3.3	(0.2)
Return on Invested Capital (ROIC) (%) 3-year average	4.89	5.67	4.70	4.82	4.75
Share price at 31 March ($)	1.685	1.675	1.755	1.710	1.835
Dividends (cents per share) [1]	9.80	9.25	9.72	10.20	9.50
STI vested as % of target - MD	96.8	110.0	105.0	82.0	102.0
LTI vested as % of target	76.1	85.9	54.3	65.6	37.5

[1] FY2017 dividends consist of 8.8 cents per share ordinary dividend and 1.0 cents per share special dividend

4 FY2021 performance and remuneration summary (continued)

Summary – Key remuneration outcomes for FY2021

Executive remuneration	During FY2021, the Board reviewed the remuneration arrangements with respect to the Chief Financial Officer (CFO) Mr Ellul. The review took into consideration Mr Ellul's expanded strategic and operational responsibilities with respect to the AusNet Digital Division, consideration of external market benchmarking and Mr Ellul's development and performance in the CFO role since September 2019. As a result of that review, the Board approved a fixed annual remuneration adjustment to $600,000 effective 11 November 2020. In addition, the Board approved an uplift of STI opportunity to 60% (from 40% at target) noting two thirds of any STI award made will be paid in cash and one third will be delivered by way of share rights (with a two-year deferral period). Mr Steven Neave was appointed to the role of Executive General Manager Network Management on 15 July 2020. Mr Neave's remuneration arrangements were set after considering external market information, his role and accountabilities and his respective experience and capabilities. While we implemented a new operating model in May 2020, no other changes to Executive KMP remuneration, including fixed remuneration, were made in FY2021.
FY2021 Short Term Incentive Plan outcomes	Taking into account the revised (upwards) targets and performance ranges for the EBITDA and ROE KPIs, the MD STI outcome was 102.0 per cent of target as a result of solid financial, safety and strategic related KPI performance. The MD's FY2020 STI award was at target (100%) in line with an undertaking with the Board on his commencement in November 2019. Other Executive KMP STI scorecard outcomes varied between 72.0 per cent and 102.0 per cent of target which compares to between 82.0 per cent and 98.0 per cent for FY2020. Further details of the FY2021 STI plan and outcomes can be found in Section 5.
Vesting of 2018 Long-Term Incentive Plan awards (FY2019-FY2021 performance period)	The LTI awards granted in 2018, (applicable for the FY2019 – FY2021 performance period), were tested against performance criteria, resulting in a vesting outcome of 37.5 per cent. The LTI vesting outcome reflects: • relative total shareholder return ranking of 60.6 percentile, • return on invested capital of 4.75 per cent • three year compound annual earnings per share growth (EPS CAGR) of minus 0.2 per cent. MD Mr Narvaez was not eligible to receive an award under the 2018 LTI grant. The FY2021 outcome represents the 2018 grant vesting applicable to other eligible Executive KMP. Further details of the LTI plan and LTI vesting can be found in Section 5.
MD 2020 Long-Term Incentive Plan grant (FY2021-FY2023 performance period)	As approved by shareholders at the July 2020 Annual General Meeting (AGM), the MD's 2020 LTI grant was based on a maximum vesting opportunity of 100 per cent of fixed remuneration. Mr Narvaez was granted 601,402 Performance rights applicable for the 2020 LTI grant which will be tested and assessed for vesting by the Board at the conclusion of the FY2021 – FY2023 three-year performance period.

4 FY2021 performance and remuneration summary (continued)

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

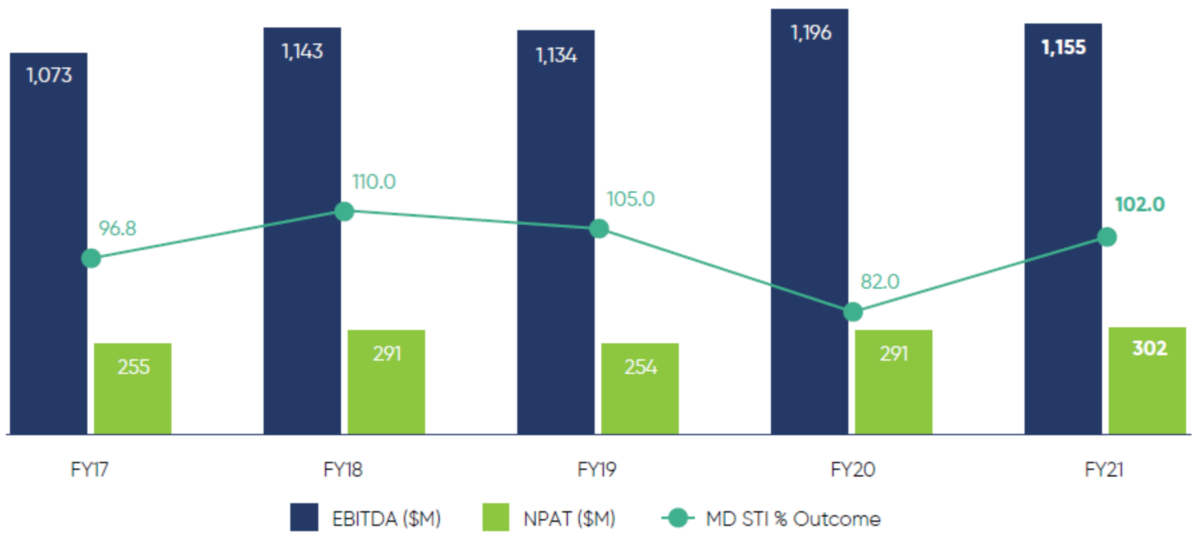
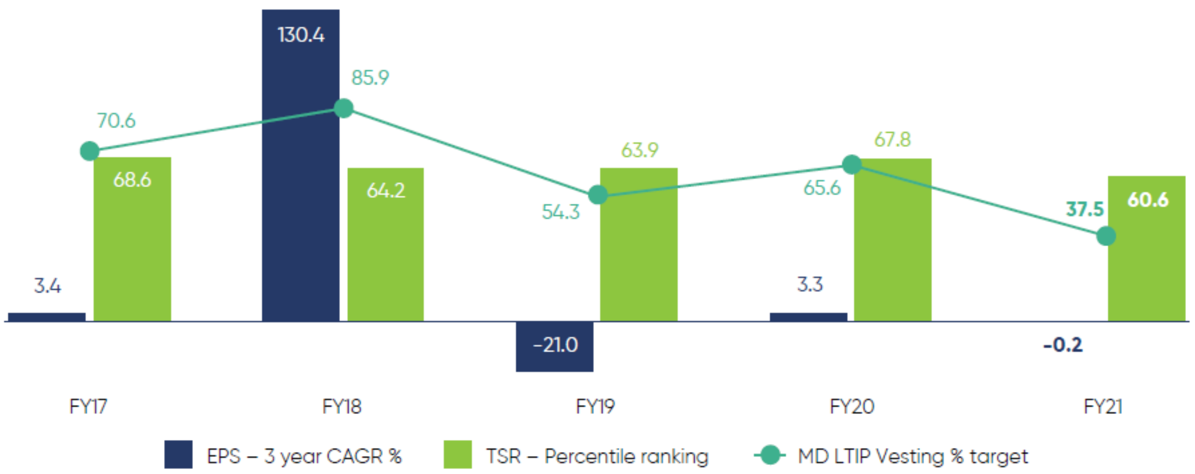


Chart 2: MD Overall LTI Outcome % of Maximum to EPS and TSR Percentile Ranking

Note FY20 and FY21 MD LTI vesting % outcome related to previous MD, Mr Ficca. Mr Narvaez was not eligible to receive an award under the 2017 or 2018 LTI grant



4 FY2021 performance and remuneration summary (continued)

FY2021 actual remuneration paid to Executive KMP (unaudited)

The table below sets out the actual remuneration paid to current Executive KMP over the past two reporting years. This includes annual fixed remuneration, STI cash paid, the value of deferred STI rights in respect to the MD, CFO and EGM G&FN, and the value of the 2018 LTI awards and special purpose incentive that vested in FY2021.

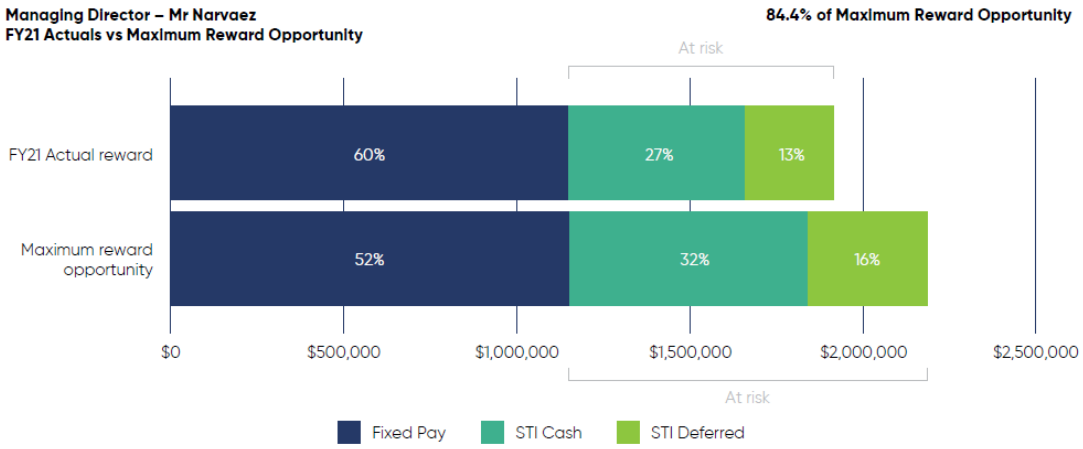
Note that the following table is non-IFRS information and is unaudited.

Executive KMP	FY	Fixed Annual Remuneration [1]	Short Term Incentive Paid [2]	STI Deferred (2 years) [3]	Special Purpose Incentive	LTI Vested [4]	One-off payment &/or relocation allowance paid	One-off payment deferred (2 years)	Total
Tony **Narvaez** [5]	**2021**	**1,150,000**	**469,200**	**234,600**		**-**			**1,853,800**
	2020	479,200	191,667	95,833		-	400,000	450,000	1,616,700
Prue **Crawford-Flett** [9]	**2021**	**450,000**	**183,600**			-			**633,600**
Mark **Ellul** [6]	**2021**	**538,630**	**217,717**	**47,152**		**30,791**			**834,290**
	2020	242,541	80,483			47,153			370,177
Chad **Hymas**	**2021**	**486,000**	**197,316**	**98,658**		**92,045**			**874,019**
	2020	486,000	184,680	92,340		143,823			906,843
Steven [7] **Neave**	**2021**	**320,548**	**128,219**			**-**	**100,000**	**100,000**	**648,767**
Alistair **Parker** [8]	**2021**	**358,904**	**113,731**		**171,061**	**102,272**			**745,968**
	2020	550,000	180,400			159,804			890,204

1. Fixed Annual Remuneration includes cash salary and fees, leave entitlements and superannuation.
2. Represents amounts vested in current year, to be paid in May 2021.
3. STI deferred value relates to FY2021 performance year deferred into share rights for a period of two years
4. LTI vesting is calculated based on the number of 2018 performance rights vested multiplied by the share price at 31 March 2021 being $1.835.
5. FY2020 amounts for Mr Narvaez are based on actual earnings applicable for his period of employment commencing 1 November 2019. One off payment and relocation allowance paid as cash. One off deferred payment granted as deferred share rights.
6. FY2020 amounts for Mr Ellul are on actual earnings from 21 September 2019. Mr Ellul's LTI vested value represents vested share rights granted to him in 2017 & 2018 whilst employed in his previous role.
7. FY2021 amounts for Mr Neave are based on actual earnings applicable for his period of employment commencing 15 July 2020. Mr Neave received a one-off sign on benefit of $200,000 which comprised a $100,000 cash paid upon his commencement and $100,000 deferred into share right. In July 2020, Mr Neave received 57,375 share rights at an allocation price of $1.7429 to be deferred for a period of two years.
8. On 18 December 2020 Alistair Parker stepped down as EGM – Regulation and External Affairs and ceased to be a KMP from that date. Mr Parker ceased to be an employee from 31 March 2021. The actual pay above represents the pro rata value applicable for the period of employment as a KMP in FY2021. The special purpose performance incentive for Mr Parker is the pro rata value taking the number of rights granted in 2019 being 108,713 multiplied by the vesting percentage outcome of 100% multiplied by the AusNet Services Share price as at 31 March 2021 being $1.835.
9. Ms Crawford-Flett realised pay amounts reflect annual amount received, while Section 9 shows amounts relating to period acting as KMP (from 20 May 2020).

Statutory accounting disclosures of remuneration which are shown in Section 9 of this report differ from the actual pay received due to the accounting treatment of leave provisions and unvested LTI awards.

The following table illustrates the MD's actual STI and total remuneration outcomes for FY2021 compared to maximum remuneration opportunity. Note that Mr Narvaez was not eligible to receive an award under the 2018 LTI grant.



5 FY2021 Executive KMP Incentive Plans – Structure and Outcomes

FY2021 Short-Term Incentive Plan

The FY2021 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

In general, the Board's policy is not to adjust statutory financial performance against targets when assessing remuneration outcomes. However, management and the Board considers it is prudent and appropriate to apply discretion when assessing outcomes affected by unforeseen events and known but unquantifiable events. In FY2021, management and the Board exercised discretion to remove expected COVID-19 impacts that did not eventuate from the outperformance against targets achieved.

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's 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 MD, 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 assessed on how results were achieved including alignment to values, risk, compliance, enterprise leadership and culture which can result in the application of discretion as the Board deems appropriate.

STI Performance Measures and weightings

MD and Executive KMP (ex EGM G&FN)

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

EGM G&FN

Financial				Non-financial	
EBITDA	Return on equity	Company Opex (ex G&FN)	G&FN Growth (EBITDAaL and EBITDAaL margin)	HSEQ Index	KPIs aligned to strategic priorities
20%	10%	5%	35%	5%	25%

STI performance measures are designed to connect and reward achievement against an annual balanced scorecard of measures aligned with the agreed Strategic and Financial Plan

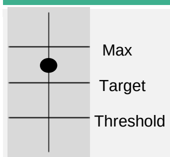
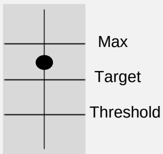
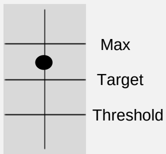
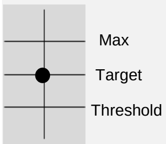
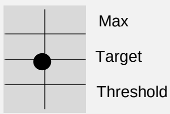
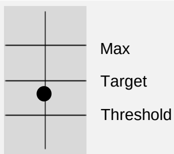
KPIs aligned to strategic priorities are set by the Board for the MD. For FY2021 the Board set the MD's strategic KPIs to be focused on managing free cash flow in the context of COVID-19 and organisational leadership, resilience and transformation of the business for the medium to longer term.

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

5 FY2021 Executive KMP Incentive Plans – Structure and Outcomes (continued)

FY2021 Managing Director (MD) STI scorecard performance outcomes are set out in the table below:

Design aspect	MD 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 FY2021 performance met gateway criteria.
Assessment of KPIs	The Board reviewed the MD's FY2021 STI scorecard performance including progress on strategic measures. In addition, the Board assessed the MD on how results were achieved including alignment to values, risk, compliance, enterprise leadership and culture. The resulting outcome was 102.0 per cent of target performance.

	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 outcome was above target as a result of both revenue outperformance (across regulated and unregulated businesses). In addition, operating costs were constrained.
	Return on equity	Return on equity is an important measure in demonstrating relative financial performance and aligns with shareholder outcomes.	20%		Return on equity achieved above target vesting through a combination of favourable net profit after tax and prudent balance sheet and capital management.
	Company operating expenditure (excluding G&FN)	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 outcome was above target due to prudent operating cost management ahead of targets set, with an operating model review delivering substantial headcount reduction during the year.
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 has strongly outperformed in three of the key components with the exception of one lag indicator which achieved an at target outcome. This resulted in an index score of 110.
	Free Cash Flow	Managing the financial implications of COVID-19 and its uncertainty to ensure liquidity and preserve cash in the medium to short term	10%		Strong free cash flow achieved during the year, combined with the execution of proactive cost saving measures in response to COVID-19 uncertainty.
Strategic	Organisational leadership, resilience and transformation	Strategic focus areas centred on organisational health, transformation, simplified operating model, digital investment, customer support and stakeholder management and advocacy designed to ensure that the business reinvents itself with the capability, cost base and agility to deliver on the strategy.	25%		In FY2021, an enterprise-wide transformation program commenced with a significant number of initiatives delivered across a number of streams, achieving both financial and non-financial outcomes.

5 FY2021 Executive KMP Incentive Plans – Structure and Outcomes (continued)

Design aspect	Managing Director FY2020 STI Scorecard
Delivery Mechanism	Two-thirds of the MD's and other relevant Executive KMP 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 their FY2021 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 releases its FY2021 Financial Results, unless otherwise determined by the Board.
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 termination for cause. Shares are held in Trust on behalf of the MD and relevant Executive KMP throughout the two-year deferral period and will be transferred to them at the conclusion of the two-year deferral period.
Dividends	Whilst the MD and relevant Executive KMP do not have a right to receive dividends during the two-year deferral period, a cash-based Dividend Equivalent Payment is made at the conclusion of the deferral period in accordance with plan rules. 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.
Clawback	The Board may determine that any Deferred STI Rights awards be clawed back or cancelled in response to 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.
Shareholder approval	During FY21, the Board reviewed its approach to seeking shareholder approval for the MD's Deferred STI equity grants arising from the one-year performance year just concluded. The Board considered the legal requirements under ASX listing rule 10.14, market practice across ASX100 companies and external legal advice before concluding that ceasing the current practice of seeking shareholder approval for the Deferred STI rights was appropriate. The Board will continue to seek shareholder approval for the MD's proposed Long Term Incentive equity grants inclusive of explanatory notes outlining the three-year performance and vesting criteria. The MD's FY2021 Deferred STI grant is anticipated to be made in late May 2021 in accordance with the Board approved delivery mechanism outlined above. Details of the MD's FY2021 Deferred STI grant, including the number of deferred shares rights granted and actual grant price, will be detailed to shareholders in the 2021 Notice of Meeting.
Executive KMP Scorecard Outcomes	
Executive KMP STI outcomes	Executive KMP STI scorecards included the same assessed financial and safety weightings as for the MD (except for EGM of G&FN, which has a higher financial weighting as shown at the start of Section 5) with individual strategic KPIs determined for each role. In addition, the Board assessed individual KMP on how results were achieved including their alignment to values, risk, compliance, enterprise leadership and culture. The range of FY2021 STI outcomes for Executive KMP was between 72.0 per cent of target and 102.0 per cent of target STI opportunity, or 48.0 per cent to 68.0 per cent of maximum STI opportunity.
Delivery mechanism	Executive KMP awards are paid in cash except for CFO Mr Ellul and EGM G&FN, Mr Hymas, who have two-thirds of their 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 MD above. Cash awards are anticipated to be paid to eligible Executive KMP in late May 2021. The CFO and EGM G&FN Deferred STI grants are anticipated to be made in late May 2021 in accordance with the Board approved delivery mechanism outlined above.

5 FY2021 Executive KMP Incentive Plans – Structure and Outcomes (continued)

Long-Term Incentive Plan 2020 Grant

The terms of the 2020 LTIP Grant made are summarised below. These grants were made to Executive KMP, and other participants in August 2020 (usually in May each year, however was later in FY2021 due to an operating model review being implemented at the time). The MD's grant was made shortly after shareholder approval in July 2020.

<table>
<tr><th>Design aspect</th><th colspan="3">Commentary</th></tr>
<tr><td>Eligibility</td><td colspan="3">Executive KMP. The Board has discretion to invite additional employees to participate in the LTI plan.</td></tr>
<tr><td>Performance period</td><td colspan="3">The 2020 LTI grant is for the three-year performance period commencing 1 April 2020 and ending on 31 March 2023 (FY2021 to FY2023).</td></tr>
<tr><td>Opportunity</td><td colspan="3">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 12 May 2020 being the date on which AusNet released its FY2020 results. The grant price for the 2020 grant was therefore $1.9122.

The MD was granted 601,402 performance rights shortly after shareholders voted and elected to approve his grant at the AGM held in July 2020 being 100% of his Fixed Annual Remuneration being $1,150,000 divided by the grant price of $1.9122.

Other participants, including Executive KMP grants were made in August 2020.

Other Executive KMP – 50 per cent of FAR at maximum performance.</td></tr>
<tr><td rowspan="2">Performance measures</td><td>Total Shareholder Return (TSR)</td><td>Earnings Per Share (EPS)</td><td>Return on Invested Capital (ROIC)</td></tr>
<tr><td>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</td><td>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 reflects the nominal CAGR over the three-year performance period.</td><td>The ROIC measure is designed to measure how effectively we use funds (borrowed and owned) invested in our operations.

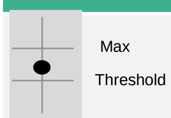
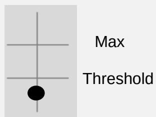
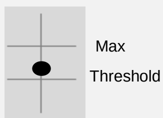
ROIC is calculated over a three-year performance period and equals (NPAT + Finance Cost adjusted for Tax) / (Average Equity + Average Debt). Average debt includes finance lease liabilities. Finance cost includes associated finance lease income and expense.</td></tr>
<tr><td rowspan="4">Weighting, targets and vesting scales</td><td>Weighting 50%</td><td>Weighting 25%</td><td>Weighting 25%</td></tr>
<tr><td>Threshold performance
50th percentile – 35 per cent vesting</td><td>Threshold performance
2.5 per cent CAGR – 0 per cent vesting</td><td>Threshold performance
4.33 per cent – 0 per cent vesting</td></tr>
<tr><td>Maximum performance
75th percentile – 100 per cent vesting</td><td>Maximum performance
7.5 per cent CAGR – 100 per cent vesting</td><td>Maximum performance
4.53 per cent – 100 per cent vesting</td></tr>
<tr><td colspan="3">The vesting of each of the above KPIs will occur on a linear basis between the threshold and maximum ranges.</td></tr>
<tr><td>Unvested rights and dividends</td><td colspan="3">No dividends or dividend equivalent payments accrue to unvested rights during the performance period.</td></tr>
<tr><td>Discretion and Change of Control</td><td colspan="3">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.</td></tr>
<tr><td>Clawback</td><td colspan="3">The Board may determine that any LTI Rights awards be clawed back or cancelled in response to 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>

5 FY2020 Executive KMP Incentive Plans – Structure and Outcomes (continued)

2018 LTI Grant - Performance assessment and outcomes

The Board assessed performance of the 2018 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 2018 LTI grant is for the three-year performance period commencing 1 April 2018 and ending on 31 March 2021 (FY2019 to FY2021).		
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 released its FY2018 results. The 2018 LTI grant price was therefore \$1.6821. MD 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 whom the 2018 grant was based on the role he previously occupied. These grants were made to all other participants including Executive KMP in May 2018.		
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 4.70 per cent – 0 per cent vesting
	Maximum performance 75th percentile – 100 per cent vesting	Maximum performance 7.5 per cent CAGR – 100 per cent vesting	Maximum performance 4.90 per cent – 100 per cent vesting
	The vesting 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 2018, over the FY2019 – FY2021 performance period. The performance criteria tested were relative total shareholder return, earnings per share growth and return on invested capital. The Board assessed the 2018 LTI grant outcome which resulted in an overall vesting of 37.5 per cent of maximum (100 per cent) opportunity as set out below.				
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.	50%		60.6 percentile ranking
	EPS (CAGR)	EPS provides tangible measure of shareholder value creation.	25%		0.2 per cent
	ROIC	ROIC measures returns generated from investments in operations.	25%		4.75 per cent

6 Executive KMP – Contract terms

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

MD – Mr. Narvaez	
Term of agreement	Full time, subject to six months' notice of termination by either party.
Fixed annual remuneration	Fixed annual remuneration includes base salary and superannuation. Fixed annual remuneration is reviewed periodically against market by the Remuneration Committee and the Board, with no guarantee of annual increase. No increase was applied to Mr Narvaez fixed annual remuneration during FY2021
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 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. Treatment of LTI awards is 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 Long Term Incentive plan rules.

Mr Narvaez – Summary of Equity Grants

The below table represents a summary of all equity grants applicable to the MD Mr. Narvaez. All share rights are subject to forfeiture in the event of termination for cause. Shares are held in Trust on behalf of the MD throughout the deferral and performance periods and will be transferred to the MD upon the Boards determination of vesting conditions being satisfied.

Grant Type	**Date**	**Grant Price**	**Number of rights granted**	**Instrument**	**Notes**
Grant on appointment	Nov-19	$1.8152	247,907	Deferred share right	One off grant to compensate for incentives no longer eligible for at previous employer. Two- year deferral period expires Nov 2021.
2020 Short Term Incentive Plan	Jul -20	$1.9122	50,117	Deferred share right	Represents one third of FY2020 Short Term Incentive outcome. Two- year deferral period expires July 2022.
2019 Long Term Incentive Plan	Nov-19	$1.8397	260,459	Performance share right	Pro rata grant for the performance period FY20 - FY22. Performance criteria to be tested by the Board in May 2022.
2020 Long Term Incentive Plan	Jul-20	$1.9122	601,402	Performance share right	Grant for the performance period FY21 - FY23. Performance criteria to be tested by the Board in May 2023.
Total [1]			**1,159,885**		

(1) In May 2021, it is anticipated that Mr Narvaez will receive 127,847 rights (assuming 31 March 2021 share price of $1.835) on two-year deferral terms as a result of the FY2021 STI outcome. The actual 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 releases its FY2021 Financial Results, unless otherwise determined by the Board.

6 Executive KMP Remuneration (continued)

The major provisions contained in the services agreements of the other Executive KMP are substantially the same as those that apply to the MD other than the term of agreement, short-term and long-term incentive opportunities as set out in the following table:

Executive KMP	
Term of agreement	Full time, 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 Mr Ellul - 60 per cent (from 11 November 2020) STI awards for Mr Ellul and 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 prior to vesting date. Other Executive KMP – 40 per cent delivered as a cash payment.
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. 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's 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. The roles, approach to discretion and equity plans are summarised as follows:

Roles and Responsibilities

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 and Executive KMP remuneration and the overall remuneration framework and principles.

Board

The Board oversees AusNet's 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 are set out in Section 2 of this report.

The Board assesses the performance of the MD 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.

Remuneration Committee

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.

The Committee undertakes rigorous historical analysis and forecasting when considering short and long-term performance criteria. It monitors and formally assesses the effectiveness of the remuneration structure and arrangements. In addition, the Committee monitors internal and external trends on pay compression, diversity and gender pay relativities.

External Advisors

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.

Management

Management provides information and insights on contemporary remuneration practices and obtains remuneration information from external advisors to assist the Remuneration Committee.

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's Share Trading Policy and applicable laws regarding the sale, transfer or disposal of their shares. In order to satisfy share-based incentive awards, shares are purchased on market and held in AusNet's Employee Share Plan Trust. AusNet's practice has been to seek shareholder approval for Long Term Incentive Plan equity grants to the MD at the AGM.

8 Statutory Remuneration Disclosures

8.1 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]	Dividend equivalent payment [7]	STI [1]	Annual Leave taken	Annual Leave Balance Net Change	Car Park	One-off relocation and incentive	Super-annuation		Long Service Leave Balance Net Change	
Tony **Narvaez**	**2021**	**1,094,828**	**4,761**	**703,800**	**30,172**	**57,380**	**14,363**	**-**	**25,096**	**336,481**	**28,586**	**2,295,467**
	2020	465,517	-	287,500	-	88,123	4,129	400,000	10,385	68,163	11,894	1,335,711
Nino **Ficca**	2020	591,333	34,021	466,908	109,169	(60,768)	5,814	-	66,548	161,071	19,591	1,393,687
Prue **Crawford-Flett**[9]	**2021**	**363,122**	**-**	**158,998**	**4,885**	**24,775**	**12,435**	**-**	**21,731**	**23,851**	**9,703**	**619,500**
Mark **Ellul**	**2021**	**478,161**	**-**	**264,869**	**35,536**	**18,266**	**14,363**	**-**	**25,096**	**32,345**	**39,536**	**908,172**
	2020	213,504	-	80,483	14,559	24,596	5,243	-	13,173	10,875	51,560	413,993
Chad **Hymas**	**2021**	**439,805**	**4,588**	**295,974**	**21,195**	**14,951**	**14,363**	**-**	**25,096**	**57,660**	**12,257**	**885,889**
	2020	445,104	-	277,020	17,663	29,200	9,943	-	25,192	63,765	28,103	895,990
Steven **Neave**[6]	**2021**	**284,178**	**-**	**128,219**	**18,895**	**3,873**	**10,231**	**100,000**	**17,617**	**62,572**	**7,983**	**633,568**
Adam **Newman**	2020	277,031	-	-	39,576	(14,248)	4,700	-	11,538	(169,488)	11,546	160,655
Alistair **Parker** [8]	**2021**	**356,034**	**-**	**113,731**	**22,126**	**7,073**	**10,310**	**-**	**18,077**	**103,490**	**10,072**	**640,913**
	2020	482,759	-	180,400	44,253	1,268	9,943	-	25,192	153,592	18,718	916,125
Mario **Tieppo**	**2021**	**27,682**	**-**	**-**	**-**	**2,173**	**905**	**-**	**1,635**	**4,208**	**697**	**37,300**
	2020	379,406	-	158,400	47,222	(15,518)	9,943	-	25,192	42,554	11,208	658,407
Total KMP	**2021**	**3,043,810**	**9,349**	**1,665,591**	**132,809**	**128,491**	**76,970**	**100,000**	**134,348**	**620,607**	**108,834**	**6,020,809**
	2020	2,854,654	34,021	1,450,711	272,442	52,653	49,715	400,000	177,220	330,532	152,620	5,774,568

1. FY2021 *STI* includes amounts in respect of performance for the year ended 31 March 2021. These amounts have been approved and will be payable in June 2021. Mr Ficca received a dividend equivalent payment relating to the 2017 STI Deferred 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 amount 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

8 Statutory Remuneration Disclosures (continued)

8.1 Executive KMP Statutory Remuneration (continued)

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. Received a one-off sign on benefit of $200,000 which comprised a $100,000 cash paid upon Mr Neave's commencement and $100,000 deferred into share rights. In July 2020, Mr Neave received 57,375 share rights at an allocation price of $1.7429 to be deferred for a period of two years, the cost relating to the current year is disclosed within equity based payments.
7. FY2020 total values for Mr Ficca and Total KMP differ from FY2020 Statutory Remuneration disclosed amounts to reflect an adjustment to include the value of Mr Ficca's FY2020 Dividend Equivalent Payment of $34,021. FY2021 amounts relate to dividend equivalent payments accrued to date on deferred STIs vesting in FY2023 as well as for rights issued as one-off sign-on benefits for Mr Narvaez and Mr Neave.
8. Represents the pro rata value applicable for the period of employment as a KMP in FY2021. Equity based payment value for Mr Parker contains a pro rata value attributed to his special purpose performance incentive plan trued up for any expense recognised in the prior year.
9. Represents the pro rata value applicable for the period of employment as KMP in FY2021.

8 Statutory Remuneration Disclosures (continued)

8.2 Short-Term Incentive Outcomes

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 2021 and 31 March 2020, are set out below.

	FY2021 STI				FY2020 STI			
	STI payable ($)[1]	STI deferred ($)[2]	Total STI payable ($)	Percentage of target payable	STI paid ($)	STI deferred ($)[3]	Total STI paid ($)	Percentage of target payable
Tony **Narvaez**	469,200	234,600	**703,800**	102.0	191,667	95,833	**287,500**	100
Prue **Crawford-Flett[4]**	158,998	-	**158,998**	102.0	-	-	**-**	-
Mark **Ellul**	217,717	47,152	**264,869**	101.0	80,483	-	**80,483**	98
Chad **Hymas**	197,316	98,658	**295,974**	101.5	184,680	92,340	**277,020**	95
Steven **Neave**	128,219	-	**128,219**	100.0	-	-	**-**	-
Alistair **Parker**	113,731	-	**113,731**	72.0	180,400	-	**180,400**	82

1. Incentive payments for the performance year ended 31 March 2021 have been approved and will be payable in June 2021.
2. One-third of the MD, CFO (pro rata from 11 November 2020) and EGM G&FN FY2021 award is 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 Narvaez's and Mr Hymas' FY2020 STI was allocated by way of deferred rights to be held for a period of two years. The number of deferred rights issued was 50,117 for Mr Narvaez and 48,290 for Mr Hymas. The number of deferred rights was issued by dividing the value by the share price of $1.9122. The share price was calculated based on the volume weighted average price (VWAP) over the five-trading day period commencing on the date AusNet released its FY2020 results.
4. Represents the pro rata value applicable for the period of employment as KMP in FY2021.

8.3 Long-Term Incentive

FY2021 LTI vesting outcomes

The performance rights vesting in FY2021 were granted to Executive KMP under the terms and conditions of the 2018 grant. The performance outcome, outlined in Section 5 of this report for the 2018 grant, resulted in 37.5 per cent of performance rights vesting as shown in the table below.

		2018 LTI Performance Rights		
	Granted	Vested	Forfeited	Lapsed
Mark **Ellul** [1]	44,746	16,780	-	27,966
Chad **Hymas**	133,761	50,161	-	83,600
Alistair **Parker**	148,623	55,734	-	92,889

1. Mr Ellul's 2018 grant was made under the role he previously occupied

8 Statutory Remuneration Disclosures (continued)

LTI performance rights allocation – current

The LTI plan includes a three-year performance period. As at 31 March 2021, the grants subject to future performance testing and vesting cover grants made in 2018, 2019 and 2020. The following table shows the number and value of these grants. The performance periods for the grants made in 2019 and 2020 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	**2018**		**2019**		**2020**	
Test / Vesting date	**31 Mar 2021**		**31 Mar 2022**		**31 Mar 2023**	
Tony **Narvaez**	-	-	304,737	260,459	742,731	601,402
Prue **Crawford-Flett [3]**	-	-	143,094	122,302	145,317	117,665
Mark **Ellul**[4]	47,207	44,746	49,141	42,001	161,463	130,739
Chad **Hymas**	141,118	133,761	154,542	132,087	156,941	127,078
Steven **Neave**[5]	-	-	-	-	103,513	83,816
Alistair **Parker**[6]	156,798	148,623	116,595	99,654	59,203	47,938
Total	**345,123**	**327,130**	**768,109**	**656,503**	**1,369,168**	**1,108,638**

1. These grants have vested. In determining LTIs for the 2018 grant, vesting outcomes are 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. Ms Crawford-Flett was granted performance rights in the capacity of her previous role in 2019.
4. Mr Ellul was granted performance rights in the capacity of his previous role in 2018 and 2019.
5. Mr Neave was granted performance rights on a pro rata basis as he commenced in his role part-way through the year.
6. Mr Parker has forfeited 49,827 performance rights from his 2019 grant and 95,876 performance rights from his 2020 grant as a result of ceasing employment with AusNet during FY2021

8.4 Shareholdings of KMP

All KMP must comply with AusNet's Share Trading Policy, which restricts trading in AusNet's shares to specified trading windows.

The KMP of AusNet have disclosed direct, indirect or beneficial interests in shares as at 31 March 2021 as follows:

Name	Number of shares at 1 April 2020	Granted during the year as compensation	Acquisitions / (disposals)	Number of shares at 31 March 2021
Executive KMP[1]				
Tony **Narvaez**	-	-	-	-
Prue **Crawford- Flett**	-	-	582	582
Mark **Ellul**	-	27,575	-	27,575
Chad **Hymas**	208,825	84,107	10,304	303,236
Steven **Neave**	-	-	-	-
Alistair **Parker [2]**	360,574	93,452	(30,427)	423,599
Mario **Tieppo [2]**	246,111	-	-	246,111

1. Total shareholdings include shares held by KMP and their related parties.
2. Mr Parker and Mr Tieppo shareholding as at 31 March 2021 represent shareholding when they ceased to be 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 2021, 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	11	11
Tony Narvaez	11	11
Alistair Parker[1]	9	11

1. Mr Parker ceased as a Director on 18 December 2020

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

Indemnification and insurance of officers and auditors

The constitution of AusNet Services Holdings Pty Ltd provides for the company to indemnify each current and former Director, executive officer (as defined in the constitution), and such other current and former officers of the company or of a related body corporate as the Directors determine (each an 'Officer'), on a full indemnity basis and to the full extent permitted by law against all liabilities (as defined in the constitution) incurred by the Officer as an officer of the company or of a related body corporate.

The constitution also provides for AusNet Services Holdings Pty Ltd, to the extent permitted by law, to purchase and maintain insurance, or pay or agree to pay a premium for insurance, for each Officer against any liability (as defined in the constitution) incurred by the Officer as an officer of the company or of a related body corporate.

AusNet Services Holdings Pty Ltd may enter into a deed with any Officer to give effect to the rights conferred by the constitution as described previously.

The company has executed protection deeds in favour of each of the Directors, the Company Secretary and certain executive general managers on substantially the same terms as provided in the constitution. The deeds also give a right of access to the books of the companies and to Board documents (to the Directors only).

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. 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 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 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 36.

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 environmental 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 2019 to 30 June 2020.

Significant changes in the state of affairs

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

Rounding of amounts

AusNet Services Holdings Pty Ltd 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) EDPR 2021-26 final decision

The Australian Energy Regulator (AER) published its Final Decision on AusNet Services' 2021-26 Electricity Distribution Price Review on 30 April 2021. The final decision contained the following outcomes:

- Total revenue of $3,470 million
- Total capital expenditure (real 2021$) of $1,384 million
- Total operating expenditure (real 2021$) of $1,239 million
- Total metering revenue of $301 million

The Final Decision will be applicable to AusNet from 1 July 2021.

(b) Other matters

Other than outlined above, there has been no matter or circumstance that has arisen since 31 March 2021 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 2021 of the Group;

(b) the results of those operations; or

(c) the state of affairs, in financial years subsequent to 31 March 2021, of the Group.

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

Tony Narvaez
Managing Director

Melbourne
11 May 2021

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

To the Directors of AusNet Services Holdings Pty Ltd

I declare that, to the best of my knowledge and belief, in relation to the audit of AusNet Services Holdings Pty Ltd for the financial year ended 31 March 2021 there have been:

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

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

KPMG

KPMG

BW Szentirmay

Partner

Melbourne

11 May 2021

Consolidated income statement

For the year ended 31 March 2021

	Notes	2021 $M	2020 $M
Revenue	B.1, B.2	**1,214.3**	1,239.2
Use of system and associated charges		**(118.7)**	(120.6)
Employee benefits expenses		**(141.4)**	(119.8)
External maintenance and contractors' services		**(110.3)**	(120.1)
Materials		**(11.6)**	(39.2)
Information technology and communication costs		**(43.4)**	(43.1)
Lease expenses		**(2.5)**	(1.9)
Administrative expenses		**(25.6)**	(30.4)
Service level payments		**(10.3)**	(12.9)
Disposal of property, plant and equipment		**(9.6)**	(13.1)
Impairment	C.2	**(30.7)**	-
Other expenses		**(21.2)**	(25.3)
Total expenses excluding depreciation, amortisation, interest and tax		**(525.3)**	(526.4)
Earnings before interest, tax, depreciation and amortisation		**689.0**	712.8
Depreciation and amortisation	C.1, C.2	**(336.8)**	(342.4)
Profit from operating activities		**352.2**	370.4
Finance income	D.4	**117.3**	110.1
Finance costs	D.4	**(314.7)**	(355.3)
Net finance costs		**(197.4)**	(245.2)
Profit before income tax		**154.8**	125.2
Income tax expense	B.4	**(40.4)**	(37.6)
Profit for the year		**114.4**	87.6

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 2021

	Notes	2021 $M	2020 $M
Profit for the year		**114.4**	87.6
Other comprehensive income			
Items that will not be reclassified to profit or loss in subsequent periods			
Movement in defined benefit fund	F.2	**30.0**	(5.9)
Income tax on movement in defined benefit fund	B.4	**(9.0)**	1.8
		21.0	(4.1)
Items that may be reclassified to profit or loss in subsequent periods			
Movement in hedge reserve		**494.9**	(463.5)
Income tax on movement in hedge reserve	B.4	**(148.5)**	139.0
	D.3	**346.4**	(324.5)
Other comprehensive income/(loss) for the year, net of tax		**367.4**	(328.6)
Total comprehensive income/(loss) for the year		**481.8**	(241.0)

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 2021

	Notes	**2021 $M**	2020 $M
ASSETS			
Current assets			
Cash and cash equivalents		**826.3**	154.1
Receivables	B.3	**192.4**	134.6
Other financial assets	C.3	**669.8**	249.9
Inventories	B.3	**39.5**	40.4
Derivative financial instruments	D.3	**17.7**	194.7
Other assets	B.3	**24.7**	20.0
Total current assets		**1,770.4**	793.7
Non-current assets			
Receivables	E.3	**2,497.1**	2,494.7
Property, plant and equipment	C.1	**6,823.3**	6,645.3
Intangible assets	C.2	**472.5**	502.7
Other financial assets	C.3	**7.8**	6.3
Derivative financial instruments	D.3	**323.9**	1,237.3
Other assets	B.3	**63.1**	36.3
Total non-current assets		**10,187.7**	10,922.6
Total assets		**11,958.1**	11,716.3
LIABILITIES			
Current liabilities			
Payables and other liabilities	B.3	**395.1**	376.4
Lease liabilities	D.5	**5.0**	5.4
Provisions	B.3	**67.6**	41.8
Borrowings	D.2	**318.4**	955.2
Derivative financial instruments	D.3	**21.2**	6.0
Total current liabilities		**807.3**	1,384.8
Non-current liabilities			
Deferred revenue	B.3	**112.7**	116.0
Lease liabilities	D.5	**42.3**	45.4
Provisions	B.3	**43.3**	58.7
Borrowings	D.2	**8,868.8**	8,325.5
Derivative financial instruments	D.3	**509.9**	776.1
Deferred tax liabilities	B.4	**312.0**	58.7
Total non-current liabilities		**9,889.0**	9,380.4
Total liabilities		**10,696.3**	10,765.2
Net assets		**1,261.8**	951.1
EQUITY			
Contributed equity	D.6	**1,625.1**	1,436.4
Reserves		**(293.2)**	(638.6)
Retained profits/(losses)		**(70.1)**	153.3
Total equity		**1,261.8**	951.1

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

Consolidated statement of changes in equity

For the year ended 31 March 2021

	Notes	Contributed equity $M	Share based payment reserve (i) $M	Hedge reserve (ii) $M	Retained profits/(loss) $M	Total equity $M
31 March 2021						
Balance as at 1 April 2020		1,436.4	1.0	(639.6)	153.3	951.1
Total comprehensive income for the year						
Profit for the year		-	-	-	114.4	114.4
Other comprehensive income		-	-	346.4	21.0	367.4
Total comprehensive income for the year		**-**	**-**	**346.4**	**135.4**	**481.8**
Transactions with owners, recorded directly in equity						
Dividends	D.7	-	-	-	(358.8)	(358.8)
Equity injection	D.6	188.2	-	-	-	188.2
Share based payment reserve	D.6	0.5	(1.0)	-	-	(0.5)
Total transactions with owners		**188.7**	**(1.0)**	**-**	**(358.8)**	**(171.1)**
Balance as at 31 March 2021		**1,625.1**	**-**	**(293.2)**	**(70.1)**	**1,261.8**
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**

(i) 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 2021.

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

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

Consolidated statement of cash flows

For the year ended 31 March 2021

	Notes	2021 $M	2020 $M
Cash flows from operating activities			
Profit for the year		**114.4**	87.6
Add back interest, tax, depreciation		**574.6**	625.2
Other non-cash items		**(4.6)**	(83.7)
Non-cash intercompany transactions		**(93.2)**	(123.5)
Working capital movement		**(0.6)**	74.4
Net interest paid		**(228.5)**	(337.3)
Net cash inflow from operating activities		**362.1**	242.7
Cash flows from investing activities			
Payments for property, plant and equipment (i)		**(478.7)**	(522.1)
Proceeds from sale of property, plant and equipment		**0.5**	13.9
Receipts from financial assets	C.3	**0.3**	0.1
Payments for financial assets(ii)	C.3	**(420.1)**	(249.7)
Net cash outflow from investing activities		**(898.0)**	(757.8)
Cash flows from financing activities			
Repayments of related party loans		**(61.1)**	(126.4)
Payments for lease liabilities	D.5	**(5.0)**	(5.4)
Proceeds from borrowings	D.2	**2,131.9**	1,282.1
Repayment of borrowings	D.2	**(857.7)**	(818.4)
Net cash inflow from financing activities		**1,208.1**	331.9
Net (decrease)/increase in cash held		**672.2**	(183.2)
Cash and cash equivalents at the beginning of the year		**154.1**	337.3
Cash and cash equivalents at the end of the year		**826.3**	154.1

(i) Net finance costs include a credit of $9.4 million (2020: $9.2 million) for capitalised finance charges which is included in payments for property, plant and equipment.

(ii) $420.1 million (2020: $249.7 million) of short term deposits with a maturity date more than 3 months from 31 March.

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 2021.

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 assets exceed current liabilities by $963.1 million at 31 March 2021. The Group is, and is expected to continue trading profitably, generating positive operating cash flows and successfully refinancing maturing debt. In addition, at 31 March 2021, the Group has available a total of $800.0 million of undrawn but committed bank debt facilities and $1,496.1 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.

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 2020, with the exception of the below:

IFRC agenda decision: Cloud computing arrangements

- In December 2020, the IFRS Interpretations Committee (IFRIC) issued an agenda decision 'Configuration or customisation costs in a cloud computing arrangement'. The decision addresses whether configuration or customisation expenditure relating to cloud computing arrangements is able to be recognised as an intangible asset and if not, over what time period the costs are expensed.
- The Group's accounting policy has historically been to capitalise certain costs related to cloud computing arrangements as an intangible asset. Formal pronouncements following this agenda decision could result in the reclassification of certain intangible assets to either a prepaid asset or expense. The impact of this agenda decision has been incorporated into the financial report and did not have a material impact.

(b) Critical accounting estimates and judgements

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

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

Section B Operating our business

This section highlights the performance of the Group for the 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 Growth & Future Networks (including 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.

Following an organisational restructure during the year our operating segments have been updated to reflect the way that we manage the business. The most notable change being that we have consolidated customer-initiated excluded transmission projects, distribution network innovation projects and the current Mondo business into the broadened 'Growth & Future Networks' segment. The comparative information has been restated to provide consistent segment information for both periods shown.

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.

Note B.1 Segment results (continued)

(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.

(iii) Growth & Future Networks (including Mondo)

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

The contracted infrastructure business builds, owns and operates a portfolio of assets that fall outside the regulated asset base. Growth & Future Networks makes investments through directly negotiated agreements, and typically receives annuity payments over the contract period in exchange for infrastructure and operational services. Dedicated customer connections are treated as finance lease receivables, with proceeds received from these assets split between revenue, lease interest income and principal repayments. Note that lease interest income in this segment also includes interest income on the desalination licence receivable.

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

This segment now includes network innovation functions that were previously included in the Electricity Distribution businesses, as well as Mondo. Comparatives have been restated for consistency.

Notes to the consolidated financial statements

31 March 2021

Note B.1 Segment results (continued)

(b) Reportable segment financial information

2021	Electricity distribution $M	Gas distribution $M	Growth & Future Networks $M	Consolidated $M
Regulated revenue	849.5	214.6	-	**1,064.1**
Customer contributions	68.5	8.9	2.9	**80.3**
Service revenue	-	-	58.5	**58.5**
Other revenue	4.7	1.4	5.3	**11.4**
Total segment revenue	**922.7**	**224.9**	**66.7**	**1,214.3**
Impairment	(19.0)	-	(11.7)	(30.7)
Segment operating expense	(358.3)	(57.0)	(79.3)	**(494.6)**
Segment result - EBITDA (i)	**545.4**	**167.9**	**(24.3)**	**689.0**
Lease interest income	-	-	0.6	0.6
EBITDAaL (ii)	**545.4**	**167.9**	**(23.7)**	**689.6**
Depreciation and amortisation	(259.7)	(60.0)	(17.1)	(336.8)
Capital expenditure	405.8	100.2	19.4	525.4
2020 (restated)				
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	18.6	1.7	20.3	**40.6**
Total segment revenue	**934.7**	**223.8**	**80.7**	**1,239.2**
Segment operating expense	(368.3)	(64.8)	(93.3)	**(526.4)**
Segment result - EBITDA (i)	**566.4**	**159.0**	**(12.6)**	**712.8**
Lease interest income	-	-	0.2	0.2
EBITDAaL (ii)	**566.4**	**159.0**	**(12.4)**	**713.0**
Depreciation and amortisation	(263.5)	(62.1)	(16.8)	(342.4)
Capital expenditure	497.1	104.9	25.3	627.3

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

(ii) EBITDA after lease interest income.

Note B.2 Revenue from customers with contracts

(a) Disaggregated revenue

In the following table, revenue is disaggregated by revenue type and timing of recognition. The table also includes a reconciliation of the disaggregated revenue with AusNet Services' reportable segments (Note B.1) by including income items not in the scope of AASB 15 *Revenue from Contracts with Customers*. Comparative figures have been restated in line with the changes in note B.1.

31 March 2021	**Electricity distribution**	**Gas distribution**	**Growth & Future Networks**	**Total**
	$M	**$M**	**$M**	**$M**
Timing of recognition				
At a point in time	90.4	13.8	43.2	147.4
Over time	830.7	211.1	23.5	1,065.3
Revenue from contracts with customers	**921.1**	**224.9**	**66.7**	**1,212.7**
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	**922.7**	**224.9**	**66.7**	**1,214.3**

31 March 2020 (restated)	**Electricity distribution**	**Gas distribution**	**Growth & Future Networks**	**Total**
Timing of recognition				
At a point in time	127.1	20.1	56.3	203.5
Over time	806.0	203.7	24.4	1,034.1
Revenue from contracts with customers	**933.1**	**223.8**	**80.7**	**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	**934.7**	**223.8**	**80.7**	**1,239.2**

(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. Government grant income in the Growth & Future Networks segment comprises assets received in relation to the Ballarat Energy Storage System, with income recognised over the life of the asset.

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**	
	2021	2020	**2021**	2020
	$M	$M	**$M**	$M
Accounts receivable/payable	**31.7**	35.7	**(20.3)**	(15.3)
Related party receivables/payables	**72.3**	3.8	**(198.1)**	(169.3)
Accrued revenue - other/accrued expenses	**5.3**	7.8	**(94.5)**	(117.0)
Accrued revenue - contract assets (i)	**78.7**	86.5	**-**	-
Deferred revenue - contract liabilities (ii)	**-**	-	**(37.1)**	(29.9)
Deferred revenue - government grants	**-**	-	**(2.0)**	(1.5)
Deferred revenue - other	**-**	-	**-**	(0.1)
Other receivables/payables	**4.0**	0.3	**-**	(5.2)
Interest receivables/payables	**0.4**	0.5	**(43.1)**	(38.1)
Total current receivables/payables and other liabilities	**192.4**	134.6	**(395.1)**	(376.4)
Current other assets	**24.7**	20.0	**-**	-
Non-current other assets (iii)	**62.8**	35.8	**-**	-
Non-current accounts receivable	**0.3**	0.5	**-**	-
Non-current related party receivables/payables	**37.5**	-	**-**	-
Current inventory	**39.5**	40.4	**-**	-
Current provisions	**-**	-	**(67.6)**	(41.8)
Non-current provisions	**-**	-	**(43.3)**	(58.7)
Non-current deferred revenue - contract liabilities (ii)	**-**	-	**(32.0)**	(40.4)
Non-current deferred revenue - government grants	**-**	-	**(80.7)**	(75.6)
Non-current deferred revenue - other	**-**	-	**-**	-
Working capital	**357.2**	231.3	**(618.7)**	(592.9)

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

(ii) Contract liabilities primarily relate to funds received in advance for customer contributions, telecommunications services and software maintenance fees. Revenue is recognised over the transaction period and contract term. Revenue recognised in FY2021 that was included in the contract liability balance at 1 April 2020 was $24.4 million. Of the total contract liabilities of $69.1 million we expect that approximately 53.7 per cent of these performance obligations will be satisfied in the next twelve months, with the remainder satisfied over the long term.

(iii) Includes $61.7 million (2020: $34.1 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 expected credit losses.

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 15 business days (10 days for regulated retailers, 30 days for customer contracts). Comparative figures have been restated in line with the changes in note B.1.

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

	Gross 2021 $M	**Allowance 2021 $M**	Gross 2020 $M (restated)	Allowance 2020 $M (restated)
Electricity Distribution	7.4	(0.2)	11.8	-
Gas Distribution	16.0	-	12.8	(0.1)
Growth & Future Networks	12.2	(2.3)	14.6	(2.4)
Total	**35.6**	**(2.5)**	39.2	(2.5)

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

	2021 $M	2020 $M
Opening loss allowance as at 1 April	(2.5)	(1.9)
Increase in loss allowance recognised in profit or loss during the year	(0.4)	(1.4)
Receivables written off during the year as uncollectible	0.4	0.8
Closing loss allowance as at 31 March	**(2.5)**	(2.5)

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 88 per cent of revenues) are owed by retailers in the industry. There are strict regulatory requirements regarding who can obtain a retail licence and the Essential Service Commission has minimum prudential requirements which must be met before a participant can be registered as a distributor. The Australian Energy Market Operator (AEMO) also has high prudential requirements for retailers who participate in the market. Retailers must provide guarantees as requested by AEMO to minimise the risk of exposure by other participants to any defaults.

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

(b) Trade and other payables

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

Note B.3 Working capital (continued)

(c) Provisions

	2021 $M	2020 $M
Current provisions		
Employee benefits (i)	**54.7**	36.2
Sundry provisions (ii)	**2.1**	3.8
Redundancy provision	**3.3**	1.8
Make good provision	**5.3**	-
Environmental provision	**2.2**	-
Total current provisions	**67.6**	41.8
Non-current provisions		
Employee benefits (i)	**4.0**	10.1
Make good provision	**4.8**	11.2
Environmental provision	**34.5**	37.4
Total non-current provisions	**43.3**	58.7
Total provisions	**110.9**	100.5

(i) Employee benefits provisions represent provisions for annual and long service leave for our employees as well as provisions for employee bonuses and other accrued entitlements. Liabilities for annual leave and long service leave are measured at the present value of expected future payments for services provided by employees up to the reporting date, including on costs. Consideration is given to expected future wage and salary levels, experience of employee, departures and periods of service. Expected future payments are discounted using interest rates on corporate bonds with a term to maturity and currency that match, as closely as possible, the estimated future cash outflows.

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

Key estimates and judgements – Measurement of environmental provision

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 preliminary cost estimates and timing of remediation, taking into account current legal and regulatory requirements, the estimated extent of the contamination, the nature of the site and surrounding areas, and the technologies and methods available. Management are exploring a number of strategies for future land use options for the three sites, with this process expected to take 12 to 18 months. The extent of remediation activities and associated costs may differ significantly depending on which option is chosen. The provision is a probability-weighted calculation of these options and as a result there is a risk that in the event of full remediation of all three sites, the cost may significantly exceed the provision at 31 March 2021.

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 AusNet Services Ltd. 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.

At present there are several tax positions of AusNet that are being reviewed by the ATO, including but not limited to:

- An objection lodged by AusNet seeking a refund of tax paid in relation to certain gifted assets received, which has been recognised by the AusNet Services Group as a $37.5 million non-current tax receivable: and
- An objection lodged by AusNet in relation to certain tax consolidation and capital allowance positions arising from the corporate restructure completed in June 2015.

All of the matters being considered by the ATO are at various stages and include items that could have both a positive or negative impact on the currently recognised tax positions. In relation to the tax consolidation element of the 2015 corporate restructure objection, the potential uplift in tax basis has not been recognised in the financial statements of AusNet.

In relation to the tax consolidation element of the 2015 corporate restructure objection, the potential uplift in tax base has not been recognised in the financial statements of AusNet.

In relation to the capital allowances element of the 2015 corporate restructure objection as well as all other matters currently being reviewed by the ATO, a net tax risk provision of $11.0 million, based on a probability-weighted range of possible outcomes, continues to be recognised as a deferred tax liability as at 31 March 2021.

(a) Effective tax rate reconciliation

	2021	2020
	$M	$M
Profit before income tax	**154.8**	125.2
Tax at the Australian tax rate of 30.0% (2020: 30.0%)	**46.4**	37.5
Tax effect of amounts which are not (taxable)/ deductible in calculating taxable income:		
Prior year under provisions	**0.2**	-
Impact of amended assessments (i)	**(13.3)**	-
Non-deductible goodwill impairment	**7.1**	-
Sundry items	**-**	0.1
Income tax expense	**40.4**	37.6
Consists of:		
Current tax	**(18.3)**	11.6
Prior year under/(over) provision – current tax	**(36.4)**	12.8
Deferred tax	**58.5**	26.0
Prior year (over)/under provision – deferred tax	**36.6**	(12.8)
Income tax expense	**40.4**	37.6

(i) During the year, amended assessments for FY2016 to FY2019 were lodged with the ATO, with a number of changes to the timing of deductions for property, plant and equipment. Part of these changes relate to the period prior to the 2015 tax consolidation event and as such, they increase the reset tax base amount under the consolidation event. A $13.3 million credit to tax expense has been recognised as a result of this higher reset tax base amount and is based on the amended assessments.

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

Note B.4 Taxation (continued)

(b) Current tax

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

(c) Deferred tax

2021	1 April 2020 $M	Impact of amended assessments $M	Prior year (under)/overs $M	(Charged)/ credited to income statement $M	Charged/ (credited) directly in equity $M	31 March 2021 $M
Employee benefits	13.6	-	-	4.1	-	17.7
Other accruals and provisions	59.6	-	0.5	0.3	(0.7)	59.7
Derivative financial instruments and fair value adjustments on borrowings	271.6	-	-	(4.0)	(148.5)	119.1
Defined benefit funds	(10.4)	-	-	0.7	(9.0)	(18.7)
Intangibles	(26.7)	-	-	-	-	(26.7)
Property, plant and equipment	(366.4)	10.7	(37.1)	(70.3)	-	(463.1)
Net deferred tax liabilities	**(58.7)**	**10.7**	**(36.6)**	**(69.2)**	**(158.2)**	**(312.0)**

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)

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

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

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

Note B.4 Taxation (continued)

(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 (refer to note C.4). Any reassessment for useful lives in a particular year will affect the depreciation expense.

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

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

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

Items of plant and equipment under construction are recognised as capital work in progress. Once the asset construction is complete and the asset is capable of operating in the manner intended by management, the item of plant and equipment is transferred from capital work in progress to the relevant asset class and depreciation of the asset commences.

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

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

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

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	n/a	
2021									
Carrying amount as at 1 April 2020	24.5	89.0	4.6	4,405.5	1,641.5	63.3	48.4	368.5	**6,645.3**
Lease modifications	-	-	-	-	-	-	1.5	-	**1.5**
Lessor transfers	-	-	-	-	-	-	-	(1.6)	**(1.6)**
Additions	-	-	-	-	-	-	-	479.0	**479.0**
Transfers	0.5	32.0	(1.0)	421.3	85.9	27.2	-	(565.9)	**-**
Disposals	-	-	-	(7.7)	(2.1)	(0.4)	-	-	**(10.2)**
Depreciation expense	-	(2.7)	-	(201.7)	(50.7)	(28.0)	(7.6)	-	**(290.7)**
Carrying amount as at 31 March 2021	**25.0**	**118.3**	**3.6**	**4,617.4**	**1,674.6**	**62.1**	**42.3**	**280.0**	**6,823.3**
Cost	25.0	133.2	3.6	7,119.6	2,392.3	565.9	55.7	280.0	**10,575.3**
Accumulated depreciation	-	(14.9)	-	(2,502.2)	(717.7)	(503.8)	(13.4)	-	**(3,752.0)**
Carrying amount as at 31 March 2021	**25.0**	**118.3**	**3.6**	**4,617.4**	**1,674.6**	**62.1**	**42.3**	**280.0**	**6,823.3**

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

	Freehold land	Buildings	Easements	Electricity distribution network	Gas distribution network	Other plant and equipment	Right-of-use asset	Capital work in progress	Total
	$M	$M	$M	$M	$M	$M	$M	$M	$M
Useful life (years)	Indefinite	40-99	Indefinite	5-70	15-80	3-12	1-47	n/a	
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

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	
2021					
Carrying amount as at 1 April 2020	354.5	35.8	112.4	-	**502.7**
Additions	-	-	46.6	-	**46.6**
Impairment loss	-	(23.8)	(6.9)	-	**(30.7)**
Amortisation expense	-	-	(46.1)	-	**(46.1)**
Carrying amount as at 31 March 2021	**354.5**	**12.0**	**106.0**	**-**	**472.5**
Cost	354.5	12.0	557.7	-	**924.2**
Accumulated amortisation	-	-	(451.7)	-	**(451.7)**
Carrying amount as at 31 March 2021	**354.5**	**12.0**	**106.0**	**-**	**472.5**
2020					
Carrying amount as at 1 April 2019	354.5	35.9	119.2	0.2	509.8
Additions	-	-	30.6	-	30.6
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

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

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

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

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

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

Goodwill is not amortised but is reviewed for impairment at least annually. During the year $23.8 million of goodwill and $6.9 million of software was impaired in relation to the Geospatial business. Refer to note C.4.

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

Note C.3 Other financial assets

	Note	Lessor receivables	Short term investments	Total
		$M	$M	$M
Carrying amount at 1 April 2020		6.5	249.7	256.2
Transfers from capital work in progress	C.1	1.6	-	1.6
Principal repayments		(0.3)	-	(0.3)
Short term investments		-	420.1	420.1
Carrying amount at 31 March 2021		**7.8**	**669.8**	677.6
Comprising of:				
Current assets		-	669.8	669.8
Non-current assets		7.8	-	7.8
Total other financial assets at 31 March 2021		**7.8**	**669.8**	**677.6**
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 at 31 March 2020		6.5	249.7	256.2

Lessor receivables

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 are 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 cannot 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 – Assessment of recoverable amount

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 and take into account external information such as input costs, supply and demand. Such estimates may change as new information becomes available.

Management have considered the impact of climate change and the transition to renewable energy sources on impairment modelling assumptions and related risks. One of the underlying assumptions is that an appropriate regulatory response and framework will continue to exist throughout the forecast period so as to mitigate any potential risk of asset impairment or other financial outcomes that would otherwise act to materially reduce the net present value of future cash flows attached to our regulated businesses due to the impact of climate change. Management will continue to closely monitor this as Government policy continues to evolve and the transition to renewables gathers pace.

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**	
	2021	2020	**2021**	2020	**2021**	2020
Regulated CGUs	**years**	years	**%**	%	**$M**	$M
Electricity distribution (distribution licence)	**10**	10	**4.0**	4.2	**117.2**	117.2
Electricity distribution (goodwill) (iii)	**10**	10	**4.0**	4.2	**-**	19.0
Gas distribution (distribution licence)	**10**	10	**4.0**	4.2	**237.3**	237.3
Unregulated CGUs						
Growth & Future Networks – field services (goodwill) (iii)	**5**	5	**11.0**	10.2	12.0	16.8

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

(i) Regulated cash flow forecasts are based on allowable returns on electricity and gas distribution assets as set out in the Victorian Electricity Supply Industry Tariff Order and the Victorian Gas Industries Tariff Order respectively, together with other information included in our five-year forecast. Cash flows after that period are based on an extrapolation of the forecast, taking into account inflation and expected customer connection growth rates.

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

(iii) During the year the Group decided to discontinue investment in the Geospatial business and consider disposal options. As a result of this decision the CGUs of the Group were reassessed and the new CGU was created for Geospatial. $23.8m of goodwill was allocated to this new CGU ($19.0m from Electricity Distribution CGU and $4.8m from Growth & Future Networks – Field Services CGU). Impairment testing carried out in this CGU resulted in the $23.8m of goodwill being impaired in FY2021.

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 Growth & Future Networks CGUs is determined using forecasted cash flows over the five-year forecast period.

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:

	2021	2020
	$M	$M
Property, plant and equipment	**135.4**	176.0

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.

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:

	2021	2020
	%	%
Net debt to R&CAB	**66.6**	67.4

This ratio does not include equity credits in relation to $2,437.2 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)	
		2021	2020	**2021**	2020
	Maturity date	**$M**	$M	**$M**	$M
Current borrowings					
Bank debt facilities		**-**	48.0	**-**	48.0
Domestic medium term notes	April 2021	**250.0**	-	**250.0**	-
Hong Kong dollar (HKD) senior notes	December 2021	**68.4**	-	**51.4**	-
Euro (EUR) senior notes		**-**	907.2	**-**	709.7
Total current borrowings		**318.4**	955.2	**301.4**	757.7
Non-current borrowings					
Hong Kong dollar (HKD) senior notes	2026-2034	**783.4**	1,119.6	**700.0**	751.4
Domestic medium term notes	2022-2043	**2,402.6**	2,351.0	**2,385.0**	2,235.0
Bank debt facilities		**-**	98.1	**-**	100.0
Euro (EUR) senior notes	2024-2030	**2,528.7**	3,058.8	**2,426.2**	2,426.2
Japanese yen (JPY) senior notes	2024	**60.9**	78.6	**62.6**	62.6
US dollar (USD) senior notes	2026	**113.8**	145.6	**107.0**	107.0
Norwegian kroner (NOK) senior notes	2027-2029	**570.5**	620.4	**565.8**	565.8
US dollar (USD) hybrid securities (ii)	2076	**495.8**	619.5	**505.7**	505.7
Singapore dollar (SGD) hybrid securities (ii)	2076	**197.2**	233.9	**199.6**	199.6
Australian dollar (AUD) hybrid securities (ii)	2080	**645.7**	-	**650.0**	-
Euro (EUR) hybrid securities (ii)	2081	**1,070.2**	-	**1,081.9**	-
Total non-current borrowings		**8,868.8**	8,325.5	**8,683.8**	6,953.3
Total borrowings		**9,187.2**	9,280.7	**8,985.2**	7,711.0
less:					
Cash and cash equivalents		**826.3**	154.1	**826.3**	154.1
Short term investments		**669.8**	249.7	**669.8**	249.7
Net debt		**7,691.1**	8,876.9	**7,489.1**	7,307.2

(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 for SGD and USD hybrids, October 2025 for AUD hybrids and September 2026 for EUR hybrids.

(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.

Note D.2 Borrowings (continued)

(b) Fair values of financial instruments

We have a number of financial assets and liabilities which are not measured at fair value in the consolidated statement of financial position. With the exception of borrowings outlined above, the carrying amounts of these items are considered to be a reasonable approximation of their fair value as at 31 March 2021. The fair value of total borrowings as at 31 March 2021 was $10,043.7 million (2020: $10,002.4 million).

(c) Financial covenants

The terms of certain financing arrangements contain financial covenants that require maintenance of specified interest coverage ratios and gearing ratios. However, these covenants only apply if there are 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 $5.8 million was provided to third parties at 31 March 2021 (2020: $6.5 million).

(e) Changes in liability arising from financing activities

The table below details the movements in the Group's interest-bearing liabilities for the year ended 31 March 2021:

		Cash flow movements (financing activities)		Non-cash flow movements				
	1 April 2020	Proceeds	Repayments	Reclassification	Foreign exchange movements	Fair value adjustment	Funding costs	31 March 2021
	$M	$M	$M	$M	$M	$M	$M	$M
Current	955.2	-	(757.7)	349.1	(206.5)	(22.0)	0.3	318.4
Non-current	8,325.5	2,131.9	(100.0)	(349.1)	(787.0)	(344.0)	(8.5)	8,868.8
Total	**9,280.7**	**2,131.9**	**(857.7)**	**-**	**(993.5)**	**(366.0)**	**(8.2)**	**9,187.2**

Note D.3 Financial risk management

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

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

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

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

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 set out the refinancing and hedging strategies over the relevant financial period; and
- The Credit Metrics Guidelines 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 uses 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 2021 was 92.6 per cent (2020: 94.6 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.

	2021	2020
	$M	$M
Financial assets		
Related party receivables (i)	**2,459.6**	2,494.7
Fixed rate instruments	**1,419.5**	399.7
Floating rate instruments	**64.5**	-
Financial liabilities (ii)		
Fixed rate instruments	**(6,900.5)**	(6,915.0)
Floating rate instruments	**(2,084.8)**	(796.1)

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 83 basis points as at 31 March 2021 (2020: 67 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)**	
	2021	2020	**2021**	2020
	$M	$M	**$M**	$M
Increase in Australian interest rates with all other variables held constant	**3.6**	0.3	**414.3**	102.2
Decrease in Australian interest rates with all other variables held constant	**(4.3)**	(2.0)	**(450.5)**	(383.4)

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

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

(b) Currency risk

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

Note D.3 Financial risk management (continued)

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

(i) Accounting for financial instruments

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

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

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

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

Note D.3 Financial risk management (continued)

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

(ii) Measurement and classification

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

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

	Interest rate swaps	Forward foreign currency contracts	Cross- currency swaps	Total net derivative financial instruments
	$M	$M	$M	$M
2021				
Current assets	0.1	0.5	17.1	17.7
Non-current assets	130.1	-	193.8	323.9
Current liabilities	(7.0)	(0.6)	(13.6)	(21.2)
Non-current liabilities	(418.6)	(0.4)	(90.9)	(509.9)
Total derivative financial instruments	**(295.4)**	**(0.5)**	**106.4**	**(189.5)**
Consists of:				
- fair value hedges	29.1	-	(74.6)	(45.5)
- cash flow hedges	(324.5)	(0.5)	182.0	(143.0)
- not in a hedge relationship	-	-	(1.0)	(1.0)
Total derivative financial instruments	**(295.4)**	**(0.5)**	**106.4**	**(189.5)**
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**

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 2021 is $30.9 million (2020: $22.4 million).

Key estimates and judgements - Fair value of derivative financial instruments

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

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

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

(iii) Offsetting derivative financial instruments

Derivative assets and liabilities are presented on a gross basis. Certain derivative assets and liabilities are subject to enforceable master netting arrangements with individual counterparties if they were subject to default. Notwithstanding that these financial assets and liabilities do not meet the criteria for being presented on a net basis, if these netting arrangements were applied to the derivative portfolio as at 31 March 2021, derivative assets and liabilities would be reduced by $262.6 million respectively (2020: $756.4 million). Refer to the below table:

	Gross amounts in the financial statements	Amounts subject to master netting arrangements	Net amount
	$M	$M	$M
2021			
Derivative financial assets	341.6	(262.6)	79.0
Derivative financial liabilities	(531.1)	262.6	(268.5)
	(189.5)	**-**	**(189.5)**
2020			
Derivative financial assets	1,432.0	(756.4)	675.6
Derivative financial liabilities	(782.1)	756.4	(25.7)
	649.9	-	649.9

Note D.3 Financial risk management (continued)

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

(iv) Cash flow hedges

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	(324.2)	342.5	14,369.3
Foreign currency risk – debt	537.3	(523.4)	8,058.5
Foreign currency risk – capital expenditure	0.7	(0.7)	26.6

(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 $14,995.3 million.

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

	2021	2020
	$M	$M
Opening balance of cash flow hedge reserve	**(639.6)**	(315.1)
Amounts recognised in other comprehensive income, net of income tax:		
Changes in fair value of cash flow hedges (excluding foreign currency basis spreads)	**369.6**	(602.4)
Amounts reclassified to interest expense for effective hedges	**192.1**	121.1
Changes in foreign currency basis spreads	**(66.9)**	17.8
Tax effect	**(148.4)**	139.0
Total amounts recognised in other comprehensive income, net of income tax	**346.4**	(324.5)
Closing balance of cash flow hedge reserve	**(293.2)**	(639.6)

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

	2021	2020
	$M	$M
Borrowings:		
Less than 1 year	**(155.4)**	68.3
1 – 2 years	**(129.9)**	(119.9)
2 – 5 years	**(188.6)**	(183.3)
Greater than 5 years	**35.6**	79.7
	(438.3)	(155.2)

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	(3,296.5)	(30.0)	84.5	(81.2)	1,273.0
Foreign currency denominated borrowings	(5,888.9)	(208.5)	566.2	(576.7)	10,879.8

(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 $14,995.3 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)

2021	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		826.3	826.3	826.3	826.3	-	-	-
Accounts and other receivables	B.3, E.3	2,633.3	2,633.3	2,633.3	173.7	-	-	2,459.6
Other financial assets	C.3	677.6	677.6	681.4	670.7	0.9	2.6	7.2
Derivative financial assets			341.6	216.9	47.5	9.5	(32.2)	192.1
			4,478.8	**4,357.9**	**1,718.2**	**10.4**	**(29.6)**	**2,658.9**
Financial liabilities								
Trade and other payables	B.3	374.4	374.4	374.4	374.4	-	-	-
Lease liability	D.5	47.3	47.3	47.7	6.6	6.6	16.3	18.2
Domestic medium term notes		2,635.0	2,652.6	3,446.1	356.1	422.1	350.5	2,317.4
Foreign senior notes		3,913.0	4,125.8	4,483.3	152.4	82.4	1,121.9	3,126.6
Hybrid securities (i)		2,437.3	2,408.7	2,633.0	738.1	37.9	758.8	1,098.2
Derivative financial liabilities			535.9	852.0	153.1	110.3	264.6	324.0
			10,144.7	**11,836.5**	**1,780.7**	**659.3**	**2,512.1**	**6,884.4**
Net cash outflow				**(7,478.6)**	**(62.5)**	**(648.9)**	**(2,541.7)**	**(4,225.5)**
2020								
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)**

(i) The table above assumes that the Group will exercise at the first call dates in September 2021, October 2025 and September 2026. Full contractual cash flows continue until 2076, 2080 and 2081.

Note D.3 Financial risk management (continued)

(d) Liquidity risk (continued)

(ii) Financing facilities

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

	2021			2020		
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	**-**	**100.0**	**100.0**	48.0	52.0	100.0
Unsecured bank loan facility with various maturity dates and which may be extended by mutual agreement	**-**	**700.0**	**700.0**	100.0	600.0	700.0
Total financing facilities	**-**	**802.5**	**802.5**	148.0	654.5	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 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 $1,419.5 million on term deposit and $309.0 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 align with the statement of financial position. The values below exclude any offsetting financial liabilities with the particular counterparty.

	2021 $M	2020 $M
Financial assets and other credit exposures		
Cross currency swaps	**213.3**	1,328.1
AUD interest rate swaps	**146.3**	137.7

Note D.4 Net finance costs

	2021	2020
	$M	$M
Finance income (i)		
Interest income	**5.5**	2.4
Interest income – related parties	**111.2**	107.5
Lease interest income	**0.6**	0.2
Total finance income	**117.3**	110.1
Finance costs (ii)		
Interest expense	**335.9**	328.6
Interest expense – leases	**2.2**	3.2
Interest expense – related parties	**3.1**	-
Other finance charges – cash	**4.8**	3.3
Other finance charges – non cash	**6.0**	4.8
Loss on fair value hedges	**7.2**	12.3
Loss on transactions not in a hedge relationship	**(0.2)**	-
Loss/(gain) on ineffective portion of cash flow hedges	**(32.1)**	9.9
Unwind of discount on provisions	**(1.7)**	3.3
Defined benefit net interest income	**(1.2)**	(0.9)
Capitalised finance charges (iii)	**(9.3)**	(9.2)
Total finance costs	**314.7**	355.3
Net finance costs	**197.4**	245.2

(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 4.4 per cent (2020: 4.2 per cent) applicable to our outstanding borrowings at the end of the period.

Note D.5 Lease liabilities

	2021 $M	2020 $M
Opening carrying value at 1 April	50.8	-
Additions recognised on adoption of AASB 16	-	55.8
Lease modifications	1.5	0.4
Principal repayments	(5.0)	(5.4)
Closing carrying value at 31 March	**47.3**	50.8
Comprising of:		
Current liability	5.0	5.4
Non-current liability	42.3	45.4
Total lease liabilities	**47.3**	50.8

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

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

Payments associated with short-term leases and low-value assets are recognised on a straight-line basis as an expense within "Other expenses" in the consolidated income statement. Short-term leases are leases with a contractual term of 12 months or less. 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 2021, $2.5 million of short-term or low value lease and non-lease payments have been recognised directly within the consolidated income statement (2020: $1.9 million).

Key estimates and judgements – Lease terms and incremental borrowing rate

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

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

Note D.6 Equity

Share capital	Notes	2021 $M	2020 $M
Ordinary shares – fully paid	(a), (b)	**1,625.1**	1,436.4

(a) Ordinary shares

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

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

(b) Movements in ordinary share capital

Date	Details	Number of shares	$M
1 April 2020	Opening balance	1,433,162,958	1,436.4
30 September 2020	Equity injection (i)	54,467,362	54.5
31 March 2021	Equity injection (i)	133,658,086	133.7
31 March 2021	Contribution from AusNet Services Ltd (ii)	-	0.5
31 March 2021	**Closing balance**	**1,621,288,406**	**1,625.1**
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**

(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

FY2021 Dividend	Date declared	Cents per share	Total dividend $M
Funding for AusNet Services Ltd interim FY2021 dividend	30 September 2020	12.0	178.3
Funding for AusNet Services Ltd final FY2021 dividend	31 March 2021	11.1	180.6
Total dividend		**23.1**	**358.9**

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**

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**	**2021**	2020
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 Gas Services Pty Ltd	Australia	Ordinary	100.0	100.0
Mondo Power Pty Ltd	Australia	Ordinary	100.0	100.0

Note E.2 Parent entity information

(a) Statement of financial position

	2021	2020
	$M	$M
Current assets	1,240.4	430.4
Non-current assets	10,013.2	10,654.2
Total assets	11,253.6	11,084.6
Current liabilities	574.2	1,196.1
Non-current liabilities	9,257.7	8,840.4
Total liabilities	9,831.9	10,036.5
Contributed equity	1,621.3	1,433.2
Reserves	(293.3)	(639.7)
Retained profits	93.7	254.6
Total equity	1,421.7	1,048.1

(b) Statement of comprehensive income

	2021	2020
	$M	$M
Profit/(loss) for the year	241.5	(42.0)
Total comprehensive profit/(loss) for the year	587.9	(366.5)

(c) Contingent liabilities

The Directors are not aware of any contingent liabilities of the parent entity as at 31 March 2021 (2020: $0).

Note E.3 Related party transactions

(a) Major shareholders

The immediate parent of the Company is AusNet Services (Distribution) Pty Ltd. 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

	2021	2020
	$	$
Short-term employee benefits	5,157,020	5,080,175
Post-employment benefits	134,348	177,220
Equity-based payments	620,607	330,532
Other long-term benefits	108,834	152,620
	6,020,809	5,740,547

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 2021.

Notes to the consolidated financial statements

31 March 2021

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) is one of a number of installation service providers that performs construction services under competitive tender processes. AusNet Services outsource a large portion of construction expenditure and the procurement function manages competitive tender processes for all contracts.

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:

	2021	2020
	$'000	$'000
Sales of goods and services		
Regulated revenue (i)	**5,002**	4,628
Services revenue	**1,712**	1,242
Purchases of goods and services		
Other expenses	**13,363**	1,146
Property, plant and equipment (construction services)	**18,420**	32,861
Dividends	**358,828**	378,300

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

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

	2021	2020
	$'000	$'000
Current receivables (sale of goods and services)		
Other entities in the AusNet Services Group	**53,078**	3,279
Jemena (i)	**459**	543
Non-current receivables		
Other entities in the AusNet Services Group	**2,528,555**	2,494,677
Current payables and other liabilities (purchase of goods)		
Other entities in the AusNet Services Group	**139,030**	163,223
Jemena	**2,947**	6,132

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

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

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:

	2021	2020
	$'000	$'000
Audit and review services		
Audit and review of financial statements	**974**	968
Audit of regulatory returns (i)	**597**	602
Total remuneration for audit and review services	**1,571**	1,570
Other services		
Taxation services	**10**	11
Other services	**158**	269
Total remuneration for other services	**168**	280
Total remuneration of auditors	**1,739**	1,850

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

Note F.2 Defined benefit obligations

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

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

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

Note F.2 Defined benefit obligations (continued)

	2021 $M	2020 $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	**(134.5)**	(173.7)
Fair value of plan assets	**196.2**	207.8
Net asset arising from defined benefit obligations	**61.7**	34.1
Amounts recognised in the income statement in respect of the defined benefit plan are as follows:		
Current service cost	**3.6**	4.1
Curtailment gain on transfer to third party (i)	**-**	(12.9)
Net interest income on defined benefit obligation	**(1.2)**	(0.9)
Total	**2.4**	(9.7)
Remeasurement (loss)/gains recognised during the year in other comprehensive income	**30.0**	(5.9)

(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 plan assets and obligations

	Asset 2021 $M	Obligation 2021 $M	Net 2021 $M	Asset 2020 $M	Obligation 2020 $M	Net 2020 $M
Movements in the fair value of plan assets/present value of defined benefit obligations were as follows:						
Opening fair value of plan assets/(defined benefit obligations)	**207.8**	**(173.7)**	**34.1**	309.2	(266.2)	43.0
Current service cost	**-**	**(3.6)**	**(3.6)**	-	(5.3)	(5.3)
Interest income/(cost)	**6.0**	**(4.8)**	**1.2**	9.6	(8.4)	1.2
Actuarial gain/(loss)	**18.0**	**12.0**	**30.0**	(7.9)	(9.8)	(17.7)
Transfer of assets/obligations to third parties	**-**	**-**	**-**	(68.5)	81.4	12.9
Contributions by plan participants	**1.0**	**(1.0)**	**-**	1.8	(1.8)	-
Benefits, taxes and premiums paid	**(36.6)**	**36.6**	**-**	(36.4)	36.4	-
Closing fair value of plan assets/(defined benefit obligations)	**196.2**	**(134.5)**	**61.7**	207.8	(173.7)	34.1

The actual return on plan assets was a gain of $24.0 million (2020: gain of $2.2 million).

Note F.2 Defined benefit obligations (continued)

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

(b) Analysis of plan assets

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

	2021	2020
	%	%
Investments quoted in active markets:		
Australian equities	**14**	11
International equities	**16**	17
Fixed interest securities	**14**	17
Unquoted investments:		
Property	**6**	7
Growth alternative	**11**	11
Defensive alternative	**15**	13
Cash	**24**	24
	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	
	2021	2020	**2021**	2020
	%	%	**%**	%
Key assumptions				
Discount rate	**3.1**	3.3	**2.3**	2.4
Expected salary increase rate	**3.0**	3.0	**2.0**	3.0

As at 31 March 2021, the weighted average duration of the defined benefit obligation was 8 years (2020: 10 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)	**(6.4)**	**6.8**
Expected salary increase rate (0.5 per cent movement)	**2.9**	**(2.8)**

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

(e) Defined contribution expense

During the year, we contributed $16.5 million of defined contribution benefit to employees (2020: $14.1 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:

	LTIP 2020	MD LTIP 2019	LTIP 2019	LTIP 2018
Share price at grant date ($)	1.80	1.87	1.81	1.61
Exercise price ($)	0.00	0.00	0.00	0.00
Expected volatility (%)	17.5	17.5	17.5	20
Risk-free interest rate (%)	0.26	1.10	1.10	2.19
Dividend yield (%)	5.11	5.59	5.59	5.50
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 $1.4 million has been recognised for the year ended 31 March 2021 (2020: $0.6 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

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.

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

All tranche 1 sites are compliant, and extensions of time have been granted by ESV for certain tranche 2 sites. As a result, AusNet has achieved the total number of compliance points required up to 1 May 2021. Further compliance points must be met through November 2022 for tranche 2 and the risk of penalties under the regime remains possible until the program is completed.

(b) Other matters

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.

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

Other than as listed above, we are not aware of any contingent liabilities or assets as at 31 March 2021 (2020: $0)

Note F.5 Events occurring after the balance sheet date

(a) EDPR 2021-26 final decision

The Australian Energy Regulator (AER) published its Final Decision on AusNet Services' 2021-26 Electricity Distribution Price Review on 30 April 2021. The final decision contained the following outcomes:

- Total revenue of $3,470 million
- Total capital expenditure (real 2021$) of $1,384 million
- Total operating expenditure (real 2021$) of $1,239 million
- Total metering revenue of $301 million

The Final Decision will be applicable to AusNet from 1 July 2021.

(b) Other matters

Other than outlined above, there has been no matter or circumstance that has arisen since 31 March 2021 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 2021 of the Group;

(b) the results of those operations; or

(c) the state of affairs, in financial years subsequent to 31 March 2021, 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 37 to 84, and the remuneration disclosures that are contained in the Remuneration report set out on pages 13 to 33 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 2021 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 2021

Independent Auditor's Report

To the shareholders of AusNet Services Holdings Pty Ltd

Report on the audit of the Financial Report

Opinion

We have audited the ***Financial Report*** of AusNet Services Holdings Pty Ltd (the Company).

In our opinion, the accompanying Financial Report of the Company is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the ***Group's*** financial position as at 31 March 2021 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The ***Financial Report*** comprises:

- Consolidated statement of financial position as at 31 March 2021
- Consolidated income statement, Consolidated statement of comprehensive income, Consolidated statement of changes in equity, and Consolidated statement of cash flows for the year then ended
- Notes including a summary of significant accounting policies
- Directors' Declaration.

The ***Group*** consists of the Company and the entities it controlled at the year-end or from time to time during the financial year.

Basis for opinion

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

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

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

Key Audit Matters

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

- Taxation – assessment of uncertain tax position
- Valuation of non-current assets including property, plant and equipment and intangible assets
- Valuation and accounting for derivatives

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

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

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

Refer to Note B.4 Taxation of the Financial Report.

The key audit matter	How the matter was addressed in our audit
The assessment of uncertain tax positions is a key audit matter due to the complexity of relevant tax legislation and the audit effort required in the assessment of the Group's estimates and assumptions. The Group continues to recognise a tax risk provision in relation to the uncertainty over income tax treatment as set out in Note B.4 amounting to $11m, based on a probability-weighted range of possible outcomes. This provision is recognised in relation to matters subject to an Australian Tax Office (ATO) audit relating to the profile of capital allowances (tax depreciation and entitlements), which is also subject to a Notice of Objection lodged by the Group with the ATO during the period. There is significant effort involved in the audit of judgmental provisions in respect of uncertain tax positions. The estimates and assumptions applied by the Group may be subsequently challenged by the relevant tax authorities. In assessing this key audit matter, we involved our taxation specialists, who have industry-specific experience and detailed knowledge of the complex Australian taxation requirements and the ATO's compliance program activities.	Working with our taxation specialists, our procedures included: • Examining relevant correspondence provided to and received from the ATO including the Group's Notice of Objection and its impact on the uncertain tax position; • Attendance at the Audit and Risk Committee meeting and assessment of the Group's key accounting papers in order to understand the analysis and positions being prepared by the Group; • Considering any tax advice obtained by the Group from external tax advisors. We assessed the skills and competencies of the external advisors; • Challenging the assumptions applied, and estimates made in relation to the provision in determining the range of possible outcomes. We challenged these assumptions using our experience and knowledge of ATO audits and compliance programs, and applicable tax laws and regulations; and • Evaluating the disclosure of uncertain tax positions and potential exposures in the financial report against accounting standards requirements.

Valuation of non-current assets including property, plant and equipment ($6,823.3m) and intangible assets ($472.5m)	
Refer to Note C.1 Property, plant and equipment, C.2 Intangible assets, and C.4 Impairment of non-current assets of the Financial Report.	
The key audit matter	**How the matter was addressed in our audit**

The valuation of non-current assets is a key audit matter due to the:
 	
• Complex nature of the regulatory framework for determining revenue and expenditure applicable to each of the Group's regulated CGU's;
 	
• Complexity in assessing the forward-looking assumptions applied to the Group's discounted cash flow models for each CGU given the significant assumptions involved. The main assumptions include those relating to terminal values, expected capital and operating expenditure, expected returns from future regulatory determinations, inflation, growth rates and discount rates;
 	
• Challenges associated with assessing the Group's long-term forecast cash flow model having regard to potential regulatory change, technology and market changes, and accounting standard requirements;
 	
• Change in strategy for the Geospatial business, necessitating our consideration of the Group's CGU identification and allocation of goodwill and intangible assets to the CGUs to which they belong based on management's monitoring of the business. This further increased our audit effort in this key audit area and over the resulting impairment charge.
 	
We involved valuation specialists to supplement our senior audit team members in assessing this key audit matter.
	Our procedures included:
	
	• Assessing the integrity of the cash flow models used, including the accuracy of the underlying calculation formulas;
	
	• Comparing regulated cash flow assumptions to regulatory determinations relevant to the forecast cash flow period;
	
	• Comparing unregulated cash flow assumptions to customer contracts and historical trends;
	
	• Checking the relevant cash flow forecasts to the Board approved 5-year Financial Plan;
	
	• Using our industry knowledge and information published by regulatory and other bodies to assess key assumptions and the impact of technology, market and regulatory changes on those assumptions;
	
	• Involving our valuation specialists to:
	
	    • Independently develop a discount rate range considered comparable using publicly available market data for comparable entities, adjusted by risk factors specific to the Group and the industry it operates in;
	
	    • Compare carrying and recoverable values of CGUs to publicly available market data, such as implied earnings and asset multiples of comparable entities;
	
	• Assessing the appropriateness of using a long-term cash flow forecast against accounting standard requirements for regulated assets by considering industry practice and the long-term nature of the Group's regulated asset base;
	
	• Assessing the accuracy of previous forecasts of the Group to inform the areas on which to focus in the current financial year;
	
	• Assessing the Group's determination of

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	carrying values of CGUs against the requirements of the accounting standards; • Evaluating the Group's sensitivity analysis in respect of the key assumptions, including the identification of areas of estimation uncertainty; • Assessing the Group's CGU determination based on our understanding of the Group's operations, including the impact of the change in investment strategy for the Geospatial business, against accounting standard requirements; • Recalculating the Geospatial impairment charge against the recorded amount disclosed; • Assessing impairment related disclosures in the financial report based on accounting standard requirements.

Valuation and accounting for derivatives ($341.6m assets, $531.1m liabilities)

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

The key audit matter	How the matter was addressed in our audit
Valuation and accounting for derivatives is a key audit matter due to the: • Size and complexity of the Group's derivative portfolio, in particular cross currency and interest rate swaps hedging foreign currency and Australian dollar denominated fixed and floating rate debt; • Capital management activities undertaken by the Group during the year through the issuance of bonds and hybrid securities, which impacted the Group's derivative portfolio and created new hedge relationships; • Inherent complexity and judgment in applying accounting principles in the valuation and disclosure of derivatives and related hedging activities. In assessing this key audit matter, we involved our Financial Instrument and Treasury specialists, who have industry specific experience and detailed knowledge of the	With the assistance of our Financial Instrument and Treasury specialists, our procedures included: • Evaluating the appropriateness of valuation methodologies and accounting for hedging activities against accounting standard requirements; • Assessing and challenging the Group's market inputs and assumptions underlying the valuation of derivatives. We compared market inputs and assumptions to independently sourced market and credit data sets including spot foreign exchange rates, currency interest rate curves, currency basis spreads and credit pricing curves; • Performing our own valuation of a sample of derivatives using independently sourced market and credit data and assumptions, and industry accepted valuation techniques. We compared these valuations to the Group's recorded valuations; • Evaluating a selection of derivative fair values

complex accounting requirements.	using independent market observable inputs and industry accepted valuation techniques; • Evaluating the adequacy of hedge designation documentation for a selection of new hedges in relation to the Group's Treasury Risk Management policy and accounting requirements; • Obtaining independent confirmations from counterparties with which the Group has borrowings or derivative financial instruments and comparing the key terms of these to the Group's accounting records; • Evaluating the appropriateness of the classification and presentation of derivative financial instruments and related financial risk management disclosures against accounting standard requirements.

Other Information

Other Information is financial and non-financial information in AusNet Services Holdings Pty Ltd's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors are responsible for the Other Information.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error
- assessing the Group and Company's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Group and Company or to cease operations, or have no realistic alternative but to do so.

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Auditor's responsibilities for the audit of the Financial Report

Our objective is:

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

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

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

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

Report on the Remuneration Report

Opinion

In our opinion, the Remuneration Report of AusNet Services Holdings Pty Ltd for the year ended 31 March 2021, complies with *Section 300A* of the *Corporations Act 2001*.

Directors' responsibilities

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

Our responsibilities

We have audited the Remuneration Report included in pages 13 to 33 of the Directors' report for the year ended 31 March 2021.

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

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BW Szentirmay

Partner

Melbourne

11 May 2021