

Annual Report 2019



About us

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AusNet Services delivers safe and reliable gas and electricity to more than 1.4 million customers across Victoria.

We are a diversified Australian energy infrastructure business, owning and operating almost A\$13 billion of electricity and gas network assets.

We have more than 1,900 employees working across our regulated networks and Mondo, our commercial energy services business.

We are committed to maintaining a safe and trouble-free energy supply for our customers at all times, while we harness the opportunities being created by new technology and Australia's transition to renewable energy, to build a truly customer-focused modern energy business.

Our Vision is to create energising futures by delivering value to our customers, communities and partners.

Our Corporate Governance Statement, Infrastructure Entity Statement, and Tax Transparency Report are available on our website:

 [www.ausnetservices.com.au/
Investor-Centre/Company-reports](http://www.ausnetservices.com.au/Investor-Centre/Company-reports)

Our electricity and gas footprints

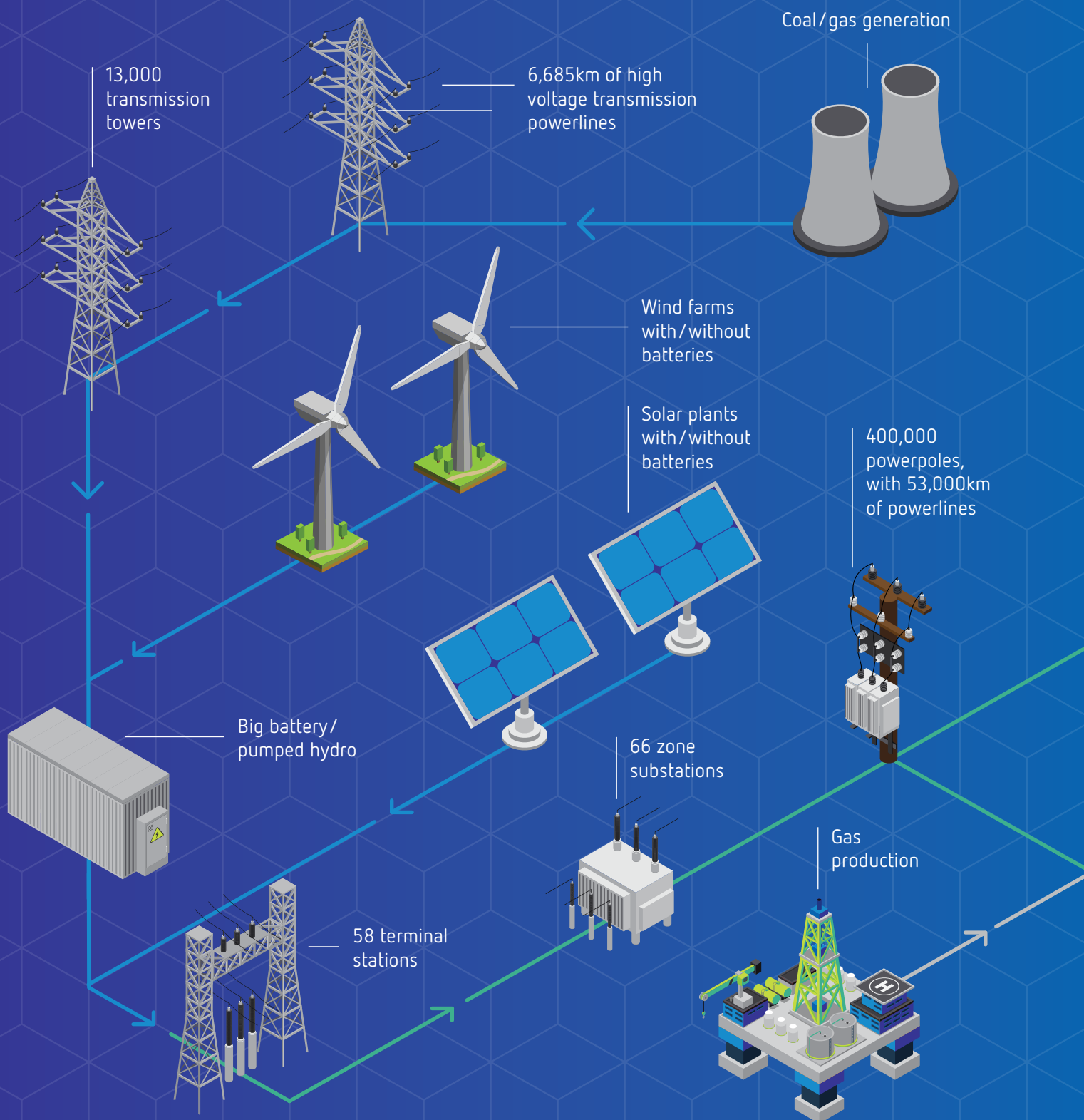


LEGEND

- AusNet Services' electricity distribution network
- AusNet Services' gas distribution network
- AusNet Services' terminal/switching stations
- Non-AusNet Services terminal/switching stations
- Power stations (non-AusNet Services)
- AusNet Services' regulated transmission lines
- Non-AusNet Services transmission lines



Our electricity and gas networks



LEGEND

— Electricity transmission

— Electricity distribution

— Gas distribution

Micro grid homes with solar panel and battery

Supplying electricity to almost 740,000 residential and business customers

Electric vehicles

EV fast charging stations

11,650 kilometres of underground gas pipelines

Supplying natural gas to more than 710,000 residential and business customers

ELECTRICITY TRANSMISSION

Our transmission network transports electricity from where it is generated, through terminal stations and high-voltage transmission powerlines across the state, to Victoria's five lower voltage distribution networks.

ELECTRICITY DISTRIBUTION

Our electricity distribution network feeds lower voltage electricity to customers across all of eastern and northeastern Victoria and in Melbourne's north and east.

GAS DISTRIBUTION

Our gas distribution network supplies natural gas to residential and business customers in western Melbourne, central and western Victoria, through our network of underground gas pipelines.

MONDO

Mondo provides services and technology for essential infrastructure in the energy, water and transport sectors, including transmission connections, grid-scale storage, smart energy management systems, mini grids, and community energy hubs.

2019 Highlights

LOWEST-EVER RECORDABLE
INJURY FREQUENCY RATE

3.53

PROACTIVE CUSTOMER
TEXT UPDATES

2.4m

HIGHEST-EVER FEMALE
EMPLOYMENT LEVEL

23.4%

REGULATED AND
CONTRACTED ASSET BASE

UP 5%

TOTAL DIVIDEND
(PARTLY FRANKED)

UP 5%

CONTRACTED
ASSET BASE

UP 30%

Five-Year Financial Summary

	2015	2016	2017	2018	2019
Revenue (\$M)	1,833.9	1,919.0	1,881.5	1,909.8	1,861.5
EBITDA (\$M)	1,047.2	1,142.5	1,073.3	1,142.9	1,134.2
EBIT (\$M)	668.0	750.2	647.4	700.5	677.8
Profit for the year (\$M)	22.6	489.3	255.1	291.4	253.9
Total assets (\$M)	12,063.3	11,676.0	11,756.5	12,517.3	12,815.8
Total borrowings (\$M)	7,216.1	6,897.7	6,665.3	7,565.1	7,946.4
Total equity (\$M)	3,248.8	3,557.8	3,698.4	3,556.0	3,289.1
Net debt to asset base (%)	67.5	67.2	67.9	66.7	67.1
Net gearing (%)	66	64	63	66	70
Interest cover (times)	2.9	3.0	3.2	3.6	3.3
Dividend (cents)	8.36	8.53	8.80*	9.25	9.72
Earnings per share (cents)	0.66	13.95	7.15	8.08	7.01
Capital expenditure (\$M)	809.4	822.7	839.6	750.2	969.8
Operating cash flows (\$M)	767.6	710.0	742.8	886.4	813.7

* Excludes 1 cent per share special dividend

Chairman's message



Peter Mason AM
Chairman

For the financial year ended 31 March 2019 AusNet Services has provided a solid performance for shareholders and customers, while making good progress refining and implementing our strategy.

Australia's energy sector continues to undergo disruption, driven by policy uncertainty, technology change, an accelerating shift to renewables, and increasing customer engagement. Many choices are opening in the energy supply chain. Energy consumers have unprecedented opportunities to participate more actively in the sector.

The developing changes in consumer behaviour, together with rapidly evolving technology developments, require us to adapt our long-established transmission and distribution networks to provide access and supply in a pattern for which they were not originally designed. We aim to do this in a timely, efficient and affordable way.

Regulators and governments are under great pressure to provide policy outcomes which create the investment environment to facilitate these developments.

Accordingly, maintaining tight control on costs while adapting our networks and investing selectively in growth opportunities is at the core of our approach.

THE EXTERNAL ENVIRONMENT

We have continued to advocate for policy and regulatory certainty and stability. In the meantime, new technologies are providing much of the momentum for change, as our networks manage increasingly dynamic energy flows from both generators and consumers.

The need for better integration of energy and climate change policy is a particularly pressing issue, and we are committed to helping Australia meet its emission reduction targets and long-term commitments under the Paris Agreement.

The past year has also seen a heightened public focus on customers and corporate culture. These are matters of importance for shareholders as well. The Board has recognised this in the appointment of a Customer Forum to assist timely customer feedback for long-term decision making.

FINANCIAL PERFORMANCE

We are pleased to have been able to increase dividends to shareholders by five per cent in line with guidance, and franked to 42.5 per cent for the year. At the same time, we have made significant capital investments in growth opportunities in the contracted transmission sector that will serve us well in the future.

Earnings before interest, tax, depreciation and amortisation (EBITDA) fell marginally, and operating cash flows remain strong, despite lower revenues.

We have largely been able to offset lower regulated revenues with continuing reductions in operating expenses through our efficiency program. At the same time, we have executed a strategic re-focus in Mondo which positions us more strongly for future growth. Capital investment grew across the business as a whole by about 30 per cent, to almost a billion dollars.

BOARD AND GOVERNANCE

Our Managing Director Nino Ficca has announced his intention to retire after 14 years leading the company. His

contribution to both AusNet Services and the wider industry has been outstanding. He is widely respected by governments, regulators and shareholders. I have personally and professionally valued his counsel.

We are pleased to have appointed Tony Narvaez to succeed Nino. Tony has extensive experience in the Australian energy sector. Nino and Tony will together facilitate an orderly transition of leadership.

Alan Chan Heng Loon and Li Lequan joined the Board during the year, to fill the vacancies created by the retirement of Ho Tian Yee and Sun Jianxing respectively. I thank both retiring directors for their contributions, and welcome the new directors.

Our business strategy has five key themes – efficiency, customer focus, growth, digitisation, and culture and capability. By delivering in each of these dimensions, we can achieve our corporate objectives and meet the requirements of our shareholders while sustaining our customers and the communities within which we operate.

AusNet Services is well poised to capitalise on the opportunities the energy transition presents, and to support customers as they choose their own energy futures.

I invite all shareholders to attend our Annual General Meeting on 18 July 2019 in Melbourne.

Peter Mason AM
Chairman

Managing Director's report



Nino Ficca
Managing Director

During this past year our business has grown strongly, and we have continued to position ourselves well for the future.

We have maintained a disciplined approach to costs and enhanced the efficiency of our operations, delivering financial results within market expectations.

We have made significant progress in our transition from being a network operator to becoming a customer-focused commercial service provider managing dynamic networks.

As the Chairman has noted, our ongoing success in effecting this transition, and in meeting regulatory and customer expectations, derives from a close focus on five key objectives that build upon the achievements of our Focus 2021 strategy. These objectives are central to our new 'Energising Futures' strategy, which will deliver more returns from our core businesses, new products and services for customers, and identify future value streams.

- > Growth – we seek to achieve profitable and sustainable growth and consistent returns to our shareholders
- > Cost efficiency – we are continuing to improve efficiency and reduce costs, to support affordability for customers and sustainable shareholder returns
- > Customer focus – we are building a customer perspective into all our decision-making, and helping customers and communities to fulfil their energy aspirations.
- > Digitisation – we are extracting more value from data and investing in digital tools and processes to improve the efficiency and security of our networks.
- > Culture and Capability – we are ensuring we have the skills and attributes to drive sustainable, agile and ethical performance at a high level.

SAFETY

Our commitment to the safety of our people and our customers remains strong and unwavering in our business, and our highest priority. Our primary safety measure, our Recordable Injury Frequency Rate (RIFR), fell by 35 per cent from the previous year to 3.53, another record low outcome.

We have also continued to invest heavily in network safety and bushfire mitigation.

BUSINESS PERFORMANCE

Our financial results are the product of rigorous cost control over the past few years in the light of declining regulated revenues, coupled with ongoing strategic capital investment in safety and new transmission connections. This strong management response has allowed us to maintain returns to shareholders.

Our electricity transmission and gas distribution networks are in the top quartile of efficiency across the National Electricity Market. We are pursuing a similar ranking for our electricity distribution network, which made the largest improvement in the most recent regulatory benchmarking.

Our commercial services business, Mondo, grew strongly during the year, expanding its contracted infrastructure asset base by more than 30 per cent, well ahead of plan. Further significant capital investment in wind farm connections is planned for the coming year.

FUTURE OUTLOOK

Our regulated revenues are confirmed for the next 18 months, and our submission to the next Electricity Distribution Price Review, developed in consultation with customers, proposes up-front price cuts in 2021 and movements linked to inflation thereafter.

We are actively supporting the shift to renewables, reflecting both new technological possibilities and the expectations of customers and communities about climate change.

Transmission investment in Victoria will be critical to support the transition to renewables. Our communications upgrade is on target to be completed in the coming year, and we are working with regulators and policy makers to respond to the demand for new generation resources.

We are continuing to explore new technologies which facilitate customer interaction with the grid and with other customers. This includes distributed generation and electric vehicles, both of which are likely to significantly impact the energy sector.

Hydrogen is also building momentum in Australia. AusNet Services is well placed to capitalise on this, and we are closely involved with efforts to develop a national hydrogen strategy.

I would like to take this opportunity to thank my fellow directors, executives, and colleagues throughout the business, as well as our partners and associates, for their ongoing support during my time in this role.

I am confident about the prospects for AusNet Services continuing to play a leading role in meeting the energy needs and goals of Australians into the future.

Nino Ficca
Managing Director

Safety

Our focus this year on going 'back to basics' has borne fruitful results, with a record low injury rate and better outcomes for our people.

SAFETY OUTCOMES

Safety is a fundamental value for our business, for which we all share responsibility. Our overarching goal is for zero workplace injuries, and our missionZero safety vision and strategy continues to underpin our safety approach.

During the year we sought to extend the sustained success this program has had since its launch in 2011 through a missionZero 'Back to Basics' program. This initiative enabled a re-focus on the core elements of our workplace safety strategy: Leadership, Behaviours, Working Environments and Systems and Measurement.

Following this re-focus, we achieved an improvement in our Recordable Injury Frequency Rate (RIFR) to a new record low of 3.53, an improvement of 35 per cent over the prior year.

To reinforce ownership of safety, we established new accountabilities at each level of the organisation, which were embedded in team and individual performance plans.

During October 2018, we undertook a Stop for Safety event, when teams in all parts of the organisation stopped their normal activities for one hour to participate in a safety activity, led by line managers and directly aligned to the nature of work undertaken by each team. More than 80 per cent of our workforce and a number of delivery partners took part in the Stop for Safety initiative, involving a diverse range of activities.

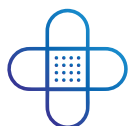
CRITICAL SAFETY RISKS

Beyond the reduction in injury frequency, we have continued our focus on identification and management of critical risks. From a review of data and risk assessment, we chose to have a heightened focus during the past year on three of our nine critical risks. Working groups sponsored by members of the Executive Leadership Team looked for innovative solutions and technologies for these three risks, which we hope to trial in the future.

> **Hit by Plant, Object or Equipment** – the group identified opportunities to manage exclusion zones and the provision of emergency information.

RECORDABLE INJURY
FREQUENCY RATE

3.53





- > **Motor Vehicle Incident** – we are exploring the use of fatigue recognition devices.
- > **Electrocution** – trials will involve proximity technology, and the use of Virtual Reality as a training technique.

A leading measure of Health and Safety, Environmental and Quality (HSEQ) performance is the reporting of hazards and near misses to actual incidents of harm or loss. This ratio exceeded 8:1 in the year under report, significantly exceeding our target, and reflecting a maturity in attitudes towards reporting near misses.

INCIDENT MANAGEMENT

In October we introduced a new incident management system, Enablon, through which all incidents, hazards, near misses, and corrective actions can be reported, in all parts of the business. It provides a significant step forward in our ability to analyse and report on the data, identify trends and improvement opportunities, and drive safety outcomes into the future.



Customers

As customers seek to manage their interests and more actively engage with their energy supply, we understand that we need to facilitate their interaction with us.

Our strategy is to review our work processes from our customers' point of view and increasingly, to harness the power of data and digitisation to make our processes more efficient, transparent and customer-friendly.

CONNECTING TO OUR NETWORKS

Getting a new or upgraded connection to our networks is commonly the most significant point of interaction customers have with us, whether they be for electricity, gas or renewables.

With the rapid growth of solar installations in particular, and the expectation of further significant increases in coming years, we have undertaken major projects to make the processes involved more transparent and more automated. This gives the great majority of customers an immediate response about their ability to export solar energy to the grid, for the first time in Victoria.

Victoria's first solar installation pre-approval tool gives immediate approval/rejection for proposed solar systems up to 30kw. We have actively engaged with solar installers in developing this tool.

We have also sought to make standard gas and electricity connections processes clearer for customers. A gas connection calculator shows prospective customers where the gas network is in relation to their property, and provides an immediate cost estimate to help them plan. Portal enhancements mean customers seeking new electricity connections can now find out quickly the status of their application.

IMPROVED CUSTOMER PROCESSES

Other new customer support tools and services implemented this year include:

- > a claims and complaints case management tool means we are now processing complaints and paying claims in less than half the time it took in the previous year;
- > an improved Major Event Customer Response Process for claims and restoration following high voltage injections, initiated through our Customer Forum, has reduced the time taken to pay claims by more than 70 per cent; and
- > our Customer Contact Centre is automatically notified if life support customers lose supply.

CALLS ANSWERED WITHIN
30 SECONDS

81%





We are planning to introduce more initiatives and innovations in the coming year in our communications with customers, and also in other common service requests.

CUSTOMER SERVICE AND SATISFACTION

We are working hard to improve the quality and volume of communications with customers around supply disruptions, both planned and unplanned. The number of outbound text messages sent to customers during the financial year increased by 55 per cent to exceed 2.4 million, as we increase the range of services and situations in which we seek to provide notifications and early advice to customers. These communications are particularly important on days of extreme heat, when we may change our work programs at relatively short notice to address the welfare of the community.

We have also increased our use of social media, particularly Facebook, through broad-based and targeted campaigns which are able to communicate with sections of the community that have been traditionally challenging for us to reach.

Our Customer Service Team answered 81 per cent of electricity and gas fault calls within 30 seconds, down from 82 per cent in the previous financial year, in the face of a five per cent increase in call volumes. As noted above, we have made significant improvements in the time taken to process complaints, claims and issues raised through the Energy and Water Ombudsman of Victoria (EWOV).

Early in 2018 we implemented a new and externally captured Customer Satisfaction measure which tracks satisfaction across key operational activities for our gas and electricity distribution networks. Now that the program has been in operation for a 12-month period, and baseline figures established, performance targets have been set that motivate the business to strive for greater levels of customer satisfaction.

CUSTOMER FORUM

The ground-breaking Customer Forum, established early in 2018 and comprising a panel of expert customer representatives, has been actively engaging during the year with customers on one hand and our business on the other. A range of its proposals have been incorporated into our draft submission for the next five-year Electricity Distribution Price Review (EDPR). The Forum is also helping solicit further customer feedback, which will be consolidated into our final submission, now due in January 2020.

Many initiatives and priorities that have been discussed with the Forum are already being implemented through our normal business operations, such as enhanced resources to service commercial customers and customers of our transmission network, and our new Customer Satisfaction measure. We expect further initiatives and improvements to be implemented in the future.

People

Ensuring AusNet Services has the right culture is essential for the success of our business strategy, and an important aspect of corporate governance.

CULTURE

Culture has come into even sharper focus over the last 12 months – internally, in the context of the transformational nature of our business strategy, and externally through the heightened public attention on corporate accountability and the ethical behaviours that are essential for good business practice.

Over the course of the financial year, AusNet Services has established a culture ‘blueprint’ that we believe will drive sustainable high performance. We have put in place a measurement framework to assess both our culture and employee engagement on an ongoing basis. The first assessment cycle was undertaken in early 2019 and has provided important insights and key baseline measures.

Our company-wide engagement rating of 66 per cent is just below comparative benchmarks. Our measurement work has also been beneficial in determining priority focus areas for the new financial year which will guide the cultural activities seen as most critical. Our aim is to have the right organisational behaviours and systems as well as satisfied employees.

While moving aspects of our culture is a long-term exercise, we are already seeing results in specific areas as we pursue these new behaviours, such as:

- > the uptake across the company of adaptive work design techniques, involving employees across the business in the rapid design, development and rollout of improved processes and tools;
- > the implementation of a Customer Experience Program to better understand customer needs and incorporate them into the design of our products and services;
- > improved communications and associated efficiency in field delivery, made possible through a new digital communication channel between our network control centre and the field;
- > increased information sharing by employees, supported by a new internal streaming application for employees to view, upload and share videos. This was the winning employee idea from a company-wide ‘Culture Hack Day’; and

EMPLOYEE ENGAGEMENT

66%





- > increased awareness and uptake of flexible working arrangements. This was supported in part by our 'Flex Week' initiative, which raised awareness of the many types of flexible working arrangements available in both office and field environments.

CAPABILITIES FOR THE FUTURE

We know that to be 'future ready', we must acquire and develop the capabilities we need for tomorrow. We have identified twelve priority capabilities required to optimise the delivery of our business strategy. These include:

- > enhanced capabilities around our core business activities, such as network planning, field service delivery and business development;
- > transformative capabilities, which can drive customer-centric strategies, innovation, and digitisation; and
- > enterprise capabilities, including advocacy, strategic partnerships, and cyber security.

Our primary focus this year has been to assess the maturity of our current capabilities and understand our improvement opportunities. We are setting and monitoring key activities that we are confident will help improve the skills, technology and processes that allow these capabilities to grow.

DIVERSITY AND INCLUSION

Our goal is to create an environment where diversity is welcomed and celebrated across all areas of difference. We believe that having a diverse and inclusive workplace will in turn enable AusNet Services to attract and retain talent and drive a high-performance culture.

We have continued to make progress toward our long term aspiration to increase the diversity of our organisation and enhance its inclusiveness.

- > Female participation rates across the organisation have increased from 21.2 per cent to 23.4 per cent.
- > 80 per cent of apprentice and trainee roles and 70 per cent of graduate positions filled during the year were by women.

- > We formed a social procurement working group to further drive Diversity and Inclusion outcomes in contracts with delivery partners and suppliers.
- > We delivered a 'Later in Life Career Choices' Program.
- > Two Geospatial scholarships were awarded to women in the Data Services group, and we continued our Women in Power Engineering Scholarship partnership with Deakin University through the AusNet Services 2019 scholarship program.
- > We have refreshed our Diversity and Inclusion Advisory Council, which has broad employee representation and is chaired by the Managing Director.

Key elements of our strategy in the coming year will be to further increase the proportion of women across the business, promote inclusion in all key diversity categories, and to increase the engagement of our employees in issues related to Diversity and Inclusion.

Community

We are partnering with communities to help deliver the energy future they want. Investing in education and skills also supports a dynamic energy network sector.

SHAPING OUR ENERGY FUTURE

As part of the price setting process for our electricity distribution network for the 2021-2025 period, we have increased the level of engagement with our customers, communities and other stakeholders to help shape our plans. Our approach has included establishing an Australian-first trial of a Customer Forum, to represent the views of our customers, communities and stakeholder groups.

During the year, we held three Community Energy Forums in regional and suburban areas of our network, to ensure that local communities have a say in the services they value. Social media is also an increasingly effective way to reach out to our communities, to seek input into how we set our network priorities to support customer energy choices into the future.

As communities seek greater involvement in how they generate, use and share energy, we have dedicated resources to engage with Community Energy groups and local governments across our distribution network. We have assisted groups to assess the feasibility of solar farms, undertaken education relating to energy networks, and provided support to many distributed energy projects seeking government assistance.

SUPPORTING COMMUNITIES

Our 'Energising Your Community' development program provides funds to not-for-profit organisations that support community wellbeing and services in our electricity distribution network. This year, we provided financial support for a range of health, arts, youth and sporting activities in Indigo Shire in northeast Victoria that were undertaken by nine community groups, including funding for lighting, trailers, new equipment and computer upgrades.

Our 'Community Cornerstone' program acknowledges the community organisations that are important to our employees. This year we made financial donations to 28 organisations nominated by our employees who volunteer their own time to a range of causes, including local CFA groups, sporting clubs, environmental and health support groups.

COMMUNITY
CORNERSTONE GRANTS

28





INVESTING IN EDUCATION AND SKILLS

As the energy sector continues to transform, we recognise the importance of investing in education to build participation in science, engineering and energy. A partnership between Deakin University and AusNet Services was established in 2015 to engage women in careers of Power Engineering through our 'Women in Power Engineering' scholarships. One new scholarship was awarded in this financial year, extending the scholarships to six female undergraduates.

Our partnership with Deakin University also includes sponsorship of one Post-Doctoral Fellow position and two PhD research positions. The research being conducted relates to network safety and new technologies, as well as community energy and demand response programs.

COMMUNITY AND NETWORK RESILIENCE

Our networks have a significant role to play in the broader environment of large-scale changes in generation sources, and more dynamic management of the national electricity grid. In the lead-up to summer we implemented a Network Resilience Program to improve the reliability of our networks at times of peak demand, and to reduce the potential duration and impact of network outages on our customers.

A wide array of network-enhancing projects has been completed in this context. Some involved technical upgrades and improvements of individual assets on the network; others saw reviews of our work processes and systems, such as how we manage our planned works on 'heat health days'.

Many larger initiatives are ongoing. Later in 2019, for example, we will install a large-scale battery near Mallacoota, making this remote community in far east Victoria one of the first towns in Australia to have a grid-connected energy storage system included in its local network. This should result in a significant improvement in local power reliability.

A key part of the Network Resilience Program focused on engaging and communicating with customers. A major pre-summer communications campaign promoted our efforts to enhance reliability and also encouraged customers to prepare for the possibility of outages.

Many customers are also able to directly contribute to the smooth functioning of the network through demand management. While maintaining our existing programs for business customers, this summer we significantly expanded our residential peak demand management activities through the GoodGrid Program, which rewarded households for reducing their energy consumption on the hottest afternoons, when demand for electricity was peaking.

The results were encouraging. Three quarters of participants successfully reduced their energy consumption, and customer satisfaction exceeded 90 per cent. They also reported they had learned about energy management through the program, helping to empower them to manage their energy futures.



Networks

We are actively pursuing the transition to the interactive, customer-focused networks of the future by reconfiguring our regulated networks to meet customer demand, enhance choices, and improve efficiency.

We are achieving this by delivering digital innovation in our operations and our interface with customers. We are also extracting more value from the significant volumes of data created in and through our networks.

ELECTRICITY TRANSMISSION

The continued growth in renewables is driving the need for big changes on our transmission network, and during the year we have responded. For the 12 months ended March 2019 we connected 350 MW of new renewable generation and works to connect a further ten wind and solar farms are currently underway.

The northwest loop, linking Ballarat, Horsham, Mildura, and Bendigo, is the focus of much of this activity, and replacement of the communications system within the loop is well advanced and on schedule to be completed in 2020. The project will provide greater reliability of supply and support the Victorian Government's Renewable Energy Auction Scheme.

Essential work to modernise the power supply to Melbourne's central business district and inner suburbs continued during the year. A major upgrade at Richmond Terminal Station was largely completed, and works at West Melbourne Terminal Station are advancing on schedule.

ELECTRICITY DISTRIBUTION

The latest regulatory benchmarking recorded an efficiency improvement of 14 per cent for our distribution network, exceeding all others in the National Electricity Market (NEM), although we still have some way to go to realise our goal of being in the top quartile.

While the weather prevented a repeat of the previous year's record reliability result, during calendar 2018 our customers still experienced fewer faults, and less time off supply as a result, than average. The results reflect our ongoing focus on reliability, and have been backed up with improved communications with customers for both planned and unplanned outages.

Customer numbers increased by 2.0 per cent, reflecting strong growth on Melbourne's northern and south-eastern fringes. There was a slight decline, however, in the volume of electricity delivered through our network, reflecting the trends of energy efficiency and increasing solar penetration.

REFCL

The Rapid Earth Fault Current Limiter (REFCL) Program was mandated by the Victorian Government in 2016, and involves the innovative use of technology in 22 of our highest-risk zone substations to

NEW RENEWABLES
CONNECTED

350MW



reduce the risk of a bushfire caused by fallen powerlines. The regulations required us to complete the first of three program tranches, involving eight zone substations, by 30 April 2019. Despite considerable technological challenges, eight zone substations had been commissioned by this date although further work is required to meet the mandated requirements at these sites. We are working closely with Energy Safe Victoria on this. The REFCL program is scheduled to be completed in four years' time.

GAS DISTRIBUTION

Our gas distribution network recorded exceptionally strong customer growth during the year, particularly in newly developed parts of Melbourne's north, west, and the Bellarine-Surf Coast areas. This growth was offset by a decline in gas consumption among some large customers and residential users.

Our strategic response to these challenges during the year was successful on a number of fronts.

- > Our first direct customer marketing campaign, 'Cosy Up', in the newly connected township of Bannockburn, resulted in gas take-up three times faster than in comparable locations.
- > Our new gas connection calculator went live in October 2018, giving prospective customers the ability to obtain an immediate online estimate for a gas connection.
- > We have also reduced average new residential connection times by 28 per cent, and are aiming for further improvements next year.

In the longer term, the potential for the use of hydrogen as a fuel for both stationary energy and transport is significant, and we are actively engaged with government and industry as Australia develops a national hydrogen strategy.

THE SOLAR REVOLUTION

Solar uptake has grown strongly in the last two years, and is currently at record high rates. We now have more than 400 MW of solar installed on our network.

This development goes to the heart of the energy transformation taking place in Australia. It is creating unprecedented opportunities for customers, and both opportunities and challenges for networks.

To manage this, we are working on several fronts. We have undertaken many local network upgrades to manage increased loads and the much more dynamic power flows into and around the network. We have also improved our interface with customers wanting to install or enhance their solar installations, to make the processes quicker, more efficient, and more transparent.

Through the EDPR we are working with internal and external stakeholders to understand the implications of this growth and to fund the investment in the infrastructure required to support it in coming years.

Mondo

Mondo sees a bright future in energy and is excited to be playing a leading role in creating a sustainable and integrated energy future for our customers and Australia.

LAUNCH OF MONDO

As the energy, water and transport infrastructure sectors evolve, the services offered by Mondo Power, Geomatic Technologies, and Select Solutions have been increasingly integrated, and in late 2018 these businesses were combined under one Mondo business.

Mondo, AusNet Services' commercial energy business, is building an impressive portfolio of projects, currently valued at almost one billion dollars. These projects demonstrate Mondo's success delivering value for both large-scale infrastructure projects and grassroots community groups.

INFRASTRUCTURE

Mondo is continuing to capitalise on the significant growth of large-scale renewable energy developments, with a growing portfolio of high voltage electricity transmission assets connecting an increasing number of wind farms, as well as large scale solar and battery storage.

This current transition from centralised, predominantly fossil-fuelled power sources to renewables represents a once-in-a-generation opportunity to modernise the energy network which will be used for decades to come. The projects already completed by Mondo, coupled with those under construction and the numerous projects on the horizon, demonstrate that the business is well-placed for significant growth.

WIND FARMS

By the end of 2019, Mondo will have completed the majority of the construction of high voltage assets (which it will also own) for six wind farms across Victoria. This includes a seventy kilometre transmission line and new terminal station for Stockyard Hill which, when complete, will be the largest wind farm in the southern hemisphere.

The remainder of the portfolio includes connection assets, many kilometres of transmission lines, and a further three purpose-built terminal stations servicing Murra Warra, Salt Creek, Crowlands, Dundonnell and Bulgana wind farms.

BALLARAT ENERGY STORAGE SYSTEM

Inaugurated by the Victorian Energy Minister in late 2018, this energy storage system (battery) owned by AusNet Services is the result of cooperation between the members of a consortium comprising private enterprise, state and federal governments.

The battery adds valuable reliability, flexibility, and resilience to the electricity grid. The system is capable of powering more than 20,000 homes for an hour of critical peak demand before being recharged, and is able to respond to changing grid needs within milliseconds. It is operating 24/7 to support critical peak demand, improving grid stability of the state's energy supply, and was especially useful during summer peak demand periods.





EMPOWERING COMMUNITIES

Mondo is working with business and community groups in a growing number of towns and cities, helping them create connected energy hubs, micro grids and virtual power plants.

The Mondo Ubi is an Australian-designed and manufactured device which, when installed across multiple homes or businesses, forms a network to communicate with one another and enable a range of benefits including establishing and tracking renewable energy targets, comparing energy use and unlocking the potential to trade energy locally.

By coupling industry-leading energy expertise and Ubi with rooftop solar and battery technology adoption, Mondo has laid strong foundations for capitalising on the new energy future.

Further opportunities being investigated for local deployment include hydrogen conversion, waste to energy, and electric vehicle charging stations.

COMMUNITY MINI GRIDS

The Yackandandah mini grid was the first commercial mini grid in Australia, launched in 2017. In February 2019, the project reached a significant community milestone,

with the approximately 200 participating homes together having generated one gigawatt hour of renewable energy – the equivalent of running the lights at the MCG continuously for almost three years.

Mondo is now extending the success of the Yackandandah project across the Hume and Barwon regions of Victoria, demonstrating how the existing network can be used to store and share locally-generated renewable electricity, with benefits for that region's economy.

POWERING UNIVERSITIES AND SUPPORTING EDUCATION

Construction is now underway on the Deakin University smart energy micro grid project, a \$30 million initiative to establish a smart micro grid energy system and integrated research and education platform. This partnership between Mondo and Deakin University has brought together leaders in education, industry and government to design, construct and operate an innovative renewable energy vision as well as provide students with a range of hands-on opportunities to contribute to the future of energy.

Mondo is also working closely with the University of Melbourne, having recently

deployed Ubi devices across the campus to provide unprecedented insight into the energy profile of this globally renowned educational institution.

DIGITAL UTILITIES

This year has seen record growth in demand across the country for Mondo products and services which digitally map electricity networks. These solutions use aerial and ground-based vehicles to capture, with high detail and precise accuracy, a digitised version of transmission and distribution networks.

Along with our mobile workforce management and scheduling system, FMC, these Mondo solutions are market-leading and assist network operators run better, cheaper, safer maintenance and planning programs.

In contrast to the above emerging opportunities, Mondo continues to maintain healthy positions in mature market segments including managing more than 25,000 commercial electricity metering points across the country, which represents approximately 20 per cent of Australia's largest energy consumers. We are also providing testing services across the utility sector, and continue to work with large-scale utilities in the water and gas industries.

Sustainability

Sustainability is about operating a successful business that focuses on the safe and reliable delivery of energy to customers and communities, whilst creating lasting value for all stakeholders.



CORPORATE GOVERNANCE

Our Corporate Governance Statement, which is available on our website, provides more details about the principles, structures and strategies that we apply in managing our business sustainably.

 www.ausnetservices.com.au/About-Us/Corporate-Governance

As the energy industry transitions to a lower carbon future, sustainability remains integral to our strategic planning and to our risk management framework.

Our risk management processes actively assess internal and external drivers of risk, including economic, environmental and social sustainability risks. In relation to climate change, we analyse physical, transition, and liability risks to determine their potential impact on our business and the actions required to address these risks.

SUSTAINABLE DEVELOPMENT GOALS

This year, we commenced a process to frame our impacts and contributions to sustainable development through global frameworks and common standards. We have reviewed the United Nations Sustainable Development Goals, which target some of the world's most pressing economic, social and environmental issues. Of the 17 goals it cites, we have identified three where our impact and contribution are greatest: Affordable and Clean Energy, Sustainable Cities and Communities, and Climate Action. Our achievements this year under each of these goals are summarised on the following pages.

We have also started to apply key principles from global standards including the AA1000 *Accountability Principles*, which provide a framework to identify, prioritise and respond to sustainability challenges; and the Global Reporting Initiative (GRI) Standards for sustainability reporting.

We commenced a materiality determination to identify our key impacts on sustainable development. This included a review of risks, peer benchmarking, and sector-based reporting guidance. Employees were surveyed, and interviews conducted with members of the executive team to further identify, scope and prioritise impacts; and the results were reported to the Audit and Risk Management Committee and the Board.

These issues will be tested in the coming year with our key external stakeholder groups, including customers through our Customer Consultative Committee. The outcomes of this work will form part of our strategic planning and the development of goals and targets around sustainability issues.

The major themes to emerge from the work to date, and our activities during the year, are on the following pages.

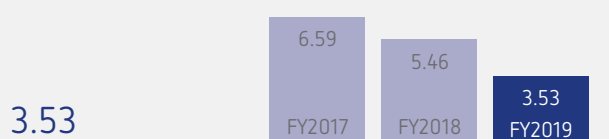


SAFETY

We are committed to providing a safe and reliable energy supply for customers, and ensuring a safe workplace for our people. This includes cyber and physical security, and public safety at all times.

Our continued focus on safety has seen a long-term improvement trend in our key safety indicator, the Recordable Injury Frequency Rate (RIFR), which reached a new record low of 3.53 during the year.

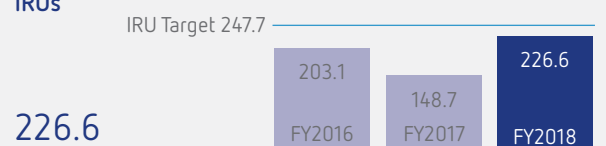
RIFR OUTCOME



Given the largely rural nature of our electricity networks, bushfire risk mitigation has been a very high priority for many years. We have invested significantly in network improvements, including innovative programs such as REFCL, and in community education and awareness.

There have been major reductions in key fire safety indicators over the past decade, with fire starts halving over this period, despite annual variations caused by weather conditions.

IGNITION RISK UNITS IRUs



IRU is an AER measure that scores fire starts for risk factors by location and time. Data in Australian financial years.

We recognise the importance of the security of the essential services we provide, and maintain an active program of both physical and cyber security for our assets and systems.

**SUSTAINABLE
DEVELOPMENT GOALS
WE CONTRIBUTE TO**



Sustainability

continued

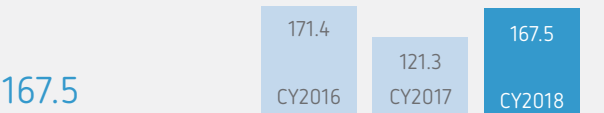
CUSTOMERS

Our role as an essential service provider is not just to provide a high standard of customer service, but to engage with customers to help them understand the sometimes complex issues and choices about managing their energy needs, and to incorporate their perspectives into our planning.

This year we embarked on a process of engagement through a newly established Customer Forum to ensure our electricity distribution plans for the next five years reflect their needs and aspirations.

Adverse weather reduced supply reliability in calendar 2018 from the previous year’s record low, but the longer-term trend has delivered real improvements for customers.

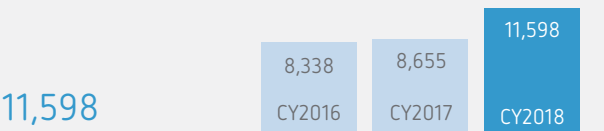
AVERAGE UNPLANNED TIME OFF SUPPLY P. A. – USAIDI MINUTES



We have increased the number of messages sent to individual customers about planned and unplanned outages and restorations by 55 per cent to 2.4 million across the year.

Residential and commercial solar installations have shown major growth in recent years, and have been further stimulated by the Victorian Government’s Solar Homes Rebate Program announced in August 2018. We expect the number of installations in 2019 to be more than double those in 2018.

COMPLETED SOLAR INSTALLATIONS



A detailed overhaul of our customer interface for solar connections has made these processes quicker, more efficient and more transparent.

SUSTAINABLE
DEVELOPMENT GOALS
WE CONTRIBUTE TO



RESPONSIBLE BUSINESS

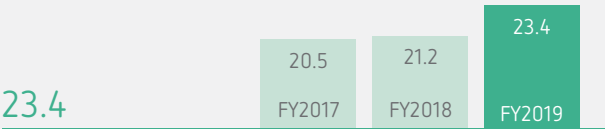
AusNet Services respects and embeds key principles on diversity, environmental protection, labour practices, and human rights throughout our own operations. We are also working to see similar principles implemented in our supply chains.

Our Code of Conduct sets out the basic principles and standards of lawful and ethical behaviour expected of all people representing AusNet Services. It acts as a framework for our detailed policies, procedures, practices and guidelines that apply in what remains a highly regulated industry in which we operate.

Programs are in place to enable compliance with Modern Slavery laws which include training, compliance statements, and human rights due diligence of our suppliers.

In relation to workforce diversity, we continued to increase our female participation rate during the year towards our long-term goal of 30 per cent by 2022.

FEMALE EMPLOYMENT SHARE %



Full data is available from the Workplace Gender Equality Agency.

We embedded our Diversity and Inclusion Statement during the year through a range of activities including a refreshed Diversity and Inclusion Advisory Council (DIAC) with broad employee representation, the promotion of flexible working arrangements across the company, and Leader Equal Employment Opportunity (EEO) awareness training.

SUSTAINABLE
DEVELOPMENT GOALS
WE CONTRIBUTE TO



CLIMATE CHANGE

Our climate change response includes facilitating the transition to renewables, managing our emissions, and enhancing the resilience of our networks to manage climate change.

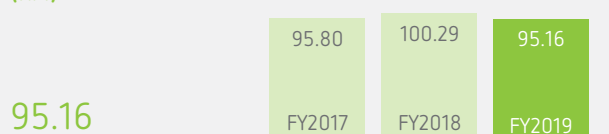
Our energy consumption and associated emissions for the last three years to 30 June, as reported under the *National Greenhouse and Energy Reporting Act 2007*, are below.

	2015-16	2016-17	2017-18
SCOPE 1 EMISSIONS			
AusNet Services (Transmission) Pty Ltd	23,493	23,863	27,193
AusNet Services Holdings Pty Ltd	176,659	181,466	181,120
Total Scope 1 emissions	200,152	205,329	208,313
SCOPE 2 EMISSIONS			
AusNet Services (Transmission) Pty Ltd	1,461,373	1,308,613	942,334
AusNet Services Holdings Pty Ltd	556,481	531,348	518,683
Total Scope 2 emissions	2,017,854	1,839,961	1,461,017
TOTAL EMISSIONS			
AusNet Services (Transmission) Pty Ltd	1,484,866	1,332,476	969,527
AusNet Services Holdings Pty Ltd	733,140	712,814	699,803
Total emissions	2,218,006	2,045,290	1,669,330

Full data is available from the Clean Energy Regulator.

The majority of AusNet Services' Scope 1 emissions derive from fugitive gas emissions. We have prioritised the replacement of aged or defective gas pipes in recent years, which has supported a reduction in these emissions.

TOTAL YEARLY GAS PIPE REPLACEMENT (KM)



Scope 2 emissions are largely related to line losses on our transmission network and to a lesser extent on our distribution network. The main factor in this reduction has been the removal of Hazelwood Power Station from the energy supply mix. As well, embedded generation within the system supports local regions and partially eliminates transmission over long distances.

We are investing significant resources to support new large scale renewable generation which is a key contributor to reducing emissions. We have worked to facilitate the rapid growth in small scale solar installations, and actively worked with communities on innovative projects such as minigrids.

**SUSTAINABLE
DEVELOPMENT GOALS
WE CONTRIBUTE TO**



Financial Report

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Directors' Report

Introduction

The Directors of AusNet Services Ltd present their report on the general purpose financial report of the consolidated entity for the financial year ended 31 March 2019 (FY2019).

The financial report is for AusNet Services Ltd and its controlled entities (we, us, our, AusNet Services or the Group).

WHAT WE DO

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

These activities are conducted through the following operating companies:

- > AusNet Transmission Group Pty Ltd;
- > AusNet Electricity Services Pty Ltd;
- > AusNet Gas Services Pty Ltd; and
- > Mondo Power Pty Ltd (formerly Select Solutions Group Pty Ltd).

OUR VALUES

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



We
work safely

We do
what's right

We're
one team

We
deliver

Directors' Report

Our Board of Directors



(From left): Dr Ralph Craven, Tan Chee Meng, Dr Nora Scheinkestel, Peter Mason, Nino Ficca, Sally Farrier, Li Lequan, Robert Milliner, and Alan Chan Heng Loon.

FORMER DIRECTORS

Sun Jianxing (resigned 1 October 2018)

Ho Tian Yee (retired 28 May 2018)

The persons listed overleaf were Directors of AusNet Services Ltd during the whole of the financial year and up to the date of this report unless otherwise noted.

PETER MASON AM

*Independent Chairman
(appointed March 2016)*

QUALIFICATIONS

- > Bachelor of Commerce (First Class Honours), University of New South Wales
- > Master of Business Administration, University of New South Wales
- > Honorary Doctorate, University of New South Wales

EXPERIENCE AND EXPERTISE

Mr Mason has over 40 years' experience in investment banking, including at JP Morgan and Schroders and brings to the Board a wealth of business experience. In addition to his investment banking career, Mr Mason has extensive experience as both a Chairman and a non-executive Director of listed companies including Chairman of AMP Limited and Chairman of David Jones Limited.

Mr Mason is currently a Director of Singapore Telecommunications Ltd (SingTel), a Senior Advisor to UBS, a Director of The Centre for Independent Studies and Chairman of the UBS Australia Foundation.

Mr Mason was a Trustee of the Sydney Opera House Trust for six years and a member of the Council of the University of New South Wales for 13 years. For 12 years he was a Director of the Children's Hospital in Sydney and Chairman of the Children's Hospital Fund for eight years. Mr Mason was appointed a Member of the Order of Australia for his contribution to the Children's Hospital.

OTHER CURRENT LISTED COMPANY DIRECTORSHIPS

- > Singapore Telecommunications Ltd (from 2010) (SGX-ST listed company)

FORMER LISTED COMPANY DIRECTORSHIPS IN LAST THREE YEARS

- > None

SPECIAL RESPONSIBILITIES

- > Chairman of the Board
- > Chairman of the Nomination Committee

NINO FICCA

*Managing Director
(appointed September 2005)*

QUALIFICATIONS

- > Bachelor of Engineering (Electrical – Honours), Deakin University
- > Graduate Diploma in Management, Deakin University
- > Advanced Management Programme, Harvard Business School, USA

EXPERIENCE AND EXPERTISE

Mr Ficca has over 30 years' experience in the energy industry, including numerous senior management roles with AusNet Transmission Group Pty Ltd (formerly SPI PowerNet Pty Ltd) including as Managing Director since 2003.

Mr Ficca is a member of the Deakin University Engineering Advisory Board. Mr Ficca is also a non-executive Director of Transurban Queensland and the Australian Energy Market Operator (AEMO).

He is the immediate past Chairman of the Energy Networks Association, and a past Chairman of CIGRE Australia.

OTHER CURRENT LISTED COMPANY DIRECTORSHIPS

- > None

FORMER LISTED COMPANY DIRECTORSHIPS IN LAST THREE YEARS

- > None

SPECIAL RESPONSIBILITIES

- > Managing Director

ALAN CHAN HENG LOON

*Non-executive Director
(appointed May 2018)*

QUALIFICATIONS

- > Diplome d'Ingenieur
- > Master of Business Administration (INSEAD)

EXPERIENCE AND EXPERTISE

Mr Chan has significant experience in both the government and corporate sectors. From 2002 to 2017 he was Chief Executive Officer and a Director of Singapore Press Holdings Ltd (SPH) and was responsible for managing the SPH group's portfolio of businesses. His other prior directorships include Singapore Power Limited and The Development Bank of Singapore Ltd.

Before joining SPH, Mr Chan had a career in government spanning 25 years. Some of his government appointments included Permanent Secretary of the Ministry of Transport, Deputy Secretary of the Ministry of Foreign Affairs, Principal Private Secretary to Senior Minister Lee Kuan Yew and Director of Manpower, Ministry of Defence.

Mr Chan has also served as Chairman of the Urban Redevelopment Authority (Singapore) and was Chairman of the Corporate Governance Council that reviewed the Singapore Code of Corporate Governance in 2012. Mr Chan is currently Chairman of the Land Transport Authority (Singapore), Chairman of the Singapore-China Foundation and a member of the Public Service Commission (Singapore). He is also Deputy Chairman of Pavilion Energy Pte Ltd and Pavilion Gas Pte Ltd.

Mr Chan holds a Diplome d'Ingenieur from the Ecole Nationale de l'Aviation Civile, France and MBA (with Distinction) from INSEAD, France. He is a President's Scholar and was conferred the Public Administration Medal (Gold and Silver) and Meritorious Service Medal for his contributions to public service.

OTHER CURRENT LISTED COMPANY DIRECTORSHIPS

- > None

FORMER LISTED COMPANY DIRECTORSHIPS IN LAST THREE YEARS

- > Singapore Press Holdings Ltd (2002 to 2017) (SGX-ST listed company)

SPECIAL RESPONSIBILITIES

- > Member of the Remuneration Committee and the Nomination Committee

Directors' Report

Our Board of Directors continued

RALPH CRAVEN

*Non-executive Director
(appointed January 2014)*

QUALIFICATIONS

- > Bachelor of Engineering (Electrical – First Class Honours), University of Queensland
- > Doctor of Philosophy, University of New South Wales
- > Postgraduate Diploma in Management, Deakin University
- > Postgraduate Diploma in Information Processing, University of Queensland

EXPERIENCE AND EXPERTISE

Dr Craven has significant experience across a range of industries, having worked in the energy, resources, infrastructure and agribusiness sectors for more than 35 years. His professional background encompasses electricity and gas businesses, mining, commodities trading, and the management of large-scale system operations at the national level and the delivery of major infrastructure projects. He has been a full time non-executive Director since 2007 and served on many boards in the public and private sector.

Dr Craven is the current Chairman of Stanwell Corporation Limited, the largest electricity generation company in Queensland. He is currently a non-executive Director and Chairman of Genex Power Limited and a non-executive Director of Senex Energy Limited and Multicom Resources Limited. His prior directorships include being non-executive Director and Chairman of Invion Limited, Ergon Energy Corporation Limited, Tully Sugar Limited and non-executive Deputy Chairman of Arrow Energy Limited. He has also been a non-executive Director of Windlab Limited and Mitchell Services Limited.

At the end of 2015, Dr Craven completed a six-year term as Director of the International Electrotechnical Commission (IEC) and Chairman of the IEC National Committee of Australia. He was CEO of Transpower New Zealand Limited and held senior executive positions in Shell Coal Pty Ltd and NRG Asia Pacific Limited.

OTHER CURRENT LISTED COMPANY DIRECTORSHIPS

- > Senex Energy Limited (from 2011)
- > Genex Power Limited (from 2015)

FORMER LISTED COMPANY DIRECTORSHIPS IN LAST THREE YEARS

- > None

SPECIAL RESPONSIBILITIES

- > Member of the Audit and Risk Management Committee and the Nomination Committee

SALLY FARRIER

*Independent Non-executive Director
(appointed January 2014)*

QUALIFICATIONS

- > Bachelor of Chemical and Process Engineering (First Class Honours), University of Canterbury, New Zealand
- > Masters of Business Administration, Victoria University of Wellington, New Zealand
- > Post Graduate Diploma in Finance and Investment Analysis, Securities Institute of Australia

EXPERIENCE AND EXPERTISE

Ms Farrier is a professional non-executive director with over 15 years' experience serving as a director on private, public and government boards. For much of her career, Ms Farrier has worked in and alongside the water, electricity, gas, transport and infrastructure sectors, and as part of government, regulatory institutions and commercial businesses. She has specialist skills in policy, regulation and strategy and in significant reform and restructuring programs. Further to her non-executive director career, she continues to be engaged in an expert capacity including in relation to water management at Australian federal and state levels, having served as a National Water Commissioner, a member of the Victorian Water Trust Advisory Council and numerous planning and regulatory bodies. She has a keen interest in effective governance, risk management and technology. Ms Farrier is also an active supporter of women entrepreneurs and innovation and is an active member of Scale Investors.

Ms Farrier is currently a Director and Deputy Chairman of Kidney Health Australia. Her prior directorships include Meridian Energy Limited, Manidis Roberts Pty Limited, Hydro Tasmania and Western Power.

OTHER CURRENT LISTED COMPANY DIRECTORSHIPS

- > None

FORMER LISTED COMPANY DIRECTORSHIPS IN LAST THREE YEARS

- > Meridian Energy Limited (2012 to 2016)
(Dual listed ASX and New Zealand Stock Exchange)

SPECIAL RESPONSIBILITIES

- > Chairman of the Remuneration Committee
- > Member of Audit and Risk Management Committee and the Nomination Committee

LI LEQUAN

*Non-executive Director
(appointed October 2018)*

QUALIFICATIONS

- > Bachelor of Atmospheric Physics and Atmospheric Environment, Nanjing University
- > Master of Atmospheric Physics and Atmospheric Environment, Research Institute of Atmospheric Physics of Chinese Academy of Sciences
- > Masters of Business Administration, City University, Washington USA

EXPERIENCE AND EXPERTISE

Mr Li is Senior Vice President and General Counsel of State Grid International Development Corporation Limited (SGID). He also serves as a non-executive Director of Redes Energéticas Nacionais, SGPS, S.A. in Portugal. He was previously a Director of ElectraNet Pty Ltd.

Mr Li began his career with the China Electricity Council in 1988 and has been in the power industry for approximately 30 years. Since 2009, Mr Li has worked in SGID and been in charge of the mergers and acquisitions of overseas power transmission and distribution assets.

OTHER CURRENT LISTED COMPANY DIRECTORSHIPS

- > Redes Energéticas Nacionais, SGPS, S.A.
(since 2008) (Euronext Lisbon listed company)

FORMER LISTED COMPANY DIRECTORSHIPS IN LAST THREE YEARS

- > None

SPECIAL RESPONSIBILITIES

- > Member of the Remuneration Committee and the Nomination Committee

ROBERT MILLINER

*Independent Non-executive Director
(appointed July 2015)*

QUALIFICATIONS

- > Bachelor of Commerce,
University of Queensland
- > Bachelor of Laws (Honours),
University of Queensland
- > Master of Business Administration,
University of Western Australia
- > Advanced Management Program,
Harvard Business School, USA

EXPERIENCE AND EXPERTISE

Mr Milliner has extensive experience in the legal and corporate sectors and during his time in legal practice specialised in commercial law in major energy sector reforms, mergers and acquisitions, privatisation and infrastructure transactions. He is a Senior Adviser at UBS and Senior Adviser to the International Chamber of Commerce Secretary General. He is Chairman of the Australian Payments Council, a Director of the Global Infrastructure Hub Ltd, a member of the APEC Business Advisory Council and a Director of the Board of the Foundation for Young Australians. In 2013 and 2014 he was the B20 Australia Sherpa and coordinated the international business community's recommendations to the 2014 G20.

From 2004 to 2011 he was Chief Executive Partner of law firm Mallesons Stephen Jaques (now King & Wood Mallesons) and retired from Mallesons in January 2012 after 28 years as a partner.

OTHER CURRENT LISTED COMPANY DIRECTORSHIPS

- > None

FORMER LISTED COMPANY DIRECTORSHIPS IN LAST THREE YEARS

- > None

SPECIAL RESPONSIBILITIES

- > Member of the Audit and Risk Management Committee, Remuneration Committee and Nomination Committee

NORA SCHEINKESTEL

*Independent Non-executive Director
(appointed November 2016)*

QUALIFICATIONS

- > Bachelor of Laws (Honours), Melbourne University
- > Doctor of Philosophy, Melbourne University

EXPERIENCE AND EXPERTISE

Dr Scheinkestel is an experienced Company Director with more than 25 years' experience as a non-executive Chairman and Director of companies in a wide range of industry sectors including the public, government and private sectors. Dr Scheinkestel has a long track record in the infrastructure sector. She has served as both Chairman and Director of a number of gas, water and electricity companies as well as other highly regulated sectors such as telecommunications and in industries facing significant disruption from technology and market changes.

Dr Scheinkestel is a former banking executive and has significant experience in international and project financing. She has extensive financial and risk management expertise, which includes having chaired the audit and risk committees of a number of listed companies. She is currently Chairman of Atlas Arteria Limited and a non-executive Director of Atlas Arteria International Limited, Telstra Corporation Limited and OceanaGold Corporation. She is also a Trustee of the Victorian Arts Centre Trust.

She is a published author of Rethinking Project Finance – Allocating and Mitigating Risk in Australasian Projects. Dr Scheinkestel is an Associate Professor in the Melbourne Business School at Melbourne University, a former member of the Takeovers Panel and was awarded a Centenary Medal for services to Australian society in business leadership.

OTHER CURRENT LISTED COMPANY DIRECTORSHIPS

- > OceanaGold Corporation (from 2018)
- > Atlas Arteria International Limited (from 2015)
- > Atlas Arteria Limited (from 2014)
- > Telstra Corporation Limited (from 2010)

FORMER LISTED COMPANY DIRECTORSHIPS IN LAST THREE YEARS

- > Stockland Corporation Limited (2015 to 2018)

SPECIAL RESPONSIBILITIES

- > Chairman of the Audit and Risk Management Committee and member of the Nomination Committee

TAN CHEE MENG

*Non-executive Director
(appointed May 2016)*

QUALIFICATIONS

- > Bachelor of Engineering (Civil – First Class Honours), University of Canterbury, New Zealand
- > Bachelor of Laws (Honours),
National University of Singapore, Singapore
- > Master of Laws (First Class),
University of Cambridge, UK

EXPERIENCE AND EXPERTISE

Mr Tan has dual qualifications in engineering and law and has over 30 years' experience in the legal industry, practising in the areas of general civil litigation, construction and engineering dispute resolution, criminal law, insurance, professional indemnity and disciplinary proceedings.

Mr Tan is a Director of Singapore Power Limited and Chairman of that company's Nominating Committee and a member of its Executive and Audit Committees. He also sits on the boards of Singapore Urban Redevelopment Authority and St Gabriel's Foundation. He is the Chairman of the School Management Committee of Assumption English School and a member of the Singapore Land Transport Authority's Kuala Lumpur-Singapore High Speed Rail Advisory Board.

Mr Tan spent his earlier career as a civil engineer before becoming a qualified legal practitioner holding offices of Deputy Senior State Counsel and Deputy Public Prosecutor in both the civil and criminal divisions of the Attorney-General's Chambers, and Deputy Director of the Commercial Affairs Department in Singapore. Mr Tan joined private practice in 1993, and was appointed Senior Counsel in 2006. He is currently the Deputy Chairman of WongPartnership LLP.

OTHER CURRENT LISTED COMPANY DIRECTORSHIPS

- > None

FORMER LISTED COMPANY DIRECTORSHIPS IN LAST THREE YEARS

- > None

SPECIAL RESPONSIBILITIES

- > Member of the Audit and Risk Management Committee and Nomination Committee

Directors' Report

Our Executive Leadership Team

The persons listed below were members of the AusNet Services Executive Leadership Team during the whole of the financial year and up to the date of this report, unless stated otherwise.



NINO FICCA

Managing Director

ROLE

As Managing Director, Mr Ficca manages AusNet Services' operations and provides strategic guidance and direction to the Board to ensure that the Company achieves its mission and objectives.



PRUE CRAWFORD-FLETT

*Executive General Manager,
Operations and Services
(appointed 1 April 2019)*

QUALIFICATIONS

- > Bachelor of Engineering, Civil Engineering, RMIT University
- > Masters of Business Administration, Monash University

ROLE

Ms Crawford-Flett is responsible for the Operations and Services Division, which brings together field operations and service delivery to our customers, including responsibility for the Delivery and Planning, Performance and Operations teams.

EXPERIENCE AND EXPERTISE

Ms Crawford-Flett joined AusNet Services as a member of the executive team on 1 April 2019. Prior to joining the company, Ms Crawford-Flett held a leadership role in Downer's Renewables and Power Systems business unit, providing services to some of Australia's largest energy businesses, including AusNet Services. She has extensive experience in the energy sector, gained through her time with Downer and from senior operational and project leadership roles with CitiPower and Powercor. Her earlier career also included significant operational management and project engineering roles in major building construction.



MATT GUTHRIDGE

*Executive General Manager,
Strategy and Transformation*

QUALIFICATIONS

- > Bachelor of Science, Monash University
- > Graduate Diploma in Psychology, Monash University
- > Doctor of Psychology (Organisational), University of Melbourne

ROLE

Dr Guthridge is responsible for managing the development and implementation of AusNet Services' corporate strategy, business planning and transformation agenda.

EXPERIENCE AND EXPERTISE

Dr Guthridge has more than 15 years of strategy and transformation experience in assisting some of the world's leading energy and utilities companies. Prior to his appointment as the Executive General Manager – Strategy and Transformation in 2017, Dr Guthridge held senior consulting and leadership roles at McKinsey & Company (in London and Australia), PwC and The Boston Consulting Group (BCG). During his career, he led numerous multi-year strategy and transformation programs for some of the world's leading energy and utilities companies.



CLAIRE HAMILTON

*Executive General Manager,
Governance and Company Secretary*

QUALIFICATIONS

- > Bachelor of Arts (Business Studies – Honours), University of Sheffield, UK
- > Chartered Accountant (ICAEW)
- > Chartered Secretary
- > Graduate Certificate in Innovation and Service Management, RMIT

ROLE

Ms Hamilton is responsible for the legal, company secretarial, risk management, security and internal audit functions of AusNet Services.

EXPERIENCE AND EXPERTISE

Ms Hamilton became the Executive General Manager – Governance in 2016, and has extensive experience in the energy industry in risk management, governance, audit and financial accounting.

Prior to joining AusNet Services, Ms Hamilton gained significant external audit and advisory experience while working as a chartered accountant in both the United Kingdom and Australia. Ms Hamilton is a non-executive Director of the Energy and Water Ombudsman (Victoria), and is a past Director and Vice-President of the Institute of Internal Auditors Australia.



CHAD HYMAS

*Executive General Manager,
Mondo*

QUALIFICATIONS

- > Bachelor of Business (Accounting), Monash University
- > Bachelor of Arts (Organisational Psychology), Monash University
- > Master of Business Administration, Deakin University
- > Certified Practising Accountant (ASCPA)

ROLE

Mr Hymas is responsible for the growth and strategic direction of the Mondo business which includes unregulated infrastructure services, emerging energy markets, utility and metering services and asset intelligence services.

EXPERIENCE AND EXPERTISE

Mr Hymas has extensive strategy, operations and finance experience in the energy sector, having worked for TXU, SPI Electricity and AusNet Services since 2001. Having held numerous positions within AusNet Services, Mr Hymas was most recently General Manager, Strategy and Business Development, leading a broad range of strategic initiatives in strategy, transformation and business development. Mr Hymas began his career at Arthur Andersen, followed by various financial roles for Motorola Australia and New Zealand.



GERALDINE LESLIE

*Executive General Manager,
People, Safety and Corporate Affairs*

QUALIFICATIONS

- > Bachelor of Arts, University of Wollongong
- > Master of Business Administration, University of Wollongong

ROLE

Ms Leslie manages the human resources (HR), health, safety environment and quality and corporate affairs functions for the Group, known as the People, Safety and Corporate Affairs Division.

EXPERIENCE AND EXPERTISE

Ms Leslie commenced with AusNet Services in November 2009, having gained extensive experience in HR leadership roles within the manufacturing, health and local government sectors. Prior to joining AusNet Services, Ms Leslie was employed by BlueScope Steel for almost nine years, holding senior executive HR leadership roles, including General Manager Human Resources for BlueScope's Australian Coated and Industrial Markets.

Directors' Report

Our Executive Leadership Team continued



ADAM NEWMAN

*Executive General Manager
and Chief Financial Officer*

QUALIFICATIONS

- > Bachelor of Business, Western Australian Institute of Technology (now Curtin University)
- > Post Graduate Diploma of Business, Curtin University
- > Graduate Diploma in Applied Finance, Securities Institute of Australia
- > Chartered Accountant
- > Advanced Management Program, INSEAD, France

ROLE

Mr Newman is responsible for all key financial functions as well as Procurement, Investor Relations, Treasury, Insurance and Tax.

EXPERIENCE AND EXPERTISE

Mr Newman joined AusNet Services in 2013, having held numerous financial and operational roles at BlueScope Steel in Australia and the United States, including as General Manager, Commercial Australia and New Zealand, President Steelscape Inc. and CFO North America. Prior to joining BlueScope, Mr Newman worked at BHP from 1996 to 2001 in Corporate Strategy, Mergers and Acquisitions and Business Development. Mr Newman is a Chartered Accountant who also worked at Coopers & Lybrand's Corporate Advisory group from 1989 to 1996 in both Perth and London.



ALISTAIR PARKER

*Executive General Manager,
Regulated Energy Services*

QUALIFICATIONS

- > Bachelor of Engineering (Honours), Aston University, UK
- > Master of Business Administration, Lancaster University, UK

ROLE

Mr Parker is responsible for the Regulated Energy Services portfolio of businesses including three regulated energy networks, regulatory strategy and asset management.

EXPERIENCE AND EXPERTISE

Mr Parker has more than 30 years' experience in the energy industry, including a decade of senior leadership roles. Mr Parker joined AusNet Services in 2009 as Director, Regulation and Network Strategy prior to being promoted to General Manager – Asset Management. Before moving to Australia, Mr Parker spent 15 years with National Grid, UK, initially as an engineer, then moving into commercial roles. In 2000, he became a consultant with Ernst & Young in New Zealand before moving to PricewaterhouseCoopers in Australia, ultimately as Melbourne Energy Economics Practice Leader.



MARIO TIEPPO

*Executive General Manager,
Technology*

QUALIFICATIONS

- > Bachelor of Business (Accounting), Phillip Institute of Technology
- > Certified Practising Accountant (ASCPA)
- > Senior Member, Australian Computer Society
- > Advanced Management Program, INSEAD, France

ROLE

Mr Tieppo manages organisationally aligned technology strategies and architecture to support the Group's long-term goals. Mr Tieppo also leads technology investments to improve operational effectiveness and digital innovation.

EXPERIENCE AND EXPERTISE






Mr Tieppo has more than 25 years' experience in Information Technology (IT), building IT functions and leading large business change programs. Mr Tieppo joined AusNet Services in 2013, following his role as Chief Information Officer for SA Power Networks. He has also held senior management positions in the government, postal utilities, retail and logistics sectors. In previous positions, Mr Tieppo has been responsible for strategy and planning, program and project management and the management of critical information systems. Mr Tieppo also has a strong financial background as a Certified Practising Accountant in the areas of financial management, audit and procurement.

Directors' Report

Strategy

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

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

	Growth	Achieve profitable and sustainable growth
	Cost efficiency	Improve efficiency and reduce costs
	Customer centricity	Enable customer choice and control
	Digital utility	Invest in digital tools and processes to improve performance
	Future-ready capabilities and culture	Ensure we have the right culture and capabilities for sustainable high performance and adapt to the future

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

Directors' Report

Operating and Financial Review

We own and operate three regulated energy network businesses, which include Victoria's high voltage electricity transmission network, an electricity distribution network in eastern Victoria and a gas distribution network in western Victoria, as well as our unregulated business, Mondo.

SAFETY PERFORMANCE

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

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

FINANCIAL PERFORMANCE

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

\$M	FY2019	FY2018	Movement	%
Revenue	1,861.5	1,909.8	(48.3)	(2.5)
EBITDA	1,134.2	1,142.9	(8.7)	(0.8)
NPAT	253.9	291.4	(37.5)	(12.9)
Cash flow from operations	813.7	886.4	(72.7)	(8.2)
Dividends per share (cents)	9.72	9.25	0.47	5.1
Return on equity (ROE)(per cent)	7.3	8.0	(0.7)	(8.8)

The impact of lower revenues was materially offset by the cost-efficiency program resulting in an EBITDA decline of 0.8 per cent versus a revenue decline of 2.5 per cent.

The \$48.3 million revenue decrease arose due to five main impacts:

- > \$58.5 million reduction in regulated electricity distribution due to reduced incentive revenues and metering revenue hand back of previously received excess expenditures disallowed by the Australian Energy Regulator (AER);
- > \$9.5 million reduction in gas revenues as a result of a 9.4 per cent decrease in gas tariffs in CY2018;

- > \$29.6 million reduction in external Mondo revenues as a result of exiting numerous service contracts in the prior period as part of a strategic refocus away from providing certain maintenance services (with minimal impact on EBITDA); partly offset by
- > \$22.1 million increase in electricity distribution customer contributions, primarily new housing developments; and
- > \$19.7 million increase in transmission excluded revenues arising from customer asset replacement and relocation projects.

Compared to the prior year, results were also adversely impacted by increased depreciation, consistent with growth in the asset base and increased finance costs resulting from hedging adjustments and discounting changes to provisions. Both of these were non-cash items.

Cash flows from operations decreased 8.2 per cent reflecting a \$27 million decrease in current year cash earnings and in the prior year the benefit of a tax refund and favourable working capital movements.

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

ELECTRICITY TRANSMISSION

	FY2019	FY2018	Movement	%
Segment revenue (\$M)	618.2	601.9	16.3	2.7
Segment result – EBITDA (\$M)	390.4	379.8	10.6	2.8
Capital expenditure (\$M)	211.1	163.8	47.3	28.9

Higher transmission revenues were due to a number of significant customer-initiated replacement and relocation projects.

Total transmission expenses increased \$5.7 million relative to FY2018: \$2.5 million additional costs in order to respond to the large increase in new transmission connections driven by renewable generation and \$3.2 million additional costs to implement several cost saving initiatives, particularly redundancies.

Capital expenditure increased primarily as a result of \$33.2 million of wind farm connection interface works (2018: \$1.9 million) as well as an increase in excluded projects (primarily customer initiated relocations). Major terminal station rebuilds at Richmond and West Melbourne make up \$49.6 million of the spend.

ELECTRICITY DISTRIBUTION

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

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

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

Capital expenditure rose as a result of a \$23.6 million increase in the Rapid Earth Fault Current Limiter (REFCL) program. REFCL devices are being installed to reduce the risk of a bushfire caused by a fallen powerline.

FUTURE REVENUE IMPACTS

Revenue for distribution services is recognised when those services are provided, based on the prevailing tariffs at the time. Our electricity distribution business is regulated by the AER and revenue is set on a calendar year basis which differs to our financial year. Given the nature of the regulatory model and how tariffs are set, there are a number of items that will impact future revenues for our electricity distribution business as follows:

- > There is a difference between the regulated revenue recognised under our accounting policy, and the revenue cap under the Electricity Distribution Price Review (EDPR) determination. This difference is trued-up as an adjustment to tariffs in future periods. At 31 March 2019 we have a cumulative over-recovery of \$7.1 million which will reduce our revenue in CY2019 and CY2020.

- > The AER's decision on our 2016 Advanced Metering Infrastructure (AMI) Transition Charges Application will result in future revenue reduction of \$23 million (approximately \$15 million in FY2020 and \$8 million in FY2021).
- > In CY2019, we re-commenced earning incentive revenues under the Service Target Performance Incentive Scheme (STPIS) and are entitled to \$19.4 million as a result of our CY2017 network reliability performance of which we have received \$1.9 million and will receive approximately \$7.8 million in the remainder of CY2019 and \$9.7 million in CY2020.

GAS DISTRIBUTION

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

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

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

MONDO (PREVIOUSLY COMMERCIAL ENERGY SERVICES)

	FY2019	FY2018	Movement	%
Segment revenue (\$M)	172.1	206.2	(34.1)	(16.4)
Segment result – EBITDA (\$M)	62.8	60.6	2.2	3.6
EBITDA margin (%)	36.5	29.4	7.1	24.1
Capital expenditure (\$M)	190.9	50.2	140.7	280.3

The Mondo business provides a range of services and technology for essential infrastructure across the energy, water and transport sectors. Mondo provides contracted infrastructure asset services and specialised technology solutions to enable energy data and asset intelligence services. The contracted infrastructure asset services business unit owns and operates a portfolio of assets that are not included in the regulated asset base. The investments are

Directors' Report

Operating and Financial Review continued

made through directly negotiated agreements, under which we typically receive revenue over the contract period in exchange for infrastructure use and operational services provided.

Revenues reduced by \$34.1 million predominantly as a result of the strategic refocus executed in FY2018 reducing the provision of certain maintenance services resulting in exiting a number of field services agreements. EBITDA margins improved as a result of the refocus and a change in revenue mix towards higher margin infrastructure, energy data and asset intelligence projects.

Capital expenditure in FY2019 primarily relates to three wind farm connections under construction, the completion of the Salt Creek, Bulgana and Crowlands wind farm connections and the Ballarat Battery Energy Storage project.

FINANCIAL POSITION

Total equity of the Group was \$3,289.1 million as at 31 March 2019, a decrease of \$266.9 million compared to the previous financial year, primarily attributed to the hedge reserve movement for the year.

Our current liabilities exceed current assets by \$639.0 million at 31 March 2019. We have prepared the financial report on a going concern basis, which contemplates the continuity of normal trading operations. The Group is and is expected to continue trading profitably, generating positive operating cash flows, and successfully refinancing maturing debt. In addition, at 31 March 2019, the Group has available a total of \$778.0 million of undrawn but committed bank debt facilities and \$339.4 million of cash (primarily used for a bond repayment in April 2019).

Non-current assets increased by \$454.3 million compared to prior year, largely due to the \$969.8 million of capital expenditure invested into the asset base offset by the depreciation of our assets.

Non-current liabilities increased by \$81.5 million due primarily to a net increase in long-term debt.

CAPITAL MANAGEMENT

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

DEBT RAISING

Our common or central funding vehicle (CFV) operates through AusNet Services Holdings Pty Ltd, a subsidiary of AusNet Services Ltd. The Group has access to funds through the CFV.

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

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

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

DIVIDENDS

Dividends paid to shareholders during the financial year were as follows:

	Final 2018		Interim 2019	
	Cents per share	Total dividend \$M	Cents per share	Total dividend \$M
Unfranked ordinary dividend	4.62	166.8	2.92	105.4
Franked ordinary dividend	-	-	1.94	70.3
	4.62	166.8	4.86	175.7

Since the end of the financial year, the Directors have approved a final dividend for FY2019 of \$177.5 million (4.86 cents per share) to be paid on 27 June 2019. The final dividend will be 45 per cent franked.

DIVIDEND REINVESTMENT PLAN (DRP)

In relation to the final 2018 dividend paid, the DRP was not operational. In relation to the interim 2019 dividend paid on 20 December 2018, \$59.3 million was utilised in the allotment of new shares issued under the DRP, representing a take-up rate of approximately 36 per cent.

Directors' Report

Material risks and uncertainties

We are committed to understanding and effectively managing risk to enhance our ability to deliver on our strategic objectives to meet expectations of our shareholders, employees, customers, suppliers and communities in which we operate.

Oversight is maintained of our material business risks (financial and non-financial) at an enterprise-wide level through regular reporting to the Audit and Risk Management Committee and the Board of Directors on the effectiveness of the management of these risks. We are cognisant of the following principal risks which may materially impact the execution and achievement of our business strategy and financial prospects.

INDUSTRY AND REGULATORY RISKS

INDUSTRY DEVELOPMENTS

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

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

- > In December 2018, the AER completed its review of the Rate of Return Guideline. The National Electricity Rules require a review to be completed every five years. The 2018 review reduced overall rates of return by approximately 40 basis points, with the market risk premium reduction and Gamma increase being the main changes. The new guideline will be applied from our next regulatory resets and will begin adversely affecting revenues from 1 January 2021, being the next reset date of our electricity distribution network.
- > In December 2018, the AER completed its regulatory tax approach review. While not changing the incentive-based model, the review did address depreciation method mismatches and will adjust for immediate deduction in relation to certain asset replacement works. As a result of this change in application of the regulatory tax approach, we will see reduced revenues from 1 January 2021 in relation to tax allowances. Over the long term, we will receive the same quantum of tax allowances, however this adjustment to the approach will result in revenue reductions

from CY2021 as the change will be applied prospectively to new assets added to the network from 1 January 2021.

- > The *Security of Critical Infrastructure Act 2018* came into effect in July 2018. This Act creates a critical assets register to provide the Government with greater visibility and understanding of who controls and has access to critical infrastructure assets. As an owner and operator of critical infrastructure assets, we are impacted by the Act. We continue to work through our reporting obligations of the Act to ensure compliance.
- > During FY2019, the Energy Security Board (ESB) released advice on how to implement the Australian Energy Market Operator's (AEMO) Integrated System Plan (ISP), while the Australian Energy Market Commission (AEMC) released the final report on its review of the coordination of generation and transmission investment. Together these reports outline a considerable pipeline of work to reform the planning, investment, charging, congestion and access elements of the transmission network. These and other proposed reforms have the potential to introduce new risks and opportunities to our transmission business.

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

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

TRANSITION TO METERING COMPETITION IN VICTORIA

On 26 November 2015 the Australian Energy Market Commission (AEMC) published its final determination and final rule on expanding competition in metering and related services (Power of Choice). In March 2017, the Victorian Government deferred the adoption of metering competition in Victoria. Victorian electricity distributors will remain responsible for metering services for all small customers until at least 1 January 2021 and the Victorian smart metering specification will remain in place.

The Victorian Government proposed that a review be undertaken prior to 1 January 2021 to determine whether metering competition

Directors' Report

Material risks and uncertainties continued

INDUSTRY AND REGULATORY RISKS (CONTINUED)

should be introduced in Victoria. The review will examine the benefits to Victorian electricity users of switching to the national regime, the impact of competition in metering services on particular customer groups, how potential barriers to distributors access to metering data can be addressed and the experience of other jurisdictions in implementing metering competition.

RAPID EARTH FAULT CURRENT LIMITER (REFCL) PROGRAM

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

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

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

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

** Subject to future contingent project application.

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

TRANCHE 1 COMPLIANCE

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

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

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

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

In some instances, full compliance may not be possible without incurring considerable additional expenditure. Given the challenges associated with achieving full compliance and the incremental

cost/benefit, AusNet Services is working with relevant parties to explore amending the program requirements through technical exemptions, for which there are specific provisions in the legislation. At present, none of our zone substations have achieved full compliance. If full compliance is not achieved by the beginning of the next bushfire season and ESV does not grant technical exemptions, ESV or the Minister could decide to file legal proceedings and the Court could impose pecuniary penalties on AusNet Services.

IMPACT OF VOLTAGE STANDARD REVIEW

Since publication by the AER of their final decision on cost recovery for Tranche 1 of the project, the Essential Services Commission Victoria (ESCV) completed its review of the voltage standards in the Victorian Electricity Distribution Code (VEDC). Of particular relevance to the AER's decision on Tranche 2, the revised VEDC that came into effect on 20 August 2018 identifies high voltage (HV) customers as responsible for ensuring their electrical assets are able to withstand higher voltages occurring during REFCL operation. We are currently working with affected high voltage customers to ensure that they protect their assets from increased voltages. There is a risk that delays with HV customers implementing acceptable modifications to their assets may result in delays to the delivery of Tranche 2 of the program.

PRICE DETERMINATIONS

The energy industry in Australia is highly regulated. The regulated component of our revenues (approximately 86 per cent of total revenues for the year ended 31 March 2019) are subject to periodic pricing resets by the AER, where revenue or prices will be determined for each of the networks for the specified regulatory period. The upcoming regulatory reset dates for our electricity transmission network, gas distribution network and electricity distribution network are 1 April 2022, 1 January 2023 and 1 January 2021, respectively.

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

base. Operating expenditure is particularly subject to benchmarking comparisons to set efficient levels going forward.

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

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

NETWORK RISKS

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

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

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

Directors' Report

Material risks and uncertainties continued

NETWORK RISKS (CONTINUED)

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

The changing generation mix in Victoria and the location of generators in the future may impact the configuration of the electricity transmission network and increases the risk of redundant assets in the event of significant network configuration changes. We continue to work closely with all stakeholders associated with the planning and development of generating capacity to manage such risk.

FUNDING AND MARKET RISKS

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

Furthermore, we have a large amount of debt, with a net debt to Regulated and Contracted Asset Base ratio at 31 March 2019 of 67 per cent (excluding equity credit for the \$706 million of hybrid instruments). The degree to which we may be leveraged in the future could affect our ability to service debt and other obligations, to pay dividends to shareholders, to make capital investments, to take advantage of certain business opportunities, to respond to competitive pressures or to obtain additional financing. In addition, we are exposed to a number of market risks associated with this debt, including interest rate and foreign currency risk.

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

CLIMATE CHANGE AND SUSTAINABILITY RISKS

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

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

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

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

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

INFORMATION AND COMMUNICATION TECHNOLOGY RISKS

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

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

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

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

TAXATION RISKS

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

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

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

Directors' Report – Remuneration report (Audited)

Dear Shareholder,

On behalf of the Board I am pleased to introduce our FY2019 Remuneration Report, for which we seek your support at our Annual General Meeting (AGM) on 18 July 2019.

This letter comments briefly on the remuneration outcomes for FY2019, which are covered in detail in the Remuneration Report. Also, it provides an update on the Board's approach to reviewing and adjusting remuneration arrangements to ensure they are relevant, effective and support business performance.

AUSNET SERVICES FY2019 REMUNERATION OUTCOMES

The remuneration paid to the Managing Director and in aggregate to Executive Key Management Personnel (KMP) in FY2019 was lower than that paid in FY2018. This outcome reflects:

- > The Board's focus on ensuring their changes to executive remuneration are well considered and have a sound market and business basis. There were no changes to fixed annual remuneration (FAR) of the Managing Director or other Executive KMP during FY2019, with the exception of one KMP, Mr Tieppo.
- > Lower Short Term Incentive (STI) payments, resulting from the Board's assessment of overall performance against financial and strategic targets. Financial performance exceeded target parameters for headline EBITDA and ROE. Performance against specific strategic targets across the business varied; while there was strong growth in the unregulated asset portfolio, regulated business operating cost efficiencies were slightly below target and progress toward a nationally consistent transmission planning framework was less than planned. The Managing Director's Short Term Incentive (STI) payment was lower than in FY2018 with vesting of 105 per cent of target compared to 110 per cent for FY2018. Executive KMP average STI vesting decreased to 99 per cent compared to 107.5 per cent for FY2018.
- > Lower Long Term Incentive (LTI) payments; testing of the 2016 grant resulted in 54.3 per cent vesting compared to 85.9 per cent for FY2018. While relative total shareholder return was strong at 63.9 percentile, and return on invested capital of 4.7 per cent was within the performance range, the compound annual earnings per share growth (EPS CAGR) of negative 21 per cent meant that a portion of the award achieved zero vesting.

In relation to Non-executive Director remuneration, no increases were made to base Non-executive Director fees and committee fees.

CHANGES TO REMUNERATION ARRANGEMENTS IN FY2019 AND FY2020

Last year I foreshadowed that some changes to executive remuneration would be made following market review. The increase in Mr Tieppo's FAR is a result of that review. Other changes were put on hold pending organisational changes and clarity on business strategies; these changes will be effected in FY2020.

For the FY2019 Short Term Incentive arrangements of the Managing Director and Executive KMP, the Board introduced an additional performance gateway relating to Culture and Capability, applying to the strategic KPI component of each executive's STI Scorecards. The Board considers the link between delivering on business performance and driving the right culture, behaviours and capability is critical to the delivery of sustainable business performance. For FY2020, we have embedded a Conduct, Capability and Culture moderator within our performance framework and STI assessments. This moderator reinforces the Board's expectations that achieving good results is not just about 'what' is achieved, but equally, 'how' they are achieved.

The Board is reviewing clawback provisions within KMP incentive programs for FY2020 and beyond to strengthen the Board's ability to claw back or cancel vested incentives for a broader range of potential events or circumstances. Notwithstanding any amendments, the Board will retain absolute discretion in relation to the vesting of incentives at the end of a performance period.

In demonstration of its commitment to ensuring a diverse and inclusive workforce within AusNet Services, the Board has set an objective for FY2020 to identify and close any gender-based pay differentials and is actively monitoring progress toward achieving this objective.

REPORTING, COMMUNICATION AND ENGAGEMENT

We will continue to actively engage with stakeholders to seek their feedback and understand their perspectives on our remuneration arrangements and developments in the remuneration environment.

On behalf of the Board, I thank you for your support and feedback, and commend this report to you.

Regards



Sally Farrier

Remuneration Committee Chairman

Introduction and contents

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

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

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

The report is structured similarly to recent reports, given positive feedback about readability and also to assist stakeholders assess longer term performance. Information within this report has been laid out in the following sections:

SECTION	PAGE
1 Key Management Personnel	44
2 Executive KMP remuneration	45
3 FY2019 performance and remuneration summary	48
4 FY2019 Executive KMP incentive plans detailed outcomes	52
5 Non-executive Directors	58
6 Remuneration governance	59
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Directors' Report – Remuneration Report (Audited)

1. Key Management Personnel

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

Those that are assessed to be KMP for FY2019 were as follows:

Name	Position	Date Appointed as KMP
Non-executive Directors		
Peter Mason	Non-executive Chairman (Appointed as Chairman 11 May 2016)	March 2016
Alan Chan Heng Loon	Non-executive Director	May 2018
Ralph Craven	Non-executive Director	January 2014
Sally Farrier	Non-executive Director	January 2014
Li Lequan	Non-executive Director	October 2018
Robert Milliner	Non-executive Director	July 2015
Nora Scheinkestel	Non-executive Director	November 2016
Tan Chee Meng	Non-executive Director	May 2016
Executive KMP		
Nino Ficca ¹	Managing Director	September 2005
Chad Hymas	Executive General Manager, Mondo	April 2013
Adam Newman	Executive General Manager and Chief Financial Officer	March 2013
Alistair Parker	Executive General Manager, Regulated Energy Services	April 2013
Mario Tieppo	Executive General Manager, Technology	September 2013

¹ Mr Ficca was appointed as Managing Director upon listing on the Australian Stock Exchange.

FORMER KEY MANAGEMENT PERSONNEL:

Mr Tian Yee Ho retired from the Board as a Non-executive Director and ceased to be a KMP effective 28 May 2018.

Mr Sun Jianxing resigned from the Board as a Non-executive Director and ceased to be a KMP effective 1 October 2018.

KEY MANAGEMENT PERSONNEL CHANGES SUBSEQUENT TO 31 MARCH 2019:

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

2. Executive KMP remuneration

WHAT ARE WE SEEKING TO ACHIEVE, AND AVOID, THROUGH OUR APPROACH TO EXECUTIVE REMUNERATION?

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

- > reinforces business strategy and core values
- > supports and drives sustainable business performance
- > enables the business to develop, retain and grow capabilities, expertise and build diverse, resilient leaders
- > provides clarity
- > signals what is important about the what, how and why of AusNet Services' business
- > stands up to scrutiny, is objective, based on strong principles and draws on empirical analysis.

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

- > reward outcomes or behaviours which are at odds with sustainable business outcomes
- > deliver conflicting or confusing signals about priorities or values
- > work against transparency or constructive and critical discussions and debates.

WHAT IS THE BASIS FOR THE THREE-COMPONENT REMUNERATION STRUCTURE?

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

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

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

Directors' Report – Remuneration Report (Audited)

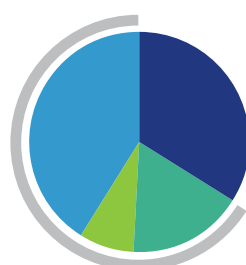
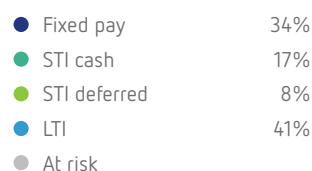
2. Executive KMP Remuneration continued

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

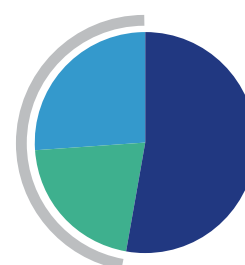
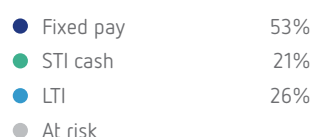
FY2019	Short Term Incentive (at risk)			Long Term Incentive (at risk)	
Performance period	FY2019			FY2017 – FY2019	
Incentive opportunity	Threshold	Target	Maximum	Threshold	Maximum
Managing Director	37.5%	75% (percentages of FAR)	112.5%	21% (percentages of FAR)	120%
	Award delivered as two-thirds paid as cash, one-third deferred rights (two-year deferral period)			Delivered as performance share rights	
Other Executive KMP	20%	40% (percentage of FAR)	60%	9% (percentage of FAR)	50%
	Awards paid as cash			Delivered as performance share rights	
Performance measures	<ul style="list-style-type: none"> > STI scorecard KPIs include selected financial and non-financial measures: > Two financial measures, EBITDA and Return on Equity (ROE), reflect ability to grow revenues, exhibit cost control and effectively manage working capital. > Non-financial measures cover safety, customer outcomes and performance against strategic initiatives (individual specific). > Total STI subject to gateway performance criteria relating to cash flow from operations, culture and capability and safety performance. 			<ul style="list-style-type: none"> > LTIP KPIs are Relative Total Shareholder Return (TSR) (50 per cent), Earnings per Share (EPS) growth (25 per cent) and Return on Invested Capital (ROIC) (25 per cent). > TSR measures returns generated from the investments made against performance of comparator group. > EPS provides tangible measure of shareholder value creation. > ROIC measures returns generated from investments in operations. 	

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

MANAGING DIRECTOR



OTHER EXECUTIVE KMP



Terms of employment and incentive plans for the Managing Director are set out in the table below.

Managing Director	
Term of Agreement	Permanent, subject to six months' notice of termination by either party.
Fixed annual remuneration	<p>Fixed annual remuneration includes base salary and superannuation. As at 31 March 2019, FAR was \$1,300,000.</p> <p>Fixed annual remuneration is reviewed periodically against market by the Remuneration Committee and the Board, with no guarantee of annual increase.</p>
Short Term Incentive (at risk)	<p>Annual short-term incentive of 75 per cent of FAR for on-target performance.</p> <p>STI awards are delivered as two-thirds in cash payment and one-third in deferred rights, with a two-year deferral period. Unless otherwise determined by the Board, STI awards are forfeited if terminated for cause or resignation prior to vesting date.</p>
Long Term Incentive (at risk)	<p>Long-term incentive of 120 per cent of FAR for maximum performance.</p> <p>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.</p> <p>Annual invitation to participate with three-year performance period and no retesting of performance measures in subsequent years.</p> <p>Clawback provisions apply in plan rules.</p>
Termination benefits	Termination benefits calculated at three weeks' pay for every year of service paid at the Managing Director's FAR rate and capped at six months.

The major provisions contained in the services agreements of the other Executive KMP are substantially the same as those that apply to the Managing Director other than the short-term and long-term incentive opportunities set out on the previous page.

Directors' Report – Remuneration Report (Audited)

3. FY2019 performance and remuneration summary

Executive remuneration outcomes and STI and LTI awards correlate to business performance and shareholder outcomes for the period FY2015 – FY2019.

For FY2019, performance was sound. Targets were set taking into account the impact of decreases in revenue associated with the underlying regulatory determination price paths, lower incentive revenues and metering hand-backs. The Board awarded STI vesting outcomes of 105 per cent to the Managing Director, reflecting a combination of financial and strategic outcomes. Performance over the FY2017 to FY2019 period gave rise to 54.3 per cent LTI vesting.

The table and charts below show key financial performance outcomes for the current and past reporting periods for the Managing Director's STI and LTI pay outcomes.

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

1 FY2015 net profit after tax includes the recognition of \$142.6 million in income tax expense for the settlement with the Australian Taxation Office (ATO) in relation to the intra-group financing audit, the recognition of \$84.1 million net exposure in relation to the intellectual property tax dispute with the ATO and the recognition of a provision for Advanced Metering Infrastructure (AMI) customer rebates of \$22.8 million (after tax).

2 FY2016 net profit after tax includes one-off tax benefits of \$163.1 million associated with our corporate restructure (\$135.0 million) and settlement of the IP dispute with the ATO (\$28.1 million).

3 FY2017 dividends consist of 8.80 cents per share ordinary dividend plus 1.0 cents per share special dividend.

4 Corporate STI Scorecard outcome from FY2015 to FY2017, individual scorecard from FY2018.

CHART 1: MD OVERALL STI OUTCOME % OF TARGET TO EBITDA AND NPAT

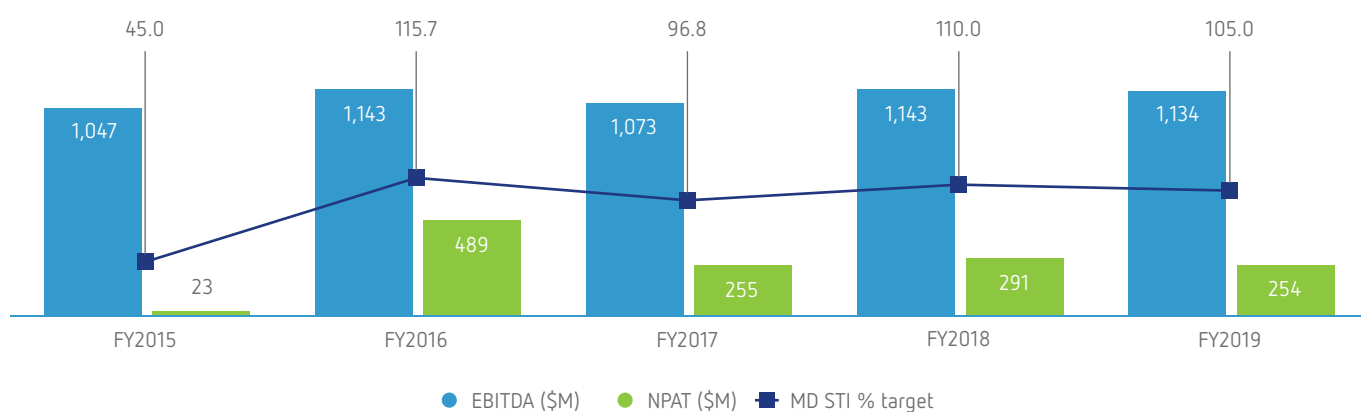
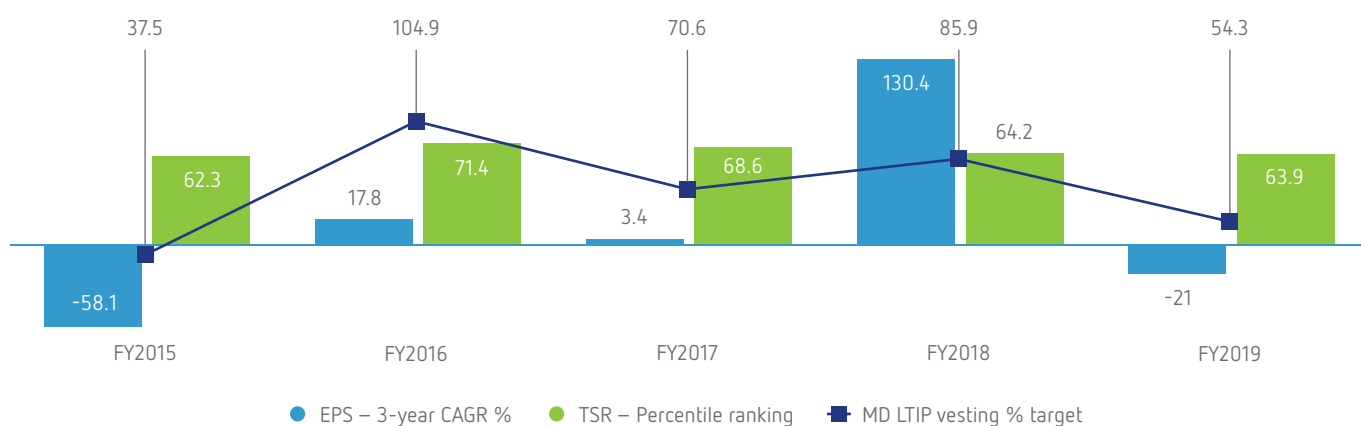


CHART 2: MD OVERALL LTI OUTCOME % OF MAXIMUM TO EPS AND TSR PERCENTILE RANKING



Directors' Report – Remuneration Report (Audited)

3. FY2019 Performance and Remuneration Summary continued

KEY REMUNERATION OUTCOMES FOR FY2019:

Executive Fixed Remuneration	<p>No changes were made to the Managing Director's FAR during FY2019.</p> <p>No changes were made for other KMP, with the exception of Mr Tieppo, who received a 5.8 per cent increase in FAR.</p>
FY2019 Short Term Incentive Plan outcomes	<p>FY2019 was the second year of our simplified STI plan based on a single scorecard, including a 60 per cent weighting on financial performance.</p> <p>The MD's STI outcome was 105.0 per cent of target (maximum vesting opportunity was 145.0 per cent) which compares to 110 per cent of target for FY2018.</p> <p>Other Executive KMP STI scorecard outcomes varied between 93.0 per cent and 109.0 per cent of target, which compares to between 105.0 per cent and 110.0 per cent for FY2018.</p> <p>Further details of the FY2019 STI plan and outcomes can be found in section 4.</p>
Vesting of 2016 Long term Incentive Plan awards (FY2017 – FY2019 performance period)	<p>The LTI awards granted in 2016, (applicable for the FY2017 – FY2019 performance period), were tested against performance criteria, resulting in 54.3 per cent vesting.</p> <p>The LTI vesting outcome reflects:</p> <ul style="list-style-type: none"> > relative total shareholder return ranking (63.9 percentile) > return on invested capital of 4.7 per cent > compound annual earnings per share growth (EPS CAGR) of negative 21 per cent <p>The negative EPS growth from FY2016 to FY2019 was below the EPS CAGR threshold due to the high FY2016 earnings per share arising from a tax consolidation adjustment, which is the baseline for calculating earnings growth over the FY2017 – FY2019 period.</p> <p>Further details of the LTI plan and LTI vesting can be found in section 4.</p>
Managing Director 2018 Long Term Incentive Plan grant (FY2019 – FY2021)	<p>As approved by shareholders at the July 2018 AGM, the Managing Director's 2018 LTI grant was made based on a maximum vesting opportunity of 120 per cent of fixed remuneration.</p> <p>The 2018 LTI grant will be tested at the conclusion of the three-year performance period being FY2019 – FY2021.</p>
2019 Long Term Incentive plan grant (FY2020 – FY2022)	<p>The 2019 LTI grant will adopt the more stringent criteria implemented in the 2018 grant.</p> <p>Shareholders will have the opportunity to vote on the proposed 2019 LTI grant for the Managing Director at the Annual General Meeting to be held on 18 July 2019.</p>
Non-executive director fees	<p>Total remuneration paid to non-executives directors for FY2019 was \$1.79 million, which represents 79.7 per cent of the fee cap of \$2.25 million.</p> <p>No increases were made to base non-executive director fees and committee fees during FY2019.</p>

FY2019 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 Managing Director, and the value of the 2016 LTI awards that vested in FY2019.

The Managing Director did not receive any fixed remuneration increases during FY2019. Mr Tieppo received a 5.8 per cent increase effective 1 April 2018. No other KMP received any fixed remuneration increase during FY2019. Note that the following table is non-IFRS information and is unaudited.

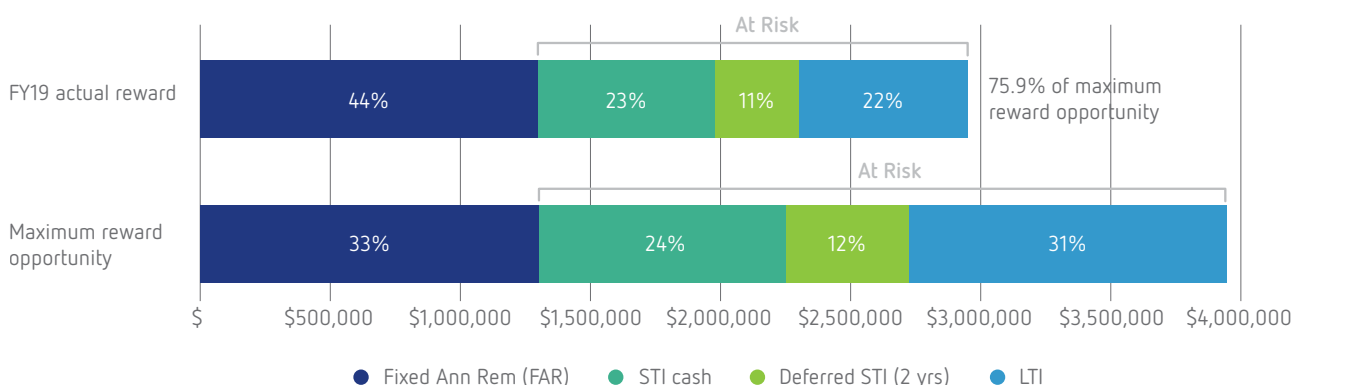
Executive KMP	FY	Fixed Annual Remuneration	Short Term Incentive Paid	STI Deferred (2 years)	LTI Vested ¹	Total
Nino Ficca	2019	1,300,000	682,500	341,250	660,009	2,983,759
	2018	1,300,000	715,000	357,500	1,064,331	3,436,831
Chad Hymas	2019	450,000	196,200	-	100,422	746,622
	2018	450,000	198,000	-	161,941	809,941
Adam Newman	2019	692,835	257,735	-	205,749	1,156,319
	2018	692,835	290,991	-	332,603	1,316,429
Alistair Parker	2019	500,000	190,000	-	124,423	814,423
	2018	500,000	210,000	-	200,644	910,644
Mario Tieppo	2019	450,000	178,200	-	126,317	754,517
	2018	425,360	187,158	-	203,699	816,217

¹ LTI vesting is calculated based on the number of 2016 performance rights vested multiplied by the share price at 31 March 2019 being \$1.755.

Statutory accounting disclosures of remuneration which are shown in section 7 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 Managing Director's actual STI, LTI and total remuneration outcomes for FY2019 compared to threshold and maximum remuneration opportunity.

MANAGING DIRECTOR - FY2019 ACTUALS VS MAXIMUM REWARD OPPORTUNITY



Directors' Report – Remuneration Report (Audited)

4. FY2019 Executive KMP incentive plans

Detailed Outcomes







FY2019 SHORT TERM INCENTIVE PLAN

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

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

Board discretion	The Board has discretion over all elements of the STI plan including (but not limited to) the setting of KPI performance targets and ranges, selection of KPIs weightings, and any assessed performance outcomes.			
STI opportunity	<p>STI opportunity is expressed as a percentage of the participant's FAR at target performance.</p> <p>Managing Director – 75 per cent of FAR at target, 37.5 per cent of FAR at threshold performance and 112.5 per cent of FAR at maximum performance. (i.e. a performance range of minus/ plus 50 per cent).</p> <p>Other Executive KMP – 40 per cent of FAR at target, 20 per cent of FAR at threshold performance and 60 per cent of FAR at maximum performance.</p>			
STI performance gateway	<p>STI payments are subject to a number of gateways:</p> <ul style="list-style-type: none"> > Cash flow from operational performance provides the company with the ability to pay shareholder dividends in accordance with AusNet Services' dividend guidance targets for the relevant year. > In the event of a fatality, the Board retains complete discretion to adjust any STI award for the Managing Director, other Executive KMP or other employees. > For FY2019 the Board added a Capability and Culture performance gate to access the strategic KPI opportunity (35 per cent) of the Managing Director's and reporting Executives' FY2019 scorecards. The Board considers the link between delivering on business performance and driving the right culture, behaviours and capability is critical to the delivery of sustainable business performance. 			
STI performance measures and weightings	Financial		Non-financial	
	EBITDA	Return on equity	HSEQ Index	KPIs aligned to strategic priorities
	40%	20%	5%	35%
<p>The KPIs are designed to reward achievement of both financial targets and non-financial objectives that drive the execution of AusNet Services' strategy and shareholder return.</p> <p>KPIs aligned to strategic priorities are set by the Board for the Managing Director. For FY2019 the Board set the Managing Director's strategic KPIs to be aligned to our ongoing Regulated Energy Services business cost efficiency program, growth in our unregulated asset base across our Mondo Business and Transmission network strategic planning.</p> <p>For the executive team, KPIs reflecting a cascade of strategic priorities as appropriate for each role were applied.</p>				
STI delivery mechanism	Two thirds of the Managing Director's STI award is paid in cash with one third deferred into shares held over a two-year period. At the conclusion of the two-year deferral period, a dividend equivalent cash payment is made equal to the dividends the share rights would have ordinarily received over the two-year deferral period. STI is paid in cash for all other executives.			

FY2019 MANAGING DIRECTOR STI SCORECARD PERFORMANCE OUTCOMES

Design aspect	Managing Director FY2019 STI Scorecard				
Eligibility and performance gates	The Board assessed the financial and safety performance gateways, which are required to be achieved to be eligible for a STI payment. In addition, the Board assessed the Capability and Culture performance gate associated with the 35 per cent strategic KPI component of the Managing Director and Executive KMP scorecards. The Board determined that all FY2019 performance hurdles required to be met against these gateways were achieved.				
Assessment of KPIs	The Board reviewed the Managing Director's FY2019 STI scorecard performance and assessed an outcome of 105.0 per cent of target performance or 72.4 per cent of maximum STI opportunity.				
	Measure	Strategy, performance and reward alignment	Weighting	FY2019 vesting outcome	Outcome commentary
Financial	EBITDA	EBITDA is considered the most relevant financial performance measure in the utilities industry as it represents a proxy for cash generation, which influences dividend growth and is aligned with shareholder outcomes.	40%		The company's EBITDA performance was ahead of target as a result of outperformance on operating costs and excluded/unregulated revenues. The EBITDA target factored in known regulatory revenue decreases seen in the year-on-year performance.
	Return on Equity	Return on equity is an important measure in demonstrating relative financial performance and aligns with shareholder outcomes.	20%		Above target return on equity performance was consistent with the EBITDA outperformance.
Safety	HSEQ Index	This index blends key lead and lag indicators focused on the ongoing improvement of our safety performance and culture.	5%		Our HSEQ Index score of 110, driven primarily as a result of year-on-year improvements across our key safety indicators.
Strategic	Unregulated growth	Our Strategy 2021 Target of \$1bn of unregulated infrastructure asset base resulted in a target being set for growth in the current year that would continue the trajectory towards exceeding the 2021 target.	10%		In FY2019, AusNet Services achieved outcomes related to signing the Stockyard Hill Wind Farm connection assets contracts and commencing preliminary works for Dundonnell Wind Farm. In addition, practical completion has been achieved on the Salt Creek, Bulgana and Crowlands projects.
	Regulated Opex efficiencies	Our Strategy 2021 Target of top quartile benchmarking performance in all three regulated networks resulted in a target being set based on a regulated operating expenditure level that would take costs out year-on-year to trend to the achievement of the 2021 target.	15%		In FY2019, significant progress was achieved towards reducing AusNet Services, overall operating expenditure and a range of programs and initiatives were executed throughout the year contributing positively to the financial performance of the business. This KPI carried a target performance vesting requirement which was not achieved.
	Transmission Network Planning	AusNet Services is supporting the energy reform agenda, including advancing a nationally consistent Transmission planning framework.	10%		Progress has been made during the year to enable longer-term improvements in coordinated transmission planning.

Directors' Report – Remuneration Report (Audited)

4. FY2019 Executive KMP Incentive Plans

Detailed Outcomes

continued

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

LONG TERM INCENTIVE PLAN FOR FY2019 TO FY2021 PERFORMANCE PERIOD

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

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

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

Directors' Report – Remuneration Report (Audited)

4. FY2019 Executive KMP Incentive Plans

Detailed Outcomes

continued




2016 LTI GRANT (FY2017 TO FY2019 PERFORMANCE PERIOD) OUTCOMES

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

The parameters of the 2016 LTI Award are summarised below:

Opportunity	<p>The LTI award is calculated as a percentage of the participant's FAR as at the grant date. The number of performance rights issued is the percentage of FAR divided by the volume-weighted average price (VWAP) over the five trading day period commencing on the date AusNet Services released its FY2016 results. The 2016 LTI grant price was therefore \$1.6045.</p> <p>Managing Director – 100 per cent of FAR (at grant date) at maximum performance. Other Executive KMP – 50 per cent of FAR (at grant date) at maximum performance.</p>		
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	Threshold performance	Threshold performance
	50th percentile - 35 per cent vesting	2.5 per cent CAGR – 0 per cent vesting	4.60 per cent - 50 per cent vesting
	Maximum performance	Maximum performance	Maximum performance
	75th percentile - 100 per cent vesting	5.0 per cent CAGR - 100 per cent vesting	4.80 per cent - 100 per cent vesting
	The vesting outcome for each of the above KPIs occurs on a linear basis between the threshold and maximum performance targets.		

2016 LTIP Grant – Performance outcomes

Assessed outcome	The Board assessed the performance of the LTI awards granted in 2016, applicable for the FY2017 – FY2019 performance period. The performance criteria tested were relative total shareholder return, earnings per share growth and return on invested capital.				
Assessment of KPIs	The Board assessed the 2016 LTI grant KPI outcome and resulted in an overall vesting of 54.3 per cent of maximum (100 per cent) opportunity as set out below.				
Performance measures	Measure	Strategy, performance and reward alignment	Weighting	FY2019 outcome	Performance outcome
	TSR	Total Shareholder Return (TSR) measures returns generated from the investments made against performance of comparator group.	50%		63.9 percentile ranking
	EPS (CAGR)	EPS provides a tangible measure of shareholder value creation.	25%		(21.0) per cent
	ROIC	Return on Invested Capital measures returns generated from investments in operations.	25%		4.70 per cent
Notes	Above table sets out the overall 2016 LTI grant performance and vesting outcomes. These grants were made to Executive KMP in May 2016. The Managing Director's grant was made shortly after shareholders voted and elected to approve his grant at our AGM held in July 2016.				
Delivery mechanism	The shares vested to the Managing Director and other KMP under the 2016 LTI plan are proposed to be allocated to each executive on 20 May 2019, at which time a personal income tax obligation arises. Each recipient of vested share rights is subject to the AusNet Services Guidelines for Dealing in Securities and applicable laws, to sell, transfer or otherwise dispose of their securities.				

Directors' Report – Remuneration Report (Audited)

5. Non-executive Directors

Non-executive Director (NED) remuneration is designed to ensure that Directors maintain objectivity and independence and that the Board attracts Directors with the necessary skills, expertise and capability.

Our approach to Non-executive Director remuneration is as follows:

NED fee element	Commentary
Fees	<p>Non-executive Directors may receive Directors' fees and committee fees.</p> <p>The Board's policy is that Director and committee fees are set with regard to independent performance advice and fees paid by comparable companies, and that fees are not linked to the performance of AusNet Services.</p> <p>In accordance with the constitution of AusNet Services Ltd, Non-executive Directors may also be paid additional fees for special duties or exertions.</p>
Total fee pool for remuneration of Non-executive Directors	<p>The total fees paid to Non-executive Directors (including any additional fees for special duties or exertions) in any financial year must not exceed in aggregate the amount approved by shareholders in a general meeting.</p> <p>The total remuneration pool for Non-executive Directors is currently \$2,250,000 per year, as approved by shareholders at the Annual General Meeting held on 21 July 2016.</p>
Equity-based compensation	Non-executive Directors are not provided with any form of equity-based compensation.
Business-related expenses	Non-executive Directors are entitled to be reimbursed for all business-related expenses, including travel on company business, as may be incurred in the discharge of their duties.
Retirement benefits	Non-executive Directors are not provided with any form of retirement benefit. Fees paid are inclusive of superannuation contributions made on behalf of the Non-executive Directors in accordance with our statutory superannuation obligations.
Review of fee levels and approach to Non-executive Director fees	<p>The Remuneration Committee regularly reviews the fees payable to Non-executive Directors, considering market practices, governance developments and the time commitment and responsibilities involved in carrying out their duties.</p> <p>In general, the Board's policy is that fees should be reviewed at least every three years, as this frequency helps to ensure that the fee levels remain aligned with the market.</p> <p>Board Member and Committee fees were adjusted in July 2015. Non-executive Director fees were reviewed in FY2018 and as a result, the Board Chairman's fee was adjusted effective 1 Oct 2017. No adjustments to Non-executive Director Fees were made in FY2019.</p>

The annual fees payable to Non-executive Directors of AusNet Services and approved by the Board (inclusive of statutory superannuation) for the financial year ended 31 March 2019 are set out in the table below. It is not possible to allocate fees to individual entities within the AusNet Services Group.

Role ¹	Chair fee	Member fee
Board	\$430,000	\$165,000
Audit and Risk Management Committee	\$40,000	\$20,000
Remuneration Committee	\$35,000	\$17,500
Nomination Committee	included in base fee	included in base fee

¹ In addition to the fees noted above, Non-executive Directors may also be paid fees for special duties or exertions.

6. Remuneration governance

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

Our approach is summarised as follows:

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

Stakeholders	Board	
	The Board oversees AusNet Services' remuneration arrangements. It is accountable for the remuneration of executives and of Non-executive Directors, and the policies and processes governing remuneration.	
	The Board's Remuneration Principles serve as a reference point for decisions on remuneration matters. These principles have been in place since 1 January 2016 and will be reviewed in FY2020 to ensure relevance to the internal and external environment of AusNet Services.	
	The Board assesses the performance of the Managing Director and oversees executive KMP performance and approves all related reward outcomes.	
	The Board's stakeholder engagement plan includes regular remuneration-related interactions and formal meetings, which inform the Board's thinking and decisions on remuneration. In addition, the Board seeks input from external advisors to challenge its thinking and to support informed and independent decision-making by the Board.	
	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 Services.	
	The Committee undertakes rigorous historical analysis and forecasting when considering short- and long-term performance criteria. In addition, the Committee monitors internal and external trends on pay compression, diversity and gender pay relativities.	
	External advisors	Management
	The Committee has appointed Ernst and Young (EY) as its Remuneration Advisor and engages other external advisors as required. No remuneration recommendations, as defined by the <i>Corporations Act 2001</i> , 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 focused on overall executive remuneration market practices and frameworks in addition to executive remuneration benchmarking.	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 and Long Term Incentive components and outcomes where appropriate. In general, the Board's policy is not to adjust statutory performance outcomes for significant items when assessing incentive outcomes.

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

Directors' Report – Remuneration Report (Audited)

7. Statutory remuneration disclosures

EXECUTIVE KMP STATUTORY REMUNERATION

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

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

1 FY2019 STI includes amounts in respect of performance for the year ended 31 March 2019. These amounts have been approved and will be payable in June 2019.

2 Other short-term benefits include car parking benefits and the accrual of annual leave entitlements. The allocation of the premium for Directors' and officers' insurance is not included as under the terms of the current policy this information cannot be disclosed.

3 As the performance period over which the LTI awards vest is three years, the amount included in equity-based payments is one-third of the amount estimated to vest at the end of the performance period for each outstanding award. This estimated amount is based on certain assumptions regarding the achievement of performance targets, which are reviewed and adjusted annually. Any adjustments to previously recognised amounts, both positive and negative, are included in the current year. The actual amounts vested under these awards will not be known until the end of the performance period.

4 Other long-term benefits include the accrual of long service leave entitlements.

5 The above table represents the accounting value of KMP remuneration, calculated in accordance with accounting standards. As a result, annual leave and long service leave entitlements are recognised as remuneration when they accrue rather than when they are taken. This has the impact of reducing the cash salary and fees remuneration disclosed in the table above when these leave entitlements are ultimately taken by the KMP. In addition, any changes to the value of leave entitlements (for example, because of changes in FAR or long service leave entitlements not vesting) are recognised as remuneration, either positive or negative, in the year that the change occurs. These accounting adjustments to remuneration values are reflected in the Cash salary and fees, Other short-term benefits and Other long-term benefits disclosed in the table.

SHORT TERM INCENTIVE

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

	FY2019 STI					FY2018 STI				
	STI payable (\$) ¹	STI deferred (\$) ²	Total STI payable (\$)	Percentage of target payable/(lapsed)		STI paid (\$)	STI deferred (\$) ³	Total STI paid (\$)	Percentage of target paid/(lapsed)	
Nino Ficca	682,500	341,250	1,023,750	105.0	-	715,000	357,500	1,072,500	110.0	-
Chad Hymas	196,200	-	196,200	109.0	-	198,000	-	198,000	110.0	-
Adam Newman	257,735	-	257,735	93.0	7.0	290,991	-	290,991	105.0	-
Alistair Parker	190,000	-	190,000	95.0	5.0	210,000	-	210,000	105.0	-
Mario Tieppo	178,200	-	178,200	99.0	1.0	187,158	-	187,158	110.0	-

1 Incentive payments for the performance year ended 31 March 2019 have been approved and will be payable in June 2019.

2 One-third of the Managing Director's FY2019 award will be deferred into share rights to be held for a period of two years. STI is paid in cash for all other executives.

3 Under the terms of the Deferral Plan, the deferred STI component of Mr Ficca's STI was allocated by way of deferred rights to be held for a period of two years. The number of deferred rights issued was 212,532, being \$357,500 divided by share price of \$1.6821. The share price was calculated based on the volume-weighted average price (VWAP) over the five trading day period commencing on the date AusNet Services released its FY2018 results.

Directors' Report – Remuneration Report (Audited)

7. Statutory Remuneration Disclosures

continued

LONG TERM INCENTIVE

FY2019 LTI VESTING OUTCOMES

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

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

LTI PERFORMANCE RIGHTS ALLOCATION

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

KMP	Maximum total value of grant (\$)¹²	Performance rights granted	Maximum total value of grant (\$)²	Performance rights granted	Maximum total value of grant (\$)²	Performance rights granted
Grant	2016		2017		2018	
Test / Vesting date	31 Mar 2019		31 Mar 2020		31 Mar 2021	
Nino Ficca	706,437	692,585	1,075,617	888,940	978,420	927,412
Chad Hymas	107,487	105,379	155,137	128,212	141,118	133,761
Adam Newman	220,222	215,904	238,854	197,400	217,270	205,943
Alistair Parker	133,175	130,564	172,374	142,458	156,798	148,623
Mario Tieppo	135,203	132,552	146,642	121,192	141,118	133,761
Total	1,302,524	1,276,984	1,788,624	1,478,202	1,634,724	1,549,500

1 These grants have vested. In determining LTIs for the 2016 grant, the Board has not exercised any discretion in relation to the performance measures and outcomes payable under the LTI plan.

2 Amounts represent the value of the performance rights on grant date. Refer to note F.3 in the financial statements for further details.

REMUNERATION PAID TO NON-EXECUTIVE DIRECTORS

The total remuneration paid to Non-executive Directors for FY2019 was \$1,793,811, which is 79.7 per cent of the total available fee pool of \$2,250,000 which was approved by shareholders at the 2016 AGM.

Non-executive Directors	FY	Short-term	Post-employment	Total ¹
		Cash salary and fees	Other short-term benefits ¹ Super-annuation ²	
Ralph Craven	2019	168,950	-	185,000
	2018	168,950	-	185,000
Sally Farrier	2019	200,913	-	220,000
	2018	195,343	-	213,901
Ho Tian Yee ⁴	2019	26,308	-	28,807
	2018	166,667	-	182,500
Li Lequan ⁷	2019	83,333	-	91,250
Peter Mason	2019	409,589	-	430,000
	2018	390,060	-	410,000
Tina McMeckan ³	2018	61,799	-	67,670
Robert Milliner	2019	184,931	-	202,500
	2018	184,931	-	202,500
Nora Scheinkestel	2019	187,215	-	205,000
	2018	181,645	-	198,901
Sun Jianxing ⁶	2019	83,952	-	91,927
	2018	166,754	-	182,596
Tan Chee Meng	2019	168,950	-	185,000
	2018	168,950	-	185,000
Alan Chan Heng Loon ⁵	2019	140,938	-	154,327
Total NEDs	2019	1,655,079	-	1,793,811
	2018	1,685,099	-	1,828,068

1. 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.

2. Superannuation contributions made on behalf of Non-executive Directors to satisfy our obligations under applicable Superannuation Guarantee legislation. This does not include any salary sacrifice or employee contributions which are included under Cash salary and fees.

3. Ms Tina McMeckan retired as a Non-executive Director effective 20 July 2017.

4. Mr Ho Tian Yee ceased as Non-executive Director effective 28 May 2018.

5. Mr Alan Chan Heng Loon commenced as Non-executive Director effective 28 May 2018.

6. Mr Sun Jianxing resigned on 1 October 2018.

7. Mr Li Lequan commenced as Non-executive Director effective 1 October 2018.

Directors' Report – Remuneration Report (Audited)

7. Statutory Remuneration Disclosures

continued

SHAREHOLDINGS OF KMP

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

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

Name	Number of shares at 1 April 2018	Granted during the year as compensation	Acquisitions / (disposals)	Number of shares at 31 March 2019
Non-executive Directors²				
Alan Chan Heng Loon ¹	173,947	-	(122,379)	51,568
Ralph Craven	21,000	-	29,000	50,000
Sally Farrier	121,800	-	-	121,800
Li Lequan ¹	-	-	-	-
Peter Mason	100,000	-	-	100,000
Robert Milliner	-	-	-	-
Nora Scheinkestel	43,944	-	30,124	74,068
Tan Chee Meng	50,000	-	100,000	150,000
Executive KMP²				
Nino Ficca	2,263,183	635,420	(635,420)	2,263,183
Chad Hymas	256,733	96,681	(88,631)	264,783
Adam Newman	288,190	198,568	(98,568)	388,190
Alistair Parker	220,464	119,788	6,913	347,165
Mario Tieppo	124,500	121,611	-	246,111

¹ Mr Chan's and Mr Li's number of shares at 1 April 2018 represents the number of shares upon becoming KMP (28 May and 1 October 2018 respectively). Mr Ho and Mr Sun had no shares at the time of ceasing to be KMP.

² Total shareholdings include shares held by KMP and their related parties.

Directors' Report

Statutory disclosures

MEETINGS OF DIRECTORS

We are committed to achieving a high standard of corporate governance. A key role of the Board is to represent and serve the interests of shareholders by overseeing and appraising the strategies, policies and performance of the company. To effectively do this, the following standing committees were in place during FY2019:

- > **Audit and Risk Management Committee (ARMC)** – oversees the adequacy and effectiveness of AusNet Services' audit program, risk management processes and internal control systems, including the monitoring of material business risks (financial and non-financial) and corporate compliance;
- > **Nomination Committee** – reviews and makes recommendations to the Board in relation to the appointment of new Directors, review of Board and Board Committee membership and performance, Board and CEO succession planning and the appointment of senior managers; and
- > **Remuneration Committee** – reviews and advises the Board on matters relating to the remuneration of Directors, and the remuneration and performance of senior executives.

The number of meetings of the Board of Directors and of each standing Board Committee of AusNet Services Ltd held during the year ended 31 March 2019, and the number of meetings attended by each Director, are set out in the following table:

	Board of AusNet Services Ltd		Audit and Risk Management Committee		Nomination Committee		Remuneration Committee	
	A	B	A	B	A	B	A	B
Peter Mason (Chair)	8	8	4	-	3	3	4	-
Nino Ficca (MD)	8	8	6	-	3	-	6	-
Alan Chan Heng Loon ¹	6	7	-	-	2	2	5	5
Ralph Craven	8	8	6	6	3	3	-	-
Sally Farrier	8	8	6	6	3	3	6	6
Ho Tian Yee ²	1	1	-	-	1	1	1	1
Li Lequan ³	5	5	-	-	1	1	2	3
Robert Milliner	8	8	6	6	3	3	6	6
Nora Scheinkestel	8	8	6	6	3	3	-	-
Sun Jianxing ⁴	3	3	-	-	2	2	3	3
Tan Chee Meng	8	8	5	6	3	3	-	-

1 Mr Chan was appointed as a Director effective 28 May 2018.

2 Mr Ho retired as a Director effective 28 May 2018.

3 Mr Li was appointed as a Director effective 1 October 2018.

4 Mr Sun resigned as a Director effective 1 October 2018.

A = Number of meetings attended. Note that Directors may attend Committee meetings without being a member of that Committee.

B = Number of meetings held during the time the Director held office (in the case of Board meetings) or was a member of the relevant Committee during the year.

Directors' Report

Statutory disclosures continued

INDEMNIFICATION AND INSURANCE OF OFFICERS AND AUDITORS

The constitution of AusNet Services 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 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 Ltd may enter into a deed with any Officer to give effect to the rights conferred by the constitution as described above.

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 Services. The Directors have not included details of the nature of the liabilities covered or the amount of the premium paid in respect of the insurance policy, as (in accordance with normal commercial practice) such disclosure is prohibited under the terms of the policy.

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

NON-AUDIT SERVICES

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

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

In accordance with the advice provided by the Audit and Risk Management Committee, the Directors are satisfied that the provision of non-audit services during the year by the auditor is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The Directors are satisfied for the following reasons:

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

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 68.

ENVIRONMENTAL REGULATION AND CLIMATE CHANGE

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

Under the *National Greenhouse and Energy Reporting (NGER) Act 2007* (Cth), corporations that meet or exceed thresholds are required to report greenhouse gas emissions and energy usage by 31 October each year. We meet these thresholds and have lodged our NGER reporting with the Clean Energy Regulator for the period from 1 July 2017 to 30 June 2018.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

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

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

DIVIDEND

Since the end of the financial year, the Directors have approved a final dividend for FY2019 of \$177.5 million (4.86 cents per share) to be paid on 27 June 2019. The final dividend will be 45 per cent franked.

ROUNDING OF AMOUNTS

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

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



Peter Mason AM
Chairman



Nino Ficca
Managing Director

Melbourne
12 May 2019



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

To the Directors of AusNet Services Ltd

I declare that, to the best of my knowledge and belief, in relation to the audit of AusNet Services Ltd for the financial year ended 31 March 2019 there have been:

- i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- ii. no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

KPMG

A handwritten signature in blue ink, appearing to read 'Paul J McDonald', written in a cursive style.

Paul J McDonald

Partner

Melbourne

12 May 2019

Consolidated income statement

For the year ended 31 March 2019

	Notes	2019 \$M	2018 \$M
Revenue	B.1	1,861.5	1,909.8
Use of system and associated charges		(89.9)	(93.6)
Easement and land tax		(142.5)	(142.2)
Employee benefits expenses		(188.0)	(199.0)
External maintenance and contractors' services		(121.9)	(137.1)
Materials		(26.5)	(38.9)
Information technology and communication costs		(51.1)	(54.1)
Operating lease rental expenses		(11.3)	(12.8)
Administrative expenses		(32.5)	(32.4)
Service level payments		(8.5)	(5.5)
Disposal of property, plant and equipment		(21.5)	(15.0)
Other costs		(33.6)	(36.3)
Total expenses excluding depreciation, amortisation, interest and tax		(727.3)	(766.9)
Earnings before interest, tax, depreciation and amortisation		1,134.2	1,142.9
Depreciation and amortisation	C.1, C.2	(456.4)	(442.4)
Profit from operating activities		677.8	700.5
Finance income	D.4	18.3	15.9
Finance costs	D.4	(324.2)	(299.8)
Net finance costs		(305.9)	(283.9)
Profit before income tax		371.9	416.6
Income tax expense	B.5	(118.0)	(125.2)
Profit for the year		253.9	291.4
Basic and diluted earnings per share (cents per share)	B.3	7.01	8.08

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

Consolidated statement of comprehensive income

For the year ended 31 March 2019

	Notes	2019 \$M	2018 \$M
Profit for the year		253.9	291.4
Other comprehensive income			
Items that will not be reclassified to profit or loss in subsequent periods			
Movement in defined benefit fund	F.2	(5.1)	20.6
Income tax on movement in defined benefit fund	B.5	1.6	(6.1)
		(3.5)	14.5
Items that may be reclassified to profit or loss in subsequent periods			
Movement in hedge reserve		(291.2)	(146.2)
Income tax on movement in hedge reserve	B.5	93.1	46.9
	D.3	(198.1)	(99.3)
Other comprehensive income for the year, net of tax		(201.6)	(84.8)
Total comprehensive income for the year		52.3	206.6

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

Consolidated statement of financial position

As at 31 March 2019

	Notes	2019 \$M	2018 \$M
ASSETS			
Current assets			
Cash and cash equivalents		339.4	658.2
Receivables	B.4	199.9	183.0
Desalination licence receivable	C.3	12.1	12.3
Inventories	B.4	50.5	42.3
Derivative financial instruments	D.3	139.2	0.9
Other assets	B.4	24.3	24.5
Total current assets		765.4	921.2
Non-current assets			
Inventories	B.4	18.3	18.9
Property, plant and equipment	C.1	10,789.9	10,291.8
Intangible assets	C.2	542.3	550.1
Desalination licence receivable	C.3	172.0	180.8
Derivative financial instruments	D.3	473.0	501.6
Other assets	B.4	54.9	52.9
Total non-current assets		12,050.4	11,596.1
Total assets		12,815.8	12,517.3
LIABILITIES			
Current liabilities			
Payables and other liabilities	B.4	292.1	280.4
Provisions	B.4	98.0	93.3
Borrowings	D.2	979.7	465.4
Derivative financial instruments	D.3	2.7	77.8
Current tax payable		31.9	3.6
Total current liabilities		1,404.4	920.5
Non-current liabilities			
Deferred revenue	B.4	199.3	87.1
Provisions	B.4	58.7	49.6
Borrowings	D.2	6,966.7	7,099.7
Derivative financial instruments	D.3	347.2	192.9
Deferred tax liabilities	B.5	550.4	611.5
Total non-current liabilities		8,122.3	8,040.8
Total liabilities		9,526.7	8,961.3
Net assets		3,289.1	3,556.0
EQUITY			
Contributed equity	D.5	5,222.9	5,162.5
Reserves		(1,761.6)	(1,560.3)
Retained profits		922.9	1,048.9
Other equity		(1,095.1)	(1,095.1)
Total equity		3,289.1	3,556.0

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

Consolidated statement of changes in equity

For the year ended 31 March 2019

	Notes	Contributed equity \$M	Restructure reserve \$M ¹
31 March 2019			
Balance as at 1 April 2018		5,162.5	(1,501.9)
Impact of change in accounting policy	A	-	-
Adjusted balance as at 1 April 2018		5,162.5	(1,501.9)
Total comprehensive income for the year			
Profit for the year		-	-
Other comprehensive income		-	-
Total comprehensive income for the year		-	-
Transactions with owners, recorded directly in equity			
Dividends paid	D.6	-	-
Dividend Reinvestment Plan (net of transaction costs)	D.6	59.3	-
Share-based payment reserve	F.3	4.2	-
Shares purchased as part of employee share plans	D.5	(3.1)	-
Total transactions with owners		60.4	-
Balance as at 31 March 2019		5,222.9	(1,501.9)
31 March 2018			
Balance as at 1 April 2017		5,153.2	(1,501.9)
Total comprehensive income for the year			
Profit for the year		-	-
Other comprehensive income		-	-
Total comprehensive income for the year		-	-
Transactions with owners, recorded directly in equity			
Dividends paid	D.6	-	-
Dividend Reinvestment Plan (net of transaction costs)	D.6	19.6	-
Share-based payment reserve	F.3	-	-
Shares purchased as part of employee share plans	D.5	(10.3)	-
Total transactions with owners		9.3	-
Balance as at 31 March 2018		5,162.5	(1,501.9)

- Under the corporate restructure, AusNet Services Ltd shares were issued to shareholders in return for their stapled securities. AusNet Services Ltd share capital was measured at fair value on the date of the transaction, being the market capitalisation of the AusNet Services Stapled Group on the date of implementation of 18 June 2015 (\$4,957.7 million). The difference between the contributed equity of AusNet Services Ltd and the pre restructure contributed equity of the Stapled Group at the date of the transaction was recognised as a restructure reserve.
- 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.
- This amount represents the fair value uplift to the assets of the AusNet Services Transmission Group on the date that the previous Stapled Group was formed. The fair value uplift was applied to easements which are considered to have an indefinite useful life. The amount was carried into the asset revaluation reserve of the Group following the corporate restructure on 18 June 2015.

Hedge reserve \$M ²	Asset revaluation reserve \$M ³	Share based payment reserve \$M ⁴	Other equity component \$M ⁵	Retained profits \$M	Total equity \$M
(117.1)	51.4	7.3	(1,095.1)	1,048.9	3,556.0
-	-	-	-	(33.9)	(33.9)
(117.1)	51.4	7.3	(1,095.1)	1,015.0	3,522.1
-	-	-	-	253.9	253.9
(198.1)	-	-	-	(3.5)	(201.6)
(198.1)	-	-	-	250.4	52.3
-	-	-	-	(342.5)	(342.5)
-	-	-	-	-	59.3
-	-	(3.2)	-	-	1.0
-	-	-	-	-	(3.1)
-	-	(3.2)	-	(342.5)	(285.3)
(315.2)	51.4	4.1	(1,095.1)	922.9	3,289.1
(17.8)	51.4	3.8	(1,095.1)	1,104.8	3,698.4
-	-	-	-	291.4	291.4
(99.3)	-	-	-	14.5	(84.8)
(99.3)	-	-	-	305.9	206.6
-	-	-	-	(361.8)	(361.8)
-	-	-	-	-	19.6
-	-	3.5	-	-	3.5
-	-	-	-	-	(10.3)
-	-	3.5	-	(361.8)	(349.0)
(117.1)	51.4	7.3	(1,095.1)	1,048.9	3,556.0

4 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 2019.

5 The other equity component results from the application of reverse acquisition accounting and represents the difference between the net assets of AusNet Services (Transmission) Ltd and AusNet Finance Pty Ltd and the purchase price paid by the legal acquirer, AusNet Services (Transmission) Ltd on 20 October 2005.

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

Consolidated statement of cash flows

For the year ended 31 March 2019

	Notes	2019 \$M	2018 \$M
Cash flows from operating activities			
Profit for the year		253.9	291.4
Add back interest, tax, depreciation		880.3	851.5
Other non-cash items		(23.5)	(4.8)
Working capital movement		18.7	54.5
Income tax paid		(42.3)	(29.2)
Net interest paid		(273.4)	(277.0)
Net cash inflow from operating activities		813.7	886.4
Cash flows from investing activities			
Payments for property, plant and equipment ¹		(893.1)	(732.7)
Proceeds from sale of property, plant and equipment		1.4	7.1
Receipts from desalination licence receivable	C.3	8.8	8.8
Net cash outflow from investing activities		(882.9)	(716.8)
Cash flows from financing activities			
Payments for employee equity plan shares	D.5	(3.1)	(10.3)
Dividends paid ²	D.6	(283.2)	(342.2)
Proceeds from borrowings	D.2	574.2	900.9
Repayment of borrowings	D.2	(537.5)	(388.6)
Net cash (outflow)/inflow from financing activities		(249.6)	159.8
Net (decrease)/increase in cash held		(318.8)	329.4
Cash and cash equivalents at the beginning of the year		658.2	328.8
Cash and cash equivalents at the end of the year		339.4	658.2

1 Net finance costs include a credit of \$26.4 million (2018: \$16.9 million) for capitalised finance charges which is included in payments for property, plant and equipment.

2 Amounts shown represent dividends paid of \$342.5 million (2018: \$361.8 million) offset by proceeds from the Dividend Reinvestment Plan net of transaction costs of \$59.3 million (2018: \$19.6 million).

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

Notes to the consolidated financial statements

31 March 2019

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Notes to the consolidated financial statements 31 March 2019

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 Ltd and its subsidiaries. The financial statements were approved by the Board of Directors on 12 May 2019.

The financial report has been prepared:

- > in accordance with Australian Accounting Standards and interpretations adopted by the Australian Accounting Standards Board and the *Corporations Act 2001* (Cth), as well as International Financial Reporting Standards and interpretations adopted by the International Accounting Standards Board;
- > on a going concern basis, which contemplates the continuity of normal trading operations. The Group's current liabilities exceed current assets by \$639.0 million at 31 March 2019. The Group is and is expected to continue trading profitably, generating positive operating cash flows and successfully refinancing maturing debt. In addition, at 31 March 2019, the Group has available a total of \$778.0 million of undrawn but committed bank debt facilities and \$339.4 million of cash;
- > under the historical cost convention, except for certain financial assets and liabilities (including derivative financial instruments) measured at fair value; and
- > with amounts rounded off to the nearest hundred thousand dollars, unless otherwise stated, in accordance with Instrument 2016/191 issued by the Australian Securities and Investments Commission.

Except for the adoption of AASB 15 *Revenue from Contracts with Customers* and AASB Interpretation 23 *Uncertainty Over Income Tax Treatments* (refer to note B.5), the accounting policies applied by the Group in this consolidated financial report are the same as those applied by the Group in its consolidated financial report as at and for the year ended 31 March 2018.

(B) CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

- > B.1 - Segment results
- > B.2 - Revenue from contracts with customers
- > B.4 - Working capital
- > B.5 - Taxation
- > C.1 - Property, plant and equipment
- > C.4 - Impairment of non-current assets
- > D.3 - Financial risk management
- > F.2 - Defined benefit obligations

(C) CHANGE IN ACCOUNTING POLICIES – AASB 15 REVENUE FROM CONTRACTS WITH CUSTOMERS

AASB 15 was adopted from 1 April 2018, using the cumulative effect transition method. The cumulative effect transition method allows opening balances of the current period to be adjusted for transition to the new standard. This approach results in revenue that was previously recognised being deferred on to the balance sheet and re-recognised over the life of the impacted contracts (typically 25 to 30 years). This disclosure shows the impact of AASB 15 on the current period's financial statements.

The following tables summarise the impact of adopting AASB 15 on the Group's consolidated statement of financial position as at 31 March 2019 and its consolidated income statement for the year then ended for each of the line items affected. There was no material impact on the Group's statement of cash flows for the year ended 31 March 2019.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2019

	Before adoption of AASB 15 \$M	Impact of AASB 15 \$M	Reported \$M
LIABILITIES			
Current liabilities			
Payables and other liabilities	291.9	0.2 ¹	292.1
Total current liabilities	1,404.2	0.2	1,404.4
Non-current liabilities			
Deferred revenue	148.4	50.9 ¹	199.3
Deferred tax liabilities	565.7	(15.3)	550.4
Total non-current liabilities	8,086.7	35.6	8,122.3
Total liabilities	9,490.9	35.8	9,526.7
EQUITY			
Retained profits	958.7	(35.8) ²	922.9
Total equity	3,324.9	(35.8)	3,289.1

1 Includes AASB 15 transition adjustment of \$48.4 million (\$47.5 million non-current, \$0.9 million current) and \$2.7 million of FY2019 deferrals related to negotiated and unregulated transmission contracts.

2 Includes transition adjustment of \$33.9 million and \$1.9 million of FY2019 deferrals.

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 MARCH 2019

	Before adoption of AASB 15 \$M	Impact of AASB 15 \$M	Reported \$M
Revenue	1,864.2	(2.7)	1,861.5
Profit before income tax	374.6	(2.7)	371.9
Income tax expense	(118.8)	0.8	(118.0)
Profit for the period	255.8	(1.9)	253.9

The following adjustments arose as a result of the transition to AASB 15:

NEGOTIATED AND UNREGULATED TRANSMISSION CONTRACTS

Management performed a review of significant contracts which resulted in a change to the accounting treatment of negotiated and unregulated transmission connection contracts. The net impact was a reduction of \$1.9 million on the profit after tax for the year ended 31 March 2019.

The cumulative transition adjustment was a reduction in retained profits of \$33.9 million (after tax, represented by a \$48.4 million increase in deferred revenue and a \$14.5 million decrease in deferred tax liabilities) as at 1 April 2018. The billing schedules in most of these contracts recover higher amounts in the first half of the contract (which are generally 30 year contracts). Under AASB 15, these contracts are considered to have one performance obligation settled evenly over time, being the provision of connection services to the customer. As such, revenue is required to be recognised evenly over the contract term. This results in a deferral of revenue for most of these contracts in the first half of their contract term.

Notes to the consolidated financial statements 31 March 2019

Section B

Operating our business

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

NOTE B.1 SEGMENT RESULTS

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

(A) DESCRIPTION OF REPORTABLE SEGMENTS

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

(i) ELECTRICITY DISTRIBUTION

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

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

CUSTOMER CONTRIBUTIONS

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

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

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

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

(ii) GAS DISTRIBUTION

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

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

(iii) ELECTRICITY TRANSMISSION

We own and manage the vast majority of the electricity transmission network in Victoria. Our electricity transmission network consists of the transmission lines and towers which carry electricity at high voltages from power generators to electricity distributors around Victoria forming the backbone of the Victorian

electricity network. We charge the Australian Energy Market Operator (AEMO), distribution network service providers and electricity generators for connections and use of the electricity transmission network. Prescribed excluded services revenue is generated from assets that will be rolled into the regulated asset base (RAB) in the next regulatory reset period and included in regulated transmission revenue from that date. Negotiated excluded services revenue is generated from assets that are excluded from the RAB but for which revenue is controlled under a regulated negotiating framework. In each case, contracts are based on fixed fees over the life of the asset and performance obligations are satisfied over time. The electricity transmission segment does not purchase or sell electricity.

(iv) MONDO

The Mondo business provides contracted infrastructure asset services and specialised technology solutions to enable energy data and asset intelligence services. The contracted infrastructure asset services business unit owns and operates a portfolio of assets that fall outside the regulated asset base (the largest of which is the Wonthaggi desalination plant transmission connection). The investments are made through directly negotiated agreements, pursuant to which AusNet Services typically receives fixed fee revenue over the contract period in exchange for the infrastructure and operational services provided. Variable consideration includes penalty regimes for unplanned outages, early completion bonuses and other incentives/penalties which vary between contracts and is constrained to the period in which it arises.

KEY ESTIMATES AND JUDGEMENTS – VARIABLE CONSIDERATION

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

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

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

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

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Section B

Operating our business

continued

NOTE B.1 SEGMENT RESULTS (CONTINUED)**(B) REPORTABLE SEGMENT FINANCIAL INFORMATION**

	Electricity distribution	Gas distribution	Electricity transmission	Mondo	Inter- segment eliminations	Consolidated
	\$M	\$M	\$M	\$M	\$M	\$M
2019						
Regulated revenue	784.4	202.4	540.3	-	(9.7)	1,517.4
Excluded transmission revenue	-	-	73.5	-	(0.2)	73.3
Unregulated infrastructure revenue	-	-	-	54.6	-	54.6
Customer contributions	70.2	7.4	-	0.5	-	78.1
Service revenue	-	-	-	103.1	-	103.1
Other revenue	11.6	5.3	4.4	13.9	(0.2)	35.0
Total segment revenue	866.2	215.1	618.2	172.1	(10.1)	1,861.5
Segment operating expense	(337.7)	(62.6)	(227.8)	(109.3)	10.1	(727.3)
Segment result – EBITDA¹	528.5	152.5	390.4	62.8	-	1,134.2
Depreciation and amortisation	(284.4)	(51.8)	(97.5)	(22.7)	-	(456.4)
Net finance costs						(305.9)
Income tax expense						(118.0)
Profit for the year						253.9
Capital expenditure	461.0	106.8	211.1	190.9		969.8
2018						
Regulated revenue	833.0	213.0	542.4	-	(9.5)	1,578.9
Excluded transmission revenue	-	-	53.8	-	(0.1)	53.7
Unregulated infrastructure revenue	-	-	-	49.3	-	49.3
Customer contributions	48.1	11.0	-	-	-	59.1
Service revenue	-	-	-	135.6	(3.6)	132.0
Other revenue	10.3	0.6	5.7	21.3	(1.1)	36.8
Total segment revenue	891.4	224.6	601.9	206.2	(14.3)	1,909.8
Segment operating expense	(351.2)	(62.3)	(222.1)	(145.6)	14.3	(766.9)
Segment result – EBITDA¹	540.2	162.3	379.8	60.6	-	1,142.9
Depreciation and amortisation	(273.9)	(48.6)	(99.4)	(20.5)	-	(442.4)
Net finance costs						(283.9)
Income tax expense						(125.2)
Profit for the year						291.4
Capital expenditure	439.3	96.9	163.8	50.2		750.2

¹ Earnings before interest, tax, depreciation and amortisation.

NOTE B.2 REVENUE FROM CONTRACTS WITH CUSTOMERS

(A) DISAGGREGATED REVENUE

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

31 March 2019	Electricity distribution \$M	Gas distribution \$M	Electricity transmission \$M	Mondo \$M	Inter- segment eliminations \$M	Total \$M
Timing of recognition						
At a point in time	97.4	19.1	4.0	76.0	-	196.5
Over time	767.7	196.0	613.7	95.6	(10.1)	1,662.9
Revenue from contracts with customers	865.1	215.1	617.7	171.6	(10.1)	1,859.4
Other income not in scope of AASB 15						
Lease income	0.1	-	0.5	-	-	0.6
Income from government grants	1.0	-	-	0.5	-	1.5
Total revenue	866.2	215.1	618.2	172.1	(10.1)	1,861.5

KEY ESTIMATES AND JUDGEMENTS – TIMING OF SATISFACTION OF PERFORMANCE OBLIGATIONS

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

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Section B

Operating our business

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NOTE B.3 EARNINGS PER SHARE**(A) BASIC EARNINGS PER SHARE**

	2019	2018
Profit attributable to ordinary shareholders of AusNet Services (\$M)	253.9	291.4
divided by Weighted average number of shares (million)	3,620	3,605
equals Earnings per share (cents)	7.01	8.08

(B) DILUTED EARNINGS PER SHARE

There were no factors causing a dilution of either the profit or loss attributable to ordinary shareholders or the weighted average number of ordinary shares outstanding. We have the option to issue equity to meet vested share rights to employees, however are currently purchasing these on market. Accordingly, basic and diluted earnings per share are the same.

NOTE B.4 WORKING CAPITAL

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

KEY ESTIMATES AND JUDGEMENTS – ACCRUED REVENUE

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

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

	Assets		Liabilities	
	2019 \$M	2018 \$M	2019 \$M	2018 \$M
Accounts receivable/payable	53.1	43.2	(21.2)	(13.5)
Accrued revenue – other/accrued expenses	4.5	4.6	(134.8)	(144.1)
Accrued revenue – contract assets ¹	140.1	130.2	-	-
Related party receivables/payables	1.5	3.3	(36.4)	(27.5)
Deferred revenue – contract liabilities ²	-	-	(44.3)	(44.8)
Deferred revenue – government grants	-	-	(1.3)	(1.3)
Deferred revenue – other	-	-	(1.7)	(1.6)
Other receivables/payables	0.4	0.2	(8.1)	(8.8)
Interest receivables/payables	0.3	1.5	(44.3)	(38.8)
Total current receivables/payables and other liabilities	199.9	183.0	(292.1)	(280.4)
Current other asset	24.3	24.5	-	-
Non-current accounts receivable	0.7	0.8	-	-
Non-current other contract assets ¹	8.0	-	-	-
Non-current other assets ³	46.2	52.1	-	-
Current inventory	50.5	42.3	-	-
Non-current inventory	18.3	18.9	-	-
Non-current deferred revenue – contract liabilities ²	-	-	(132.3)	(35.7)
Non-current deferred revenue – government grants	-	-	(66.2)	(48.9)
Non-current deferred revenue – other	-	-	(0.8)	(2.5)
Current provisions	-	-	(98.0)	(93.3)
Non-current provisions	-	-	(58.7)	(49.6)
Defined benefit reserve and share-based payment reserve	-	-	(33.6)	(41.2)
Working capital	347.9	321.6	(681.7)	(551.6)
Total working capital movement	(103.8)			
<i>Comprising:</i>				
Operating activities	(18.7)			
Investing and financing activities ⁴	(36.7)			
AASB 15 transition (retained profits) ⁵	(48.4)			
	(103.8)			

1 Contract assets primarily relate to unbilled regulated distribution and transmission revenue.

2 Contract liabilities primarily relate to funds received in advance for customer contributions, telecommunications services, unregulated infrastructure services and software maintenance fees. Revenue is recognised over the construction period and contract term. Revenue recognised in FY19 that was included in the contract liability balance at 1 April 2018 was \$32.2 million.

Of the total contract liabilities of \$176.6 million we expect that approximately 25 per cent of these performance obligations will be satisfied in the next twelve months, with the remainder satisfied over the longer term. Long-term obligations primarily comprise unregulated and negotiated transmission contracts (primarily 30 years).

3 Includes \$43.0 million (2018: \$51.9 million) defined benefit surplus; refer to note F.2 for further details.

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

5 Refer to note A(C).

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Section B

Operating our business

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NOTE B.4 WORKING CAPITAL (CONTINUED)

(A) ACCOUNTS RECEIVABLE

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

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

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

The ageing of accounts receivable as at reporting date was:

	Gross 2019 \$M	Allowance 2019 \$M	Gross 2018 \$M	Allowance 2018 \$M
Not past due	39.4	-	28.3	-
0 – 30 days	2.1	-	7.4	-
31 – 60 days	3.0	-	1.9	-
61 – 90 days	2.2	-	0.9	-
Greater than 90 days	9.0	(1.9)	5.5	(0.8)
Total	55.7	(1.9)	44.0	(0.8)

Of those debts that are past due, the majority are receivable from high credit quality counterparties. Receivables relating to regulated revenue streams (which account for approximately 86 per cent of revenues) are owed by retailers and distributors in the industry. There are strict regulatory requirements regarding who can obtain a retail or distribution licence and the Essential Services Commission has minimum prudential requirements which must be met before a participant can be registered as a distributor. The Australian Energy Market Operator (AEMO) also has high prudential requirements for retailers who participate in the market. Retailers must provide guarantees as requested by AEMO to minimise the risk of exposure by other participants to any defaults.

(B) TRADE AND OTHER PAYABLES

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

(C) PROVISIONS

	2019 \$M	2018 \$M
Current provisions		
Employee benefits ¹	85.0	83.8
Sundry provisions ²	7.6	5.9
Redundancy provision	4.7	3.0
Environmental provision ³	0.7	0.6
Total current provisions	98.0	93.3
Non-current provisions		
Employee benefits ¹	10.0	8.7
Environmental provision ³	35.1	32.1
Make good provision	13.6	8.8
Total non-current provisions	58.7	49.6
Total provisions	156.7	142.9

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

Notes to the consolidated financial statements 31 March 2019

Section B

Operating our business

continued

NOTE B.5 TAXATION**KEY ESTIMATES AND JUDGEMENTS – INCOME TAXES**

The tax expense and deferred tax balances assume certain tax outcomes and values of assets in relation to the application of tax legislation as it applies to 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.

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

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

(A) EFFECTIVE TAX RATE RECONCILIATION

	2019 \$M	2018 \$M
Profit before income tax	371.9	416.6
Tax at the Australian tax rate of 30.0% (2018: 30.0%)	111.6	125.0
Tax effect of amounts which are not (taxable)/deductible in calculating taxable income:		
Prior year under provisions	0.5	0.6
Tax risk provision	11.0	-
Sundry items	(5.1)	(0.4)
Income tax expense	118.0	125.2
Consists of:		
Current tax	68.6	53.3
Prior year under/(over) provision – current tax	1.9	(5.2)
Deferred tax	48.9	71.3
Prior year (over)/under provision – deferred tax	(1.4)	5.8
Income tax expense	118.0	125.2

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

(B) CURRENT TAX

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

(C) DEFERRED TAX

	Deferred tax assets / (Deferred tax liabilities)					
	1 April 2018 \$M	Other items \$M ¹	Prior year (under)/ overs \$M	(Charged)/ credited to income statement \$M	Charged/ (credited) directly in equity \$M	31 March 2019 \$M
2019						
Employee benefits	27.8	-	-	0.8	-	28.6
Other accruals and provisions	57.5	14.5	-	19.8	(0.6)	91.2
Derivative financial instruments and fair value adjustments on borrowings	11.4	-	(1.1)	9.9	93.1	113.3
Defined benefit funds	(15.6)	-	-	1.1	1.6	(12.9)
Intangibles	(26.7)	-	-	-	-	(26.7)
Desalination licence receivable	(23.3)	-	-	(4.4)	-	(27.7)
Property, plant and equipment	(642.6)	-	2.5	(76.1)	-	(716.2)
Net deferred tax liabilities	(611.5)	14.5	1.4	(48.9)	94.1	(550.4)
	1 April 2017 \$M	Other items \$M ¹	Prior year (under)/ overs \$M	(Charged)/ credited to income statement \$M	Charged/ (credited) directly in equity \$M	31 March 2018 \$M
2018						
Employee benefits	28.9	-	-	(1.1)	-	27.8
Other accruals and provisions	51.6	-	(0.1)	5.5	0.5	57.5
Derivative financial instruments and fair value adjustments on borrowings	(39.0)	-	-	3.5	46.9	11.4
Defined benefit funds	(9.8)	-	-	0.3	(6.1)	(15.6)
Intangibles	(26.6)	-	-	(0.1)	-	(26.7)
Desalination licence receivable	(18.9)	-	-	(4.4)	-	(23.3)
Property, plant and equipment	(572.6)	10.7	(5.7)	(75.0)	-	(642.6)
Net deferred tax liabilities	(586.4)	10.7	(5.8)	(71.3)	41.3	(611.5)

1 Other items in the current year relates to the tax effect of the AASB 15 transition adjustment per note A.

During FY2016 AusNet Services Ltd formed a single tax consolidated group that replaced the previous two tax consolidated groups of AusNet Services (Distribution) Ltd and AusNet Services (Transmission) Ltd. As a result of this change the tax bases of the assets of the AusNet Services (Distribution) Ltd tax consolidated group were reset with a valuation uplift.

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

Notes to the consolidated financial statements 31 March 2019

Section B

Operating our business

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NOTE B.5 TAXATION (CONTINUED)

(C) DEFERRED TAX (CONTINUED)

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

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

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

(i) TAX CONSOLIDATION

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

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

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

treatment of entities leaving the tax consolidated group.

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

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

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Section C

Investing in our business

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

NOTE C.1 PROPERTY, PLANT AND EQUIPMENT

KEY ESTIMATES AND JUDGEMENTS – USEFUL LIFE ASSESSMENTS

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

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

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

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

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

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

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

Notes to the consolidated financial statements 31 March 2019

Section C

Investing in our business

continued

NOTE C.1 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Freehold land \$M	Buildings \$M	Easements \$M ¹
Useful life (years)	Indefinite	40–99	30–indefinite
2019			
Carrying amount as at 1 April 2018	253.5	423.0	1,223.4
Additions	-	-	-
Transfers	-	13.9	4.1
Disposals	-	-	-
Depreciation expense	-	(11.1)	(0.1)
Carrying amount as at 31 March 2019	253.5	425.8	1,227.4
Cost	253.5	528.6	1,227.5
Accumulated depreciation	-	(102.8)	(0.1)
Carrying amount as at 31 March 2019	253.5	425.8	1,227.4

1 Easements for unregulated transmission contracts are depreciated over the life of the contract.

	Freehold land \$M	Buildings \$M	Easements \$M
Useful life (years)	Indefinite	40–99	Indefinite
2018			
Carrying amount as at 1 April 2017	253.2	410.6	1,219.2
Additions	-	-	-
Transfers	0.3	26.9	4.2
Disposals	-	(0.8)	-
Depreciation expense	-	(13.7)	-
Carrying amount as at 31 March 2018	253.5	423.0	1,223.4
Cost	253.5	521.5	1,223.4
Accumulated depreciation	-	(98.5)	-
Carrying amount as at 31 March 2018	253.5	423.0	1,223.4

Transmission network \$M	Electricity distribution network \$M	Gas distribution network \$M	Other plant and equipment \$M	Capital work in progress \$M	Total \$M
15–70	5–70	15–80	3–12	n/a	
2,104.3	4,007.1	1,557.3	194.0	529.2	10,291.8
-	-	-	-	924.6	924.6
223.1	400.8	110.5	49.1	(801.5)	-
(1.4)	(13.2)	(6.4)	(2.1)	-	(23.1)
(80.4)	(187.6)	(46.1)	(78.1)	-	(403.4)
2,245.6	4,207.1	1,615.3	162.9	652.3	10,789.9
3,119.8	5,780.3	2,104.9	686.1	652.3	14,353.0
(874.2)	(1,573.2)	(489.6)	(523.2)	-	(3,563.1)
2,245.6	4,207.1	1,615.3	162.9	652.3	10,789.9

Transmission network \$M	Electricity distribution network \$M	Gas distribution network \$M	Other plant and equipment \$M	Capital work in progress \$M	Total \$M
15–70	5–70	15–80	3–12	n/a	
2,055.3	3,901.3	1,515.3	248.1	397.0	10,000.0
-	-	-	-	702.6	702.6
135.1	292.5	88.3	23.1	(570.4)	-
(6.4)	(10.3)	(2.6)	(0.6)	-	(20.7)
(79.7)	(176.4)	(43.7)	(76.6)	-	(390.1)
2,104.3	4,007.1	1,557.3	194.0	529.2	10,291.8
2,899.3	5,414.0	2,012.9	677.7	529.2	13,531.5
(795.0)	(1,406.9)	(455.6)	(483.7)	-	(3,239.7)
2,104.3	4,007.1	1,557.3	194.0	529.2	10,291.8

Notes to the consolidated financial statements 31 March 2019

Section C

Investing in our business

continued

NOTE C.2 INTANGIBLE ASSETS

	Distribution licences \$M ¹	Goodwill \$M ²	Software \$M ³	Other intangible assets \$M	Total \$M
Useful life (years)	Indefinite	Indefinite	3–10	3–10	
2019					
Carrying amount as at 1 April 2018	354.5	35.8	159.1	0.7	550.1
Additions	-	-	45.2	-	45.2
Amortisation expense	-	-	(52.4)	(0.6)	(53.0)
Carrying amount as at 31 March 2019	354.5	35.8	151.9	0.1	542.3
Cost	354.5	35.8	587.6	5.5	983.4
Accumulated depreciation	-	-	(435.7)	(5.4)	(441.1)
Carrying amount as at 31 March 2019	354.5	35.8	151.9	0.1	542.3
2018					
Carrying amount as at 1 April 2017	354.5	35.8	162.6	1.9	554.8
Additions	-	-	47.6	-	47.6
Transfers	-	-	0.7	(0.7)	-
Amortisation expense	-	-	(51.8)	(0.5)	(52.3)
Carrying amount as at 31 March 2018	354.5	35.8	159.1	0.7	550.1
Cost	354.5	35.8	545.8	5.5	941.6
Accumulated amortisation	-	-	(386.7)	(4.8)	(391.5)
Carrying amount as at 31 March 2018	354.5	35.8	159.1	0.7	550.1

1 DISTRIBUTION LICENCES

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

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

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

2 GOODWILL

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

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

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

3 SOFTWARE

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

NOTE C.3 DESALINATION LICENCE RECEIVABLE

	2019 \$M	2018 \$M
Desalination licence receivable		
Current receivable	12.1	12.3
Non-current receivable	172.0	180.8
Total desalination licence receivable	184.1	193.1

In December 2012 we entered into a 27-year licence agreement with the Victorian State Government for the right to operate and maintain the 87-kilometre high voltage underground transmission line supplying electricity to the Victorian Desalination Plant in Wonthaggi. At the same time, we entered into a 27-year agreement with the desalination plant operator to operate and maintain the transmission line in return for a monthly revenue payment.

The upfront payment of \$235 million plus transaction costs of \$1.2 million for the licence has been classified as a receivable. This receivable is interest bearing and \$8.8 million (2018: \$8.8 million) of the total cash flows received from the operator during the year has been allocated against this receivable balance. The monthly revenue payment received from the operator is fixed, with an annual adjustment for inflation. Any amounts not received from the operator, but which are past due, can be recovered from the Victorian State Government.

At the end of the agreements we are required to hand back the transmission line and all associated assets. In the event of early termination of the agreements, the unamortised portion of the upfront licence payment is refunded, along with the reimbursement of necessary costs incurred in order to effect the termination.

NOTE C.4 IMPAIRMENT OF NON-CURRENT ASSETS

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

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

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

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

KEY ESTIMATES AND JUDGEMENTS – DETERMINATION OF CGUs AND ESTIMATED RECOVERABLE AMOUNT OF CGUs

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

Key estimates and judgements have also been applied in the discount rate and terminal value multiples used in the measurement of recoverable amount, the details of which are provided overleaf.

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Section C

Investing in our business

continued

NOTE C.4 IMPAIRMENT OF NON-CURRENT ASSETS (CONTINUED)

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

	Cash flow projection period ¹		Post-tax discount rate ²		Carrying value	
	2019 years	2018 years	2019 %	2018 %	2019 \$M	2018 \$M
Regulated CGUs						
Electricity distribution (distribution licence)	20	20	5.1	5.2	117.2	117.2
Electricity distribution (goodwill)	20	20	5.1	5.2	19.0	19.0
Gas distribution (distribution licence)	20	20	5.1	5.2	237.3	237.3
Unregulated CGUs						
Mondo – field services (goodwill)	5	5	10.2	10.3	16.5	16.5

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

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

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

NOTE C.5 COMMITMENTS

(A) CAPITAL COMMITMENTS

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

	2019 \$M	2018 \$M
Property, plant and equipment	312.0	340.5

(B) LEASE COMMITMENTS

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

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

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

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

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

	2019 \$M	2018 \$M
Payable:		
Within one year	13.4	14.0
Later than one year, but no later than five years	48.4	31.1
Later than five years	93.2	47.3
	155.0	92.4
Representing:		
Non-cancellable operating leases	155.0	92.4

Notes to the consolidated financial statements 31 March 2019

Section D

Financing our business

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

NOTE D.1 CAPITAL MANAGEMENT

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

Our policy is to target an 'A' range credit rating to ensure low cost of capital in order to generate desired shareholder returns.

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

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

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

In addition, there are other important credit metrics that we regularly monitor. These include funds from operations (FFO) to debt and interest cover ratio.

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

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

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

NOTE D.2 BORROWINGS

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

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

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

	Maturity date	Carrying Value		Face Value ¹	
		2019 \$M	2018 \$M	2019 \$M	2018 \$M
Current borrowings					
Swiss francs (CHF) senior notes	Apr 2019	389.5	-	283.2	-
Bank debt facilities	Oct 2019	22.0	4.0	22.0	4.5
Domestic medium-term notes	Feb 2020	341.1	-	335.2	-
Hong Kong dollar (HKD) senior notes	Mar 2020	127.1	-	100.0	-
Floating-rate note	Mar 2020	100.0	-	100.0	-
Pound sterling (GBP) senior notes		-	461.4	-	537.5
Total current borrowings		979.7	465.4	840.4	542.0
Non-current borrowings					
Swiss franc (CHF) senior notes		-	378.4	-	283.2
Floating-rate notes		-	99.9	-	100.0
Euro (EUR) senior notes	2020 – 2030	2,637.1	2,608.6	2,329.8	2,329.8
Hong Kong dollar (HKD) senior notes	2021 – 2034	876.5	785.0	751.5	741.0
Domestic medium term notes	2021 – 2043	1,949.5	2,063.8	1,885.0	2,012.4
Japanese yen (JPY) senior notes	2024	66.3	63.4	62.6	62.6
US dollar (USD) senior notes	2026	118.7	103.3	107.0	107.0
Norwegian kroner (NOK) senior notes	2027 – 2029	596.4	333.8	565.8	319.4
US dollar (USD) hybrid securities ²	2076	513.7	464.7	505.7	505.7
Singapore dollar (SGD) hybrid securities ²	2076	208.5	198.8	199.6	199.6
Total non-current borrowings		6,966.7	7,099.7	6,407.0	6,660.7
Total borrowings		7,946.4	7,565.1	7,247.4	7,202.7
less: cash and cash equivalents		339.4	658.2	339.4	658.2
Net debt		7,607.0	6,906.9	6,908.0	6,544.5

1 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.

2 The first call date for hybrid securities is September 2021.

Notes to the consolidated financial statements 31 March 2019

Section D

Financing our business

continued

NOTE D.2 BORROWINGS (CONTINUED)

(A) FOREIGN CURRENCY TRANSLATION

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

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

(B) FAIR VALUES OF FINANCIAL INSTRUMENTS

We have a number of financial assets and liabilities which are not measured at fair value in the consolidated statement of financial position. With the exception of borrowings outlined above, the carrying amounts of these items are considered to be a reasonable approximation of their fair value as at 31 March 2019. The fair value of total borrowings as at 31 March 2019 was \$8,562.0 million (2018: \$8,152.3 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 are required to provide bank guarantees in the form of tender bid bonds or performance bonds for contractual obligations. The subsidiaries have guarantee facilities with a number of institutions amounting to \$15.0 million, of which \$6.1 million was provided to third parties at 31 March 2019 (2018: \$6.6 million).

(E) CHANGES IN LIABILITY ARISING FROM FINANCING ACTIVITIES

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

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

NOTE D.3 FINANCIAL RISK MANAGEMENT

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

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

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

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

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

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

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

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

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

Notes to the consolidated financial statements 31 March 2019

Section D

Financing our business

continued

NOTE D.3 FINANCIAL RISK MANAGEMENT (CONTINUED)

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

The objective of hedging activities in relation to interest rate risk is to minimise the exposure to changes in interest rates by aligning the actual cost of debt with the cost of debt assumed by the regulator. The exposure is managed by maintaining the percentage of fixed-rate debt to total debt at a level between 90 per cent and 100 per cent for the relevant business. We therefore consider net interest rate exposure, after hedging activities, to be minimal for the Group. The percentage of fixed-rate debt to total debt (on a net debt basis) as at 31 March 2019 was 98.5 per cent (2018: 98.8 per cent).

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

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

	2019 \$M	2018 \$M
Financial assets		
Fixed-rate instruments	327.0	650.0
Floating-rate instruments	-	-
Financial liabilities¹		
Fixed-rate instruments	(6,816.5)	(6,475.5)
Floating-rate instruments	(430.9)	(727.2)

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

Our exposure to changes in interest rates is limited to exposures denominated in Australian dollars due to our policy of mitigating interest rate risk exposure on foreign currency debt. As a result, the sensitivity analysis below has only been performed based on movements in Australian interest rates. As at reporting date, if Australian interest rates had increased and decreased by 47 basis points as at 31 March 2019 (2018: 54 basis points), with all other variables held constant, post-tax profit and equity would have increased/(decreased) as follows:

	Net profit after tax		Equity after tax (hedge reserve)	
	2019 \$M	2018 \$M	2019 \$M	2018 \$M
Increase in Australian interest rates with all other variables held constant	1.0	0.5	169.7	194.7
Decrease in Australian interest rates with all other variables held constant	(1.9)	(0.1)	(176.6)	(205.1)

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

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

(B) CURRENCY RISK

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

Notes to the consolidated financial statements 31 March 2019

Section D

Financing our business

continued

NOTE D.3 FINANCIAL RISK MANAGEMENT (CONTINUED)

(C) DERIVATIVE FINANCIAL INSTRUMENTS USED TO HEDGE INTEREST RATE AND CURRENCY RISKS

(i) ACCOUNTING FOR FINANCIAL INSTRUMENTS

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

	Fair value hedges	Cash flow hedges
Objective of the hedge	To mitigate the exposure to changes in fair value of certain borrowings. Fair value hedges are generally fixed rate designated for the terms of borrowings that fall outside of the price review periods for the regulated businesses.	To mitigate the variability in cash flows attributable to variable interest rate and/or foreign currency movements on borrowings or highly probable forecast transactions.
Treatment of changes in fair value of qualifying hedges	Recognised immediately in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.	<p>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.</p> <p>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.</p>
Documentation of the hedge relationship	To ensure derivative financial instruments qualify for hedge accounting we document, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as our risk management objectives and strategy for undertaking various hedge transactions. We also document our assessment, both at hedge inception and on an ongoing basis, of whether the derivative financial instruments that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.	
Discontinuation of hedge accounting	Hedge accounting is discontinued when the hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting.	
	After discontinuation, the previously hedged asset or liability is no longer revalued for changes in fair value.	<p>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.</p> <p>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.</p>

(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 \$M	Forward foreign currency contracts \$M	Cross- currency swaps \$M	Total net derivative financial instruments \$M
2019				
Current assets	5.6	0.2	133.4	139.2
Non-current assets	72.3	-	400.7	473.0
Current liabilities	(2.5)	(0.2)	-	(2.7)
Non-current liabilities	(346.7)	-	(0.5)	(347.2)
Total derivative financial instruments	(271.3)	-	533.6	262.3
Consists of:				
- fair value hedges	78.8	-	207.7	286.5
- cash flow hedges	(350.1)	-	327.1	(23.0)
- not in a hedge relationship	-	-	(1.2)	(1.2)
Total derivative financial instruments	(271.3)	-	533.6	262.3
2018				
Current assets	0.2	0.7	-	0.9
Non-current assets	71.3	0.1	430.2	501.6
Current liabilities	(0.8)	(0.6)	(76.4)	(77.8)
Non-current liabilities	(107.1)	(0.4)	(85.4)	(192.9)
Total derivative financial instruments	(36.4)	(0.2)	268.4	231.8
Consists of:				
- fair value hedges	59.8	-	(153.7)	(93.9)
- cash flow hedges	(95.7)	(0.2)	422.1	326.2
- not in a hedge relationship	(0.5)	-	-	(0.5)
Total derivative financial instruments	(36.4)	(0.2)	268.4	231.8

Notes to the consolidated financial statements 31 March 2019

Section D

Financing our business

continued

NOTE D.3 FINANCIAL RISK MANAGEMENT (CONTINUED)**(C) DERIVATIVE FINANCIAL INSTRUMENTS USED TO HEDGE INTEREST RATE AND CURRENCY RISKS (CONTINUED)****(ii) MEASUREMENT AND CLASSIFICATION (CONTINUED)**

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

Credit risk is included in the fair value of derivative financial instruments based on a bilateral credit risk adjustment obtained using credit default swap curves. Credit risk is obtained directly from the observable Credit Default Swap curves within Bloomberg for each of the relevant counterparties, with the Bilateral Credit Risk applied uniformly across all asset and liability positions as at the reporting date. The difference between the fair value of derivatives and their transaction price at inception due to credit valuation adjustments is recognised progressively over the period to maturity. The unamortised value of the deferred credit risk adjustment for derivative financial instruments as at 31 March 2019 is \$25.8 million (2018: \$38.2 million).

KEY ESTIMATES AND JUDGEMENTS – FAIR VALUE OF DERIVATIVE FINANCIAL INSTRUMENTS

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

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

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

(iii) OFFSETTING DERIVATIVE FINANCIAL INSTRUMENTS

Derivative assets and liabilities are presented on a gross basis. Certain derivative assets and liabilities are subject to enforceable master netting arrangements with individual counterparties if they were subject to default. Notwithstanding that these financial assets and liabilities do not meet the criteria for being presented on a net basis, if these netting arrangements were applied to the derivative portfolio as at 31 March 2019, derivative assets and liabilities would be reduced by \$332.7 million respectively (2018: \$186.0 million). Refer to the below table:

	Gross amounts in the financial statements \$M	Amounts subject to master netting arrangements \$M	Net amount \$M
2019			
Derivative financial assets	612.2	(332.7)	279.5
Derivative financial liabilities	(349.9)	332.7	(17.2)
	262.3	-	262.3
2018			
Derivative financial assets	502.5	(186.0)	316.5
Derivative financial liabilities	(270.7)	186.0	(84.7)
	231.8	-	231.8

(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 \$M ¹	Change in value of hedging instrument used to measure ineffectiveness \$M ¹	Nominal amounts of hedging instruments \$M ¹
Interest rate risk	259.1	(264.4)	12,667.1
Foreign currency risk – debt	85.4	(83.5)	6,429.0
Foreign currency risk – capital expenditure	(0.2)	0.2	25.7

- 1 Nominal amounts represent the total principal in each hedging instrument (derivative) in cash flow hedges. For hedging purposes derivatives are split into multiple hedging components becoming hedging instruments in each hedge relationship. The nominal amounts in the table above are based on these multiple hedging components. The nominal value for all external derivatives in both cash flow and fair value hedges is \$12,501.2 million.

Notes to the consolidated financial statements 31 March 2019

Section D

Financing our business

continued

NOTE D.3 FINANCIAL RISK MANAGEMENT (CONTINUED)**(C) DERIVATIVE FINANCIAL INSTRUMENTS USED TO HEDGE INTEREST RATE AND CURRENCY RISKS (CONTINUED)****(iv) CASH FLOW HEDGES (CONTINUED)**

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

	2019 \$M	2018 \$M
Opening balance of cash flow hedge reserve	(117.1)	(17.8)
Amounts recognised in other comprehensive income, net of income tax:		
Changes in fair value of cash flow hedges (excluding foreign currency basis spreads)	(356.1)	(159.2)
Amounts reclassified to interest expense for effective hedges	79.6	49.8
Changes in foreign currency basis spreads	(14.7)	7.1
Tax effect	93.1	3.0
Total amounts recognised in other comprehensive income, net of income tax	(198.1)	(99.3)
Closing balance of cash flow hedge reserve	(315.2)	(117.1)

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

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

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

(v) FAIR VALUE HEDGES

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

	Carrying amount of the hedged item \$M	Accumulated amount of fair value adjustments on hedged items \$M	Gain/(loss) on remeasurement of hedged item \$M	Gain/(loss) on remeasurement of hedging instruments \$M	Nominal amounts of hedging instruments \$M ¹
AUD denominated borrowings	(2,410.1)	(81.2)	(29.2)	19.0	1,223.0
Foreign currency denominated borrowings	(5,533.9)	(643.3)	(360.5)	361.2	8,866.4

1 Nominal amounts represent the total principal in each hedging instrument (derivative) in fair value hedges. For hedging purposes derivatives are split into multiple hedging components becoming hedging instruments in each hedge relationship. The nominal amounts in the table above are based on these multiple hedging components. The nominal value for all external derivatives in both cash flow and fair value hedges is \$12,501.2 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 table overleaf summarises the contractual cash flows of our non-derivative and derivative financial assets and liabilities based on the remaining earliest contractual maturities. The contractual cash flows are based on undiscounted principal and interest commitments, and foreign exchange rates at the reporting date.

Notes to the consolidated financial statements 31 March 2019

Section D

Financing our business

continued

NOTE D.3 FINANCIAL RISK MANAGEMENT (CONTINUED)**(D) LIQUIDITY RISK (CONTINUED)****(i) CONTRACTUAL CASH FLOWS (CONTINUED)**

2019	Notes	Principal at face value \$M
Financial assets		
Non-derivative financial assets		
Cash and cash equivalents		339.4
Accounts and other receivables	B.4	199.9
Desalination licence receivable	C.3	184.1
Derivative financial assets		
Interest rate swaps		
Cross-currency swaps		
Forward foreign currency contracts		
- Inflow		
- Outflow		
Financial liabilities		
Non-derivative financial liabilities		
Trade and other payables	B.4	244.8
Bank debt facilities		22.0
Domestic medium-term notes		2,220.2
USD senior notes		107.0
CHF senior notes		283.2
HKD senior notes		851.5
JPY senior notes		62.6
EUR senior notes		2,329.8
NOK senior notes		565.8
USD hybrid securities ¹		505.7
SGD hybrid securities ¹		199.6
Floating-rate notes		100.0
Derivative financial liabilities		
Interest rate swaps		
Cross-currency swaps		
Forward foreign currency contracts		
- Inflow		
- Outflow		
Net cash outflow		

¹ The table above assumes that the Group will exercise at the first call date in September 2021.

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
339.4	339.4	339.4	-	-	-
199.9	199.9	199.9	-	-	-
184.1	301.1	23.3	19.4	54.8	203.6
77.9	96.8	26.8	23.6	33.9	12.5
534.1	239.7	114.6	71.4	6.6	47.1
0.2					
	14.4	13.7	0.7	-	-
	(14.2)	(13.5)	(0.7)	-	-
1,335.6	1,177.1	704.2	114.4	95.3	263.2
244.8	244.8	244.8	-	-	-
22.0	22.0	22.0	-	-	-
2,290.6	2,997.2	453.1	95.5	795.8	1,652.8
118.7	138.5	3.7	3.7	11	120.1
389.5	393.8	393.8	-	-	-
1,003.6	1,248.7	157.9	27.1	148.4	915.3
66.3	68.4	0.9	0.9	2.7	63.9
2,637.1	2,755.7	52.8	843.1	655.3	1,204.5
596.4	734.9	17.8	17.8	53.5	645.8
513.7	604.4	30.4	30.4	543.6	-
208.5	236.5	11.6	11.4	213.5	-
100.0	103.5	103.5	-	-	-
349.2	394.2	62.4	62.6	141.7	127.5
0.5	14.2	0.3	0.1	1.5	12.3
0.2					
	(11.4)	(6.8)	(3.9)	(0.7)	-
	11.6	7.0	4.0	0.6	-
8,541.1	9,957.0	1,555.2	1,092.7	2,566.9	4,742.2
	(8,779.9)	(851.0)	(978.3)	(2,471.6)	(4,479.0)

Notes to the consolidated financial statements 31 March 2019

Section D

Financing our business

continued

NOTE D.3 FINANCIAL RISK MANAGEMENT (CONTINUED)**(D) LIQUIDITY RISK (CONTINUED)****(i) CONTRACTUAL CASH FLOWS (CONTINUED)**

2018	Notes	Principal at face value \$M
Financial assets		
Non-derivative financial assets		
Cash and cash equivalents		658.2
Accounts and other receivables	B.4	183.0
Desalination licence receivable	C.3	193.1
Derivative financial assets		
Interest rate swaps		
Cross-currency swaps		
Forward foreign currency contracts		
- Inflow		
- Outflow		
Financial liabilities		
Non-derivative financial liabilities		
Trade and other payables	B.4	234.4
Bank debt facilities		4.5
Domestic medium-term notes		2,012.4
Floating-rate notes		100.0
USD senior notes		107.0
GBP senior notes		537.5
CHF senior notes		283.2
HKD senior notes		741.0
JPY senior notes		62.6
EUR senior notes		2,329.8
NOK senior notes		319.4
USD hybrid securities ¹		505.7
SGD hybrid securities ¹		199.6
Derivative financial liabilities		
Interest rate swaps		
Cross-currency swaps		
Forward foreign currency contracts		
- Inflow		
- Outflow		
Net cash outflow		

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

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
658.2	658.2	658.2	-	-	-
183.0	183.0	183.0	-	-	-
193.1	321.7	23.9	19.9	56.5	221.4
71.5	89.7	18.3	18.3	39.8	13.3
430.2	6.1	(35.2)	76.2	3.6	(38.5)
0.8					
	13.2	12.0	1.2	-	-
	(12.4)	(11.3)	(1.1)	-	-
1,536.8	1,259.5	848.9	114.5	99.9	196.2
234.4	234.4	234.4	-	-	-
4.0	4.5	4.5	-	-	-
2,063.8	2,670.2	94.6	444.1	806.8	1,324.7
99.9	106.9	3.4	103.5	-	-
103.3	131.4	3.4	3.4	10.2	114.4
461.4	489.0	489.0	-	-	-
378.4	382.9	4.2	378.7	-	-
785.0	1,027.1	26.4	142.5	128.8	729.4
63.4	66.7	0.9	0.9	2.5	62.4
2,608.6	2,846.4	53.5	53.5	923.5	1,815.9
333.8	433.1	10.6	10.6	31.7	380.2
464.7	586.7	28.1	28.1	530.5	-
198.8	237.0	10.9	11.0	215.1	-
107.9	138.0	33.2	28.4	26.8	49.6
161.8	197.1	67.2	14.6	63.8	51.5
1.0					
	(16.6)	(12.4)	(3.0)	(1.2)	-
	17.6	13.0	3.3	1.3	-
8,070.2	9,552.4	1,064.9	1,219.6	2,739.8	4,528.1
	(8,292.9)	(216.0)	(1,105.1)	(2,639.9)	(4,331.9)

Notes to the consolidated financial statements 31 March 2019

Section D

Financing our business

continued

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:

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

(E) CREDIT RISK

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

We have adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults (refer to note B.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. Revenues from a single customer, AEMO (which is majority Government owned), in our electricity transmission segment, represents 30 per cent (2018: 29 per cent) of our total revenues. We are licensed to transmit electricity in Victoria, whereas AEMO is the provider of shared network services and the planner, authoriser, contractor and director of augmentation of the declared shared network in Victoria. A network agreement is in place between both parties whereby we receive network charges from AEMO for the use of our transmission network to transmit electricity to participants in the market. Due to the nature of this network agreement, we do not believe that there is any significant

credit risk exposure on this customer. Therefore, we consider the credit risk exposure to be minimal.

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

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies. At balance date we had \$327 million on term deposit and \$490.7 million of cross currency and interest rate swaps with 'A' rated or higher Australian and international banks.

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

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

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

NOTE D.4 NET FINANCE COSTS

	2019 \$M	2018 \$M
Finance income¹		
Interest income	6.6	3.7
Return on desalination licence receivable (refer to note C.3)	11.7	12.2
Total finance income	18.3	15.9
Finance costs²		
Interest expense	323.2	308.6
Other finance charges – cash	3.4	3.4
Other finance charges – non-cash	5.1	3.6
Loss on fair value hedges	9.5	15.4
Loss on transactions not in a hedge relationship	0.7	0.1
Loss/(gain) on ineffective portion of cash flow hedges	3.4	(13.4)
Unwind of discount on provisions	7.0	0.2
Defined benefit net interest (income)/expense	(1.7)	(1.2)
Capitalised finance charges ³	(26.4)	(16.9)
Total finance costs	324.2	299.8
Net finance costs	305.9	283.9

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

2 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.

3 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 4.6 per cent (2018: 4.6 per cent) applicable to our outstanding borrowings at the end of the period.

Notes to the consolidated financial statements 31 March 2019

Section D

Financing our business

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NOTE D.5 EQUITY

	Notes	2019 \$M	2018 \$M
Contributed equity			
Ordinary shares – fully paid	(a), (b)	5,232.1	5,172.8
Shares held by employee share plans trust	(c)	(9.2)	(10.3)
Total contributed equity		5,222.9	5,162.5

(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 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	Issue price	Number of shares	\$M
1 April 2018	Opening balance		3,614,346,765	5,172.8
20 December 2018	Dividend Reinvestment Plan ¹	\$1.55	38,317,611	59.3
31 March 2019	Closing balance		3,652,664,376	5,232.1
1 April 2017	Opening balance		3,603,155,012	5,153.2
27 June 2017	Dividend Reinvestment Plan ¹	\$1.69	7,214,309	12.2
21 December 2017	Dividend Reinvestment Plan ¹	\$1.86	3,977,444	7.4
31 March 2018	Closing balance		3,614,346,765	5,172.8

¹ The value of DRP is net of transaction costs.

(C) SHARES HELD BY EMPLOYEE SHARE PLANS TRUST

In FY2018 the Group established an employee share trust used as a delivery mechanism to satisfy future vesting entitlements for the Short Term Incentive Plan deferred equity rights for the Managing Director and the Long Term Incentive Plan (LTIP) performance rights. During the year, 1,901,462 shares were acquired on market at an average price of \$1.60 per share and 2,411,082 shares vested at an average price of \$1.73 per share.

The share trust is held by Computershare Pty Ltd and for accounting purposes the trust is deemed to be controlled by AusNet Services. Accordingly, the shares held by the trust are consolidated into the Group's financial statements. The shares have been excluded for the earnings per share calculation in note B.3.

NOTE D.6 DIVIDENDS

The following dividends were approved and paid by AusNet Services to shareholders during the current and previous financial years:

Dividends	Paid by	Date paid	Cents per share	Total dividend \$M
Final FY2018 dividend	AusNet Services	28 June 2018	4.620	166.8
Interim FY2019 dividend	AusNet Services	20 December 2018	4.860	175.7
Total dividends			9.480	342.5

In relation to the dividends paid in the current financial year of \$342.5 million (2018: \$361.8 million), \$59.3 million (2018: \$19.6 million) was utilised in the allotment of new shares issued under the Dividend Reinvestment Plan (DRP), net of transaction costs.

Dividends	Paid by	Date paid	Cents per share	Total dividend \$M
Final FY2017 dividend – ordinary	AusNet Services	27 June 2017	4.400	158.6
Final FY2017 dividend – special	AusNet Services	27 June 2017	1.000	36.0
Interim FY2018 dividend	AusNet Services	21 December 2017	4.630	167.2
Total dividends			10.030	361.8

(A) FRANKING ACCOUNT

	2019 \$M	2018 \$M
Franking credits available to shareholders	72.8	32.4

The above available amounts are based on the balance of the dividend franking account at year end adjusted for the increase in franking credits that will arise on payment of the income tax provision at 31 March 2019.

Included within the franking account is \$11.0 million arising from the tax risk provision related ATO audit matter. If the Group's view prevails in this matter, this amount will be reversed, resulting in lower available franking credits.

Notes to the consolidated financial statements 31 March 2019

Section E

Group structure

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

NOTE E.1 SUBSIDIARIES

Subsidiaries are entities controlled by the Group. Control exists when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. In assessing control, potential voting rights that are presently exercisable or convertible are taken into account.

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

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

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

Name of entity	Country of incorporation	Class of shares	Equity holding	
			2019 %	2018 %
AusNet Services Ltd	Australia	Ordinary		
AusNet Services (Distribution) Pty Ltd	Australia	Ordinary	100.0	100.0
AusNet Services (RE) Pty Ltd	Australia	Ordinary	100.0	100.0
AusNet Distribution Group Pty Ltd ¹	Australia	Ordinary	100.0	100.0
AusNet LDP (No.1) Ltd ¹	UK	n/a	100.0	100.0
AusNet LDP (No.2) Ltd ¹	UK	n/a	100.0	100.0
AusNet Holdings General Partner Pty Ltd ¹	Australia	Ordinary	100.0	100.0
AusNet Holdings (Partnership) Ltd Partnership ¹	Australia	n/a	100.0	100.0
AusNet Services Holdings Pty Ltd	Australia	Ordinary	100.0	100.0
AusNet Electricity Services Pty Ltd	Australia	Ordinary	100.0	100.0
AusNet Asset Services Pty Ltd	Australia	Ordinary	100.0	100.0
AusNet (No. 8) Pty Ltd ¹	Australia	Ordinary	100.0	100.0
AusNet (No. 9) Pty Ltd ¹	Australia	Ordinary	100.0	100.0
AusNet Gas Services Pty Ltd	Australia	Ordinary	100.0	100.0
Mondo Power Pty Ltd ²	Australia	Ordinary	100.0	100.0
AusNet Services (Transmission) Pty Ltd	Australia	Ordinary	100.0	100.0
AusNet Transmission Group Pty Ltd	Australia	Ordinary	100.0	100.0
AusNet Finance Pty Ltd ¹	Australia	Ordinary	100.0	100.0
Geomatic Holdings Pty Ltd	Australia	Ordinary	100.0	100.0
Geomatic Technologies Pty Ltd	Australia	Ordinary	100.0	100.0
AusNet Services Insurance Ltd	Guernsey	Ordinary	100.0	100.0
AusNet Services Finance Trust	Australia	Ordinary	100.0	100.0

¹ In March 2019, the Boards of these companies resolved to liquidate these dormant companies and to dissolve the partnership.

² Renamed during FY2019, previously called Select Solutions Group Pty Ltd.

NOTE E.2 PARENT ENTITY INFORMATION

(A) STATEMENT OF FINANCIAL POSITION

	2019 \$M	2018 \$M
Current assets	31.9	207.0
Non-current assets	5,409.7	5,159.2
Total assets	5,441.6	5,366.2
Current liabilities	31.9	25.6
Non-current liabilities	1.1	-
Total liabilities	33.0	25.6
Contributed equity	5,222.9	5,162.5
Reserves	2.6	5.7
Retained profits	183.1	172.4
Total equity	5,408.6	5,340.6

(B) STATEMENT OF COMPREHENSIVE INCOME

	2019 \$M	2018 \$M
Profit for the year	353.1	334.0
Total comprehensive income for the year	353.1	334.0

(C) CONTINGENT LIABILITIES

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

Notes to the consolidated financial statements 31 March 2019

Section E

Group structure

continued

NOTE E.3 RELATED PARTY TRANSACTIONS**(A) MAJOR SHAREHOLDERS**

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

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

(B) KEY MANAGEMENT PERSONNEL

	2019 \$	2018 \$
Short-term employee benefits	6,638,532	6,796,678
Post-employment benefits	351,085	364,354
Equity-based payments	1,049,045	1,196,906
Other long-term benefits	84,555	83,930
	8,123,217	8,441,868

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

(C) TRANSACTIONS WITH RELATED PARTIES

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

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

Zinfra (a subsidiary of Jemena) performs construction services under competitive tender processes. Increasing construction services provided by related parties reflect the increasing capital expenditure in FY2019, largely as a result of wind farm connections. AusNet Services outsource a large portion of construction expenditure and the procurement function manages competitive tender processes for all contracts.

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

	2019 \$'000	2018 \$'000
Sales of goods and services		
Regulated revenue ¹	10,937	8,313
Services revenue	2,888	15,162
Purchases of goods and services		
Other expenses	3,912	2,792
Property, plant and equipment (construction services)	166,703	108,298
Dividends paid, net of DRP	140,035	171,746

1 Represents revenues from the provision of electricity distribution and electricity transmission services which are regulated by the AER.

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

	2019 \$'000	2018 \$'000
Current receivables (sale of goods and services)		
Jemena ¹	1,326	192
Singapore Power entities	185	3,133
Current payables and other liabilities (purchase of goods)		
Jemena	36,407	27,473

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

1 Includes outstanding amounts from the provision of electricity distribution and electricity transmission services which are regulated by the AER.

Notes to the consolidated financial statements 31 March 2019

Section F

Other disclosures

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

NOTE F.1 REMUNERATION OF AUDITORS

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

	2019 \$'000	2018 \$'000
Audit and review services		
Audit and review of financial statements	1,474	1,439
Audit of regulatory returns ¹	500	500
Total remuneration for audit and review services	1,974	1,939
Other services		
Other assurance, taxation and advisory services	115	292
Total remuneration for other services	115	292
Total remuneration of auditors	2,089	2,231

1 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 two defined benefit superannuation plans that are managed by Equipsuper. The funds provide defined benefit amounts to employees or their dependants upon retirement, death, disablement or withdrawal. Benefits are mostly in the form of a lump sum based on the employee's final average salary, although, in some cases, defined benefit members are also eligible for pension benefits. The terms and conditions of the two plans are consistent.

The defined benefit sections of the Equipsuper plans are closed to new members. All new members receive defined contribution, accumulation-style benefits.

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

	2019 \$M	2018 \$M
Total amount included in the statement of financial position in respect of the defined benefit plans is as follows:		
Present value of defined benefit obligations	(266.2)	(261.0)
Fair value of plan assets	309.2	312.9
Net asset arising from defined benefit obligations	43.0	51.9
Amounts recognised in the income statement in respect of the defined benefit plans are as follows:		
Current service cost	6.3	6.2
Net interest (income)/expense on defined benefit obligation	(1.7)	(1.2)
Total	4.6	5.0
Remeasurement (losses)/gains recognised during the year in other comprehensive income	(5.1)	20.6

Each year we engage an independent actuary to perform actuarial reviews of the AusNet Transmission Group Pty Ltd and AusNet Electricity Services Pty Ltd defined benefit funds.

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

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

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

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

From 1 July 2018, AusNet Services ceased to make contributions to the defined benefit plans. This contribution holiday is expected to continue during the next financial year under the Target Funding method used to determine the contribution rates. Under the Target Funding method, the employer contribution rate is set at a level which is expected to result in the plans' assets equalling 105 per cent of the plans' liabilities within five years. The defined benefit superannuation plans expose us to additional actuarial, interest rate and market risk.

(A) MOVEMENT IN DEFINED BENEFIT OBLIGATION

	2019 \$M	2018 \$M
Movements in the present value of the defined benefit obligations were as follows:		
Opening defined benefit obligation	261.0	267.3
Current service cost	6.3	6.2
Interest cost	9.3	10.4
Contributions by plan participants	2.3	2.4
Actuarial loss/(gain)	11.1	(4.4)
Benefits, taxes and premiums paid	(23.8)	(20.9)
Closing defined benefit obligations	266.2	261.0
Movements in the fair value of plan assets were as follows:		
Opening fair value of plan assets	312.9	299.5
Interest income	11.0	11.6
Actual return on fund assets less interest income	6.0	16.2
Contributions from the employer	0.8	4.1
Contributions by plan participants	2.3	2.4
Benefits, taxes and premiums paid	(23.8)	(20.9)
Closing fair value of plan assets	309.2	312.9

The actual return on plan assets was a gain of \$17.0 million (2018: \$27.8 million).

Notes to the consolidated financial statements 31 March 2019

Section F

Other disclosures

continued

NOTE F.2 DEFINED BENEFIT OBLIGATIONS (CONTINUED)**(B) ANALYSIS OF PLAN ASSETS**

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

	2019 %	2018 %
Investments quoted in active markets:		
Australian equities	11	15
International equities	18	16
Fixed interest securities	17	17
Unquoted investments:		
Property	7	8
Growth alternative	11	16
Defensive alternative	9	9
Cash	27	19
	100	100

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

(C) ACTUARIAL ASSUMPTIONS

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

	Defined benefit expense		Defined benefit obligation	
	2019 %	2018 %	2019 %	2018 %
Key assumptions				
Discount rate	3.7	4.1	3.3	3.7
Expected salary increase rate	3.8	3.8	3.8	3.8

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

KEY ESTIMATES AND JUDGEMENTS – DEFINED BENEFIT PLANS

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

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

(D) SENSITIVITY ANALYSIS

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

	Increase \$M	Decrease \$M
Defined benefit obligation		
Discount rate (0.5 per cent movement)	(12.1)	13.0
Expected salary increase rate (0.5 per cent movement)	8.3	(7.9)

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

(E) DEFINED CONTRIBUTION EXPENSE

During the year, we contributed \$17.3 million of defined contribution benefit to employees (2018: \$17.5 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 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.

The Group has the following grants on foot at 31 March 2019:

Plan	Grant date	Vesting date	PRs granted	Value of PRs at grant date
LTIP 2018	1 April 2018	31 March 2021	3,876,789	\$4,186,932
LTIP 2017	1 April 2017	31 March 2020	3,327,515	\$4,026,293
LTIP 2016	1 April 2016	31 March 2019	3,542,013	\$3,612,853

Notes to the consolidated financial statements 31 March 2019

Section F

Other disclosures

continued

NOTE F.3 SHARE-BASED PAYMENTS (CONTINUED)**(A) LONG TERM INCENTIVE PLAN (CONTINUED)**

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

	LTIP 2018	LTIP 2017	LTIP 2016
Share price at grant date (\$)	1.61	1.77	1.56
Exercise price (\$)	0.0	0.0	0.0
Expected volatility %	20	20	20
Risk-free interest rate %	2.19	1.70	1.61
Dividend yield %	5.50	5.75	6.00
Expected life of performance rights (months)	36	36	36

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

Reconciliation of equity rights on issue:

	2018 grant	2017 grant	2016 grant	FY2019 Total	FY2018 Total
Opening balance	-	3,196,449	2,714,835	5,911,284	5,956,584
Granted during the year	3,876,789	-	-	3,876,789	3,327,515
Lapsed during the year	(119,041)	(91,423)	(1,272,072)	(1,482,536)	(961,702)
Vested during the year ¹	-	-	(1,442,763)	(1,442,763)	(2,411,113)
Closing balance	3,757,748	3,105,026	-	6,862,774	5,911,284

1 The 2016 Grant vested to 54.3 per cent based on the vesting assessment performed at 31 March 2019. Participants with vested rights will be issued shares from the employee share plans trust in May 2019.

An expense of \$1.802 million has been recognised for the year ended 31 March 2019 (2018: \$2.847 million) in relation to equity-settled share-based payments.

NOTE F.4 CONTINGENT LIABILITIES AND CONTINGENT ASSETS

(A) RAPID EARTH FAULT CURRENT LIMITER (REFCL) PENALTY REGIME

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

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

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

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

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

(B) OTHER

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

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

Notes to the consolidated financial statements 31 March 2019

Section F

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continued

NOTE F.5 NEW ACCOUNTING STANDARDS NOT YET ADOPTED

The following accounting standards, amendments to accounting standards and interpretations have been identified as those which will impact the Group in the period of initial adoption. They were available for early adoption for the Group's annual reporting period beginning 1 April 2018, but have not been applied in preparing this financial report.

AASB 16 LEASES

AASB 16 will require the recognition of all leases for a lessee on balance sheet, with limited exceptions for short-term and low-value leases, thereby removing the off balance sheet treatment currently applied to operating leases. In addition, operating lease rental expenses will be recognised as depreciation and interest expenses. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases. The Group has reassessed the classification of its dedicated unregulated customer connection assets.

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

- > For lessee accounting, a right-of-use asset will be recognised applying the modified retrospective approach which results in the right-of-use asset having the same value as the lease liability. No adjustments to retained profits or restatements of prior periods are made under this method. Operating lease commitments will no longer be disclosed; these will be replaced with disclosures that assess the effect that leases have on the financial position, financial performance and cash flows of the Group.
- > For lessor accounting, dedicated unregulated customer connection assets will be de-recognised from property, plant and equipment and reclassified as finance lease receivables.

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2019:

	Before adoption of AASB 16 \$M	Impact of AASB 16 \$M	Adjusted \$M
ASSETS			
Current assets			
Lease assets	-	1.8	1.8
Total current assets	765.4	1.8	767.2
Non-current assets			
Lease asset	-	308.3	308.3
Property, plant and equipment	10,789.9	(210.7)	10,579.2
Total non-current assets	12,050.4	97.6	12,148.0
Total assets	12,815.8	99.4	12,915.2
LIABILITIES			
Current liabilities			
Lease liability	-	2.6	2.6
Total current liabilities	1,404.4	2.6	1,407.0
Non-current liabilities			
Lease liability	-	96.8	96.8
Total non-current liabilities	8,122.3	96.8	8,219.1
Total liabilities	9,526.7	99.4	9,626.1

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 MARCH 2019:

	Before adoption of AASB 16 \$M	Impact of AASB 16 \$M	Adjusted \$M
Revenue	1,861.5	(16.4)	1,845.1
Operating lease rental expense	(11.3)	11.3	-
Other costs	(33.6)	2.1	(31.5)
Earnings before interest, tax, depreciation and amortisation	1,134.2	(3.0)	1,131.2
Depreciation and amortisation	(456.4)	(0.6)	(457.0)
Net finance costs	(305.9)	7.9	(298.0)
Profit before income tax	371.9	4.3	376.2
Income tax expense	(118.0)	(1.3)	(119.3)
Profit for the year	253.9	3.0	256.9

Notes to the consolidated financial statements 31 March 2019

Section F

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continued

NOTE F.5 NEW ACCOUNTING STANDARDS NOT YET ADOPTED (CONTINUED)

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 MARCH 2019:

	Before adoption of AASB 16 \$M	Impact of AASB 16 \$M	Adjusted \$M
Profit for the year	253.9	3.0	256.9
Add back interest, tax, depreciation	880.3	(6.0)	874.3
Net interest paid	(273.4)	7.9	(265.5)
Net cash inflow from operating activities	813.7	4.9	818.6
Proceeds from lease asset	-	1.8	1.8
Repayment of lease liability	-	(6.7)	(6.7)
Net cash (outflow)/inflow from financing activities	(249.6)	(4.9)	(254.5)
Net (decrease)/increase in cash held	(318.8)	-	(318.8)

NOTE F.6 EVENTS OCCURRING AFTER THE BALANCE SHEET DATE**(A) DIVIDEND**

Since the end of the financial year, the Directors have approved a final dividend for FY2019 of \$177.5 million (4.86 cents per share) to be paid on 27 June 2019. The final dividend will be 45 per cent franked.

(B) OTHER MATTERS

Other than outlined above, there has been no matter or circumstance that has arisen since 31 March 2019 up to the date of issue of this financial report that has significantly affected or may significantly affect:

- (a) the operations in financial years subsequent to 31 March 2019 of the Group;
- (b) the results of those operations; or
- (c) the state of affairs, in financial years subsequent to 31 March 2019, of the Group.

Directors' declaration

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

- (a) the financial statements and notes set out on pages 69 to 128, and the remuneration disclosures that are contained in the Remuneration report set out on pages 42 to 64 in the Directors' Report, are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
 - (ii) giving a true and fair view of the consolidated entity's financial position as at 31 March 2019 and of its performance for the financial year ended on that date;
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Section A; and
- (c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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

Signed in accordance with a resolution of the Directors.



Peter Mason AM
Chairman



Nino Ficca
Managing Director

Melbourne
12 May 2019



Independent Auditor's Report

To the shareholders of AusNet Services Ltd

Report on the audit of the Financial Report

Opinion

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

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

- giving a true and fair view of the **Group's** financial position as at 31 March 2019 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The **Financial Report** comprises:

- Consolidated statement of financial position as at 31 March 2019
- Consolidated income statement, Consolidated statement of comprehensive income, Consolidated statement of changes in equity, and Consolidated statement of cash flows for the year then ended
- Notes including a summary of significant accounting policies
- Directors' Declaration.

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

Basis for opinion

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

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

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



Key Audit Matters

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

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

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

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

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

Refer to Note B.5 Income Tax of the Financial Report.

The key audit matter	How the matter was addressed in our audit
<p>The assessment of uncertain tax position is a key audit matter due to the complexity of relevant tax legislation and the audit effort required in the assessment of the Group's estimates and assumptions.</p> <p>The Group has recognised a tax risk provision in relation to the uncertainty over income tax treatment as set out in note B.5 amounting to \$11m, based on a probability-weighted range of possible outcomes.</p> <p>This provision is recognised in relation to matters subject to an Australian Tax Office (ATO) audit arising from the Pre-Lodgement Compliance Review for the income years 31 March 2016 and 31 March 2017.</p> <p>There is significant effort involved in the audit of the judgemental provisions in respect of uncertain tax positions. The estimates and assumptions applied by the Group may be subsequently challenged by the relevant tax authorities.</p> <p>In assessing this key audit matter, we involved our senior taxation specialists, who have industry-specific experience and detailed knowledge of the complex Australian taxation requirements and the ATO's compliance program activities.</p>	<p>Working with our taxation specialists, our procedures included:</p> <ul style="list-style-type: none"> • Examining the tax audit notification and other relevant correspondence received from the ATO to understand the current status of the ATO audit; • Attendance at Audit and Risk Management Committee and Tax risk committee meetings in order to understand the analysis and submissions being prepared by the Group; • Considering tax advice obtained by the Group from external tax advisors. We assessed the skills and competencies of the external advisors; • Challenging the appropriateness of the assumptions applied and estimates made in relation to the provision in determining the range of possible outcomes. We challenged these assumptions using our experience and knowledge of ATO audits and compliance programs, and applicable tax laws and regulations; and • Evaluating the uncertain tax position and potential exposures disclosure in the financial statements against accounting standards requirements.



Recognition of revenue (AUD \$1,861.5m)	
Refer to Note B.1 Segment results, Note B.2 Revenue from contracts with customers, Note B.4 Working capital and Section A(c) Change in accounting policies – <i>AASB 15 Revenue from Contracts with Customers</i>	
The key audit matter	How the matter was addressed in our audit
<p>Revenue recognition is a key audit matter due to the nature of the regulatory framework and billing process for the distribution of electricity and gas, and transmission of electricity in Victoria, which adds complexity to our audit approach. In particular:</p> <ul style="list-style-type: none"> the application of regulator approved tariff rates, which are used to bill customers for the distribution of electricity and gas, and transmission of electricity in Victoria. The Group's regulatory price determinations promulgated by various regulatory bodies are routinely revised; and the inherent complexity in the Group's customer billings processes to estimate energy consumed and to determine the relevant tariff rates. <p>In addition, the Group adopted AASB 15 <i>Revenue from Contracts with Customers</i> at 1 April 2018. Given the significance of changes to accounting standards for Revenue, additional audit effort was required in regards to applicable disclosures, and the accounting treatment of commercial contracts.</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> considering the impact of relevant regulatory price determinations on the Group's revenue, including developments in respect of the Australian Energy Regulator's (AER) Rate of Return Guideline effective December 2018 and Review of Regulatory tax approach January 2019; working with our Information Technology specialists and testing the key controls in the revenue process including the reconciliation between the metering systems and the billing system, and the validation of metering data during billing periods; evaluating the appropriateness of the Group's accounting policies for revenue recognition against accounting standard requirements; comparing tariff rates charged to customers to the regulator approved tariff rates for the time the services were provided; performing sample testing of transmission regulated revenues recorded, comparing relevant amounts to invoices and cash receipts; performing sample testing of customer contribution revenue recognised, comparing relevant amounts to cash received or the fair value of assets contributed and assessing the appropriateness of the timing of revenue recognition; testing key controls within the billing system which calculate electricity and gas distribution revenue based on the Group's billing process; analysing the revenue against historical performance and regulatory price determinations; and assessing revenue recognition and Group disclosures in accordance with AASB 15 <i>Revenue from Contracts with Customers</i>.


Valuation of non-current assets including property, plant and equipment (AUD \$10,789.9m) and intangible assets (AUD \$542.3m)

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
<p>The valuation of non-current assets is a key audit matter due to the:</p> <ul style="list-style-type: none"> • complex nature of the regulatory framework for determining revenue and expenditure applicable to each of the Group's regulated CGUs; • complexity in auditing the forward-looking assumptions applied to the Group's discounted cash flow models for each CGU given the significant assumptions involved. The main assumptions included those relating to terminal values, expected capital and operating expenditure, expected returns from future regulatory determinations, inflation, growth rates and discount rates; and • challenges associated with auditing the Group's long term forecast cash flow model having regard to emerging regulatory change, technology and market changes, and accounting standard requirements. 	<p>Our procedures included:</p> <ul style="list-style-type: none"> • testing the key controls for the cash flow models, including Board approval of key assumptions and the 5 year Financial Plan, which form the basis of cash flow forecasts; • assessing the Group's cash flow model assumptions by: <ul style="list-style-type: none"> ○ comparing regulated cash flow assumptions to regulatory determinations relevant to the forecast cash flow period; ○ comparing unregulated cash flow assumptions to customer contracts and historical trends; ○ checking the relevant cash flow forecasts to the 5 year Financial Plan; ○ using our industry knowledge and information published by regulatory and other bodies to assess the reasonableness of assumptions and the impact of technology, market and regulatory changes on those assumptions; ○ involving our valuation specialists and assessing the reasonableness of the discount rates by considering comparable market rate information and evaluating the economic assumptions relating to cost of debt and cost of equity; ○ comparing carrying values of regulated CGUs to available market data, such as implied earnings and asset multiples of comparable entities; and ○ for regulated assets, assessing the appropriateness of using a long term cash flow forecast against accounting standard requirements by considering industry practice and the long term nature of the Group's regulated asset base. • assessing the accuracy of previous forecasts of



	<p>the Group to inform the areas on which to focus in the current financial year;</p> <ul style="list-style-type: none"> • assessing the Group's determination of carrying values of CGUs against the requirements of the accounting standards; • evaluating the Group's sensitivity analysis in respect of the key assumptions, including the identification of areas of estimation uncertainty and reasonably possible changes in key assumptions; and • assessing the appropriateness of the related financial statement disclosures against accounting standard requirements.
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Accounting for project related expenditure (AUD \$924.6m total additions)

Refer to Note C.1 Property, plant and equipment of the Financial Report.

The key audit matter	How the matter was addressed in our audit
<p>Project related expenditure is a key audit matter due to the:</p> <ul style="list-style-type: none"> • significance of capital and operating expenditure, in respect of building and maintaining safe and reliable networks, to both the statement of financial position and income statement; • number of significant ongoing projects including the Rapid Earth Fault Current Limiter (REFCL) program, wind farm assets, and ongoing residential gas connections; and • the complexity in auditing judgements made in respect of: <ul style="list-style-type: none"> ○ the classification between capitalised and operating expenditure; ○ whether capital projects represent future benefits to the Group; ○ whether indirect costs such as labour and overheads were allocated between capital and operating expenditure in accordance with accounting standards; and ○ the determination of the useful lives of 	<p>Our procedures included:</p> <ul style="list-style-type: none"> • testing key controls for the: <ul style="list-style-type: none"> ○ authorisation of new projects; ○ monitoring of actual project expenditure against approved budgeted expenditure; and ○ allocation between capital and operating expenditure in accordance with accounting standards. • analysing the indirect costs (e.g. corporate overhead, labour and finance cost) allocation methodology by challenging the underlying assumptions applied in the Activity Based Costing survey and capitalised finance charge models, and comparing the allocation of indirect costs against historical trends. <p>For a sample of projects, our procedures included:</p> <ul style="list-style-type: none"> • assessing the nature of costs capitalised as to future benefits to the Group in accordance with criteria in the accounting standards; • consideration of individual asset impairments, the impact of asset retirements on depreciation expense and decommissioning provisions; • assessing the actual project spend to budgeted spend by comparing approved budgets to actual



capitalised assets.	<p>costs. This testing was conducted to assess:</p> <ul style="list-style-type: none"> ○ whether additional costs represent future benefits to the Group capable of capitalisation; and ○ authorisation and allocation of overspend in accordance with Group policy. • evaluating the Group's assessment of the useful life of the capitalised assets, for consistency with the Group's accounting policies, and accounting standard requirements.
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Valuation and accounting for derivatives (AUD \$612.2m assets; AUD \$349.9m liabilities)

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

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



	management disclosures against accounting standard requirements.
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Other Information

Other Information is financial and non-financial information in AusNet Services 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.

The Other Information we obtained prior to the date of this Auditor's Report was the Operating and Financial Review, Directors' Report and Remuneration Report. The 2019 Highlights, Chairman's Message and Managing Director's Report are expected to be made available to us after the date of the Auditor's Report.

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

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

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

Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

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



Auditor's responsibilities for the audit of the Financial Report

Our objective is:

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

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

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

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

Report on the Remuneration Report

Opinion

In our opinion, the Remuneration Report of AusNet Services Ltd for the year ended 31 March 2019, complies with *Section 300A* of the *Corporations Act 2001*.

Directors' responsibilities

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

Our responsibilities

We have audited the Remuneration Report included in the Directors' report for the year ended 31 March 2019.

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

KPMG

Paul J McDonald

Partner

Melbourne

12 May 2019

Glossary of terms

AASB	Australian Accounting Standards Board
ACN	Australian Company Number
ACCC	Australian Competition and Consumer Commission
AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
APES	Accounting Professional & Ethical Standard
AER	Australian Energy Regulator
AGM	Annual General Meeting
AMI	Advanced Metering Infrastructure
ARMC	Audit and Risk Management Committee
ASX or Australian Securities Exchange	ASX Limited or the securities exchange which it operates
ATO	Australian Taxation Office
AUD	Australian dollar
CAGR	compound annual growth rate
CAM	cost Allocation Methodology
CFC	capitalised finance charges
CFV	common funding vehicle
CGU	cash-generating unit
CHF	Swiss franc
COAG	Council of Australian Governments
Corporate Restructure	The corporate restructure under which the previous Stapled Entities became wholly owned by AusNet Services Ltd
Corporations Act (Cth)	<i>Corporations Act 2001</i> (Cth) of Australia
CY	calendar year ended 31 December
DRP	dividend Reinvestment Plan
DUoS	distribution use of system charge
EBITDA	earnings before interest, tax, depreciation and amortisation
EDPR	Electricity Distribution Price Review
EPS	earnings per share
ESA	<i>Electricity Safety Act 1998</i> (Vic)
ESB	Energy Security Board
ESC	Essential Services Commission
ESCV	Essential Services Commission Victoria
ESV	Energy Safe Victoria
EUR	euro
FAR	fixed annual remuneration
FFO	funds from operations
FX	foreign exchange

FY	financial year ended 31 March
GAAR	Gas Access Arrangement Review
GBP	pound sterling
GSL	guaranteed service level payments – penalties for unplanned outages
GST	goods and services tax
GWh	gigawatt hour, a unit of energy equal to one billion watt hours
HKD	Hong Kong dollar
HSEQ	Health and Safety, Environment and Quality
HV	High voltage
ICR	interest cover ratio
IFRS	International Financial Reporting Standards
ISP	Integrated System Plan
Jemena	SGSP (Australia) Assets Pty Ltd ('SGSPAA') and its subsidiaries trading as 'Jemena' or 'Zinfra Group' (as applicable)
JPY	Japanese yen
KMP	key management personnel
KPI	key performance indicator
KPMG	the current external auditors of AusNet Services
kV	kilovolts, a unit of voltage equal to one thousand volts
LTi	lost time injury
LTIP	Long Term Incentive Plan
MD	Managing Director
MTI	medical treatment injury
Moody's	Moody's Investors Services, Inc.
NED	Non-executive Director
NER	National Electricity Rules
NEG	National Energy Guarantee
NEM	National Electricity Market
NGER	<i>National Greenhouse and Energy Reporting Act 2007</i> (Cth)
NOK	Norwegian kroner
NPAT	net profit after tax
OCI	other comprehensive income
PCR	Pre-Lodgement Compliance Review
PJ	petajoules, a unit of energy equal to one quadrillion (10 ¹⁵) joules
PRs	performance rights under the LTIP scheme

Power of Choice	The Australian Energy Market Commission's competitive framework designed to promote innovation and lead to investment in advanced meters that deliver services valued by consumers at a price they are willing to pay.
RAB	The Regulated Asset Base (RAB) represents the value, as assessed by the AER, of past regulated network investments. This is the value on which the AusNet Services Group can expect to earn a return over the economic life of its network assets.
REFCL	Rapid Earth Fault Current Limiter, a bushfire mitigation technology
R&CAB	Regulated and Contracted Asset Base. Includes the RAB as well as Mondo's contestable transmission assets, for example, the Victorian desalination contract.
ROIC	return on invested capital
RES	Regulated Energy Services
RIFR	recordable injury frequency rate
ROE	return on equity
SGD	Singapore dollar
SGX or SGX-ST	Singapore Exchange Securities Trading Limited or the securities exchange which it operates
Singapore Power Group	Singapore Power Limited and its subsidiaries
SPI	Singapore Power International Pte Ltd
Standard & Poor's	Standard & Poor's Rating Services, a division of the McGraw-Hill Companies, Inc.
State Grid	State Grid Corporation of China
Stapled Group	The former corporate structure of AusNet Services comprising AusNet Services (Distribution) Ltd, AusNet Services (Transmission) Ltd and AusNet Services Finance Trust as a combined entity.
STI	Short Term Incentive
STPIS	Service Target Performance Incentive Scheme, an incentive revenue scheme in the electricity distribution business.
Temasek	Temasek Holdings (Private) Ltd
TRR	Transmission Revenue Reset
TSR	Total Shareholder Return
TUoS	transmission use of system
(Vic)	Indicates state legislation of the State of Victoria
UK	United Kingdom

USA	United States of America
USD	United States dollar
WACC	weighted average cost of capital
VEDC	Victorian Electricity Distribution Code
Victorian State Government	The government of the State of Victoria
VWAP	Volume-weighted average price, a trading benchmark calculated by adding up the dollars traded for every transaction (price multiplied by number of shares traded) and then dividing by the total shares traded for the day.

Shareholder information

The shareholder information set out below was compiled from AusNet Services' register of shareholders as at 15 May 2019.

VOTING RIGHTS

Subject to any rights or restrictions attaching to our shares, on a show of hands each shareholder present at a meeting of shareholders in person or by proxy, attorney or representative has one vote and, on a poll, has one vote for each fully paid share held.

ISSUED CAPITAL

Class	Holders	Shares
Ordinary Shares	14,906	3,652,664,376

DISTRIBUTION OF SHARES

A distribution schedule of the number of holders of shares is set out below:

Range	Total holders	Shares	% of issued capital
1 – 1,000	1,752	938,919	0.03
1,001 – 5,000	4,474	12,971,379	0.36
5,001 – 10,000	3,029	22,553,653	0.62
10,001 – 100,000	5,372	142,945,354	3.91
100,001 Over	279	3,473,255,071	95.08
Total	14,906	3,652,664,376	100.00

The number of shareholders holding less than a marketable parcel of shares was 455, holding 18,719 shares based on the closing market price on 15 May 2019.

There is no current on-market buy-back.

SHAREHOLDERS

Rank	Name	No. of shares held	Percentage of issued shares
1.	Singapore Power International Pte Ltd	1,135,978,621	31.10
2.	HSBC Custody Nominees (Australia) Limited	826,797,595	22.64
3.	State Grid International Australia Development Company Limited	726,880,211	19.90
4.	J P Morgan Nominees Australia Pty Limited	291,070,338	7.97
5.	Citicorp Nominees Pty Limited	207,131,514	5.67
6.	National Nominees Limited	69,560,819	1.90
7.	BNP Paribas Nominees Pty Ltd <AGENCY LENDING DRP A/C>	34,167,998	0.94
8.	BNP Paribas Noms Pty Ltd <DRP>	19,915,423	0.55
9.	IOOF Investment Management Limited <IPS SUPER A/C>	15,847,508	0.43
10.	HSBC Custody Nominees (Australia) Limited - GSCO ECA	12,288,713	0.34
11.	Citicorp Nominees Pty Limited <COLONIAL FIRST STATE INV A/C>	10,829,327	0.30
12.	BNP Paribas Nominees Pty Ltd <JERSEY ABERDEEN AIF LTD DRP>	10,592,508	0.29
13.	CPU Share Plans Pty Ltd <AST LTI UNALLOCATED A/C>	5,449,295	0.15
14.	AMP Life Limited	5,237,027	0.14
15.	BNP Paribas Nominees Pty Ltd <AGENCY LENDING COLLATERAL>	4,872,000	0.13
16.	HSBC Custody Nominees (Australia) Limited <NT-COMNWLTH SUPER CORP A/C>	3,497,070	0.10
17.	Merrill Lynch (AUSTRALIA) Nominees Pty Limited <EQUITY FINANCE A/C>	3,426,605	0.09
18.	BNP Paribas Nominees Pty Ltd HUB24 CUSTODIAL SERV LTD DPR	3,390,990	0.09
19.	HSBC Custody Nominees (Australia) Limited – A/C 2	2,809,773	0.08
20.	HSBC Custody Nominees (Australia) Limited	2,780,965	0.08
Total Top 20 holders of fully paid ordinary shares		3,392,524,300	92.89
Total Remaining Holders Balance		260,140,076	7.11

SUBSTANTIAL HOLDERS

The names of AusNet Services' substantial holders and the number of shares in which each has a relevant interest, as disclosed in substantial holding notices received by AusNet Services as at 15 May 2019, are listed below:

	No. of shares held	Voting power
Singapore Power International Pte Ltd and its associates	1,135,978,621	31.10%
State Grid International Development Limited and its associates	726,880,211	19.90%

EMPLOYEE INCENTIVE SCHEME ON-MARKET PURCHASES

Pursuant to AusNet Services' General Employee Exempt Share Plan 484,395 shares were purchased on-market during the reporting period at an average price per share of \$1.58. In addition, 1,901,462 shares were purchased on-market by the AusNet Services employee share trust at an average price of \$1.60 per share.

Company information

FINANCIAL CALENDAR

18 July 2019
2019 Annual General Meeting

30 September 2019
2019/20 Financial half year end

13 November 2019
2019/20 Half year results announced

31 March 2020
2019/20 Financial year end

ANNUAL GENERAL MEETING

The Annual General Meeting of AusNet Services will be held at 2.00pm Thursday 18 July 2019. The location of the Annual General Meeting is:

Melbourne Convention and Exhibition Centre
Melbourne Convention and Exhibition Centre Auditorium
Level 2, 2 Clarendon Street,
Southbank, Melbourne, Victoria, Australia

ENQUIRIES AND INFORMATION

AusNet Services' register of shares is maintained by

Computershare Investor Services Pty Limited ('Computershare'). For enquiries about AusNet Services shares, a transfer of shares or dividends, contact:

Computershare Investor Services Pty Limited
Yarra Falls, 452 Johnston Street
Abbotsford, Victoria 3067
GPO Box 2957
Melbourne, Victoria 3001 Australia

Telephone: 1300 850 505 (within Australia)
+61 3 9415 4000 (outside Australia)

Facsimile: +61 3 9473 2500

For enquiries about AusNet Services, contact:

AusNet Services Investor Relations
Telephone: +61 3 9695 6000
Facsimile: +61 3 9695 6666
Email: investor.enquiries@ausnetservices.com.au

Or write to:

Investor Relations
AusNet Services
Level 31, 2 Southbank Boulevard
Southbank, Victoria 3006 Australia

STOCK EXCHANGE LISTING

The shares are listed under the name 'AusNet Services' and code 'AST' on the Australian Stock Exchange. The shares participate in the Clearing House Electronic Subregister System ('CHES').

TAX FILE NUMBER ("TFN") INFORMATION

While it is not compulsory for shareholders to provide a TFN, AusNet Services is obliged to deduct tax from dividends to holders resident in Australia who have not supplied such information. If you have not already supplied your TFN, you may wish to do so by writing to Computershare.

CHANGE OF ADDRESS OR NAME

A shareholder should notify Computershare immediately, in writing, if there is any change in his or her registered address or name.

AUSNET SERVICES

AusNet Services Ltd (ABN 45 603 317 559)

REGISTERED OFFICE

Level 31, 2 Southbank Boulevard
Southbank, Victoria 3006
Telephone: +61 3 9695 6000
Facsimile: +61 3 9695 6666

COMPANY SECRETARY

Ms Claire Hamilton

AUDITOR

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