

Victoria Power Networks (Finance) Pty Ltd

ABN 68 101 392 161

**Financial Statements
for the year ended 31 December 2018**

Victoria Power Networks (Finance) Pty Ltd
Directors' report
31 December 2018

Directors' Report

The directors of Victoria Power Networks (Finance) Pty Ltd ('VPNF' or the 'company') submit herewith their report on the company and its subsidiaries (the 'Consolidated Entity') at the end of, or during, the year ended 31 December 2018.

Directors

The following persons were directors of Victoria Power Networks (Finance) Pty Ltd during the whole of the financial year and up to the date of this report, unless otherwise stated:

P. P. Tulloch
H. L. Kam
C. T. Wan
A. J. Hunter
A. M. McDonald
R. F. Francis
K. Turner
L. S. Chan
N. K. Schiffer
T. H. Rourke

Principal activities

Victoria Power Networks (Finance) holds the investments in Powercor Australia Ltd, the CitiPower Group, Powercor Network Services Pty Ltd, CHED Services Pty Ltd, Energy Solutions Pty Ltd. The principal activities of the Consolidated Entity during the year were the management and operation of the electricity distribution and sub-transmission networks. The primary activity of the distribution businesses is the receipt of electricity from Victoria's high voltage transmission system and the distribution of electricity to customers in the Powercor and CitiPower distribution service areas. Almost all customers within both the Powercor and CitiPower distribution service areas are connected to the relevant distribution network, regardless of which retailer supplies the electricity.

Dividends

No dividends were paid, recommended or declared out of retained profit as 31 December 2018. During the current financial year, dividend paid out of retained profits as at 31 December 2017 amounted to \$153,684 thousand. (2017: \$468,684 thousand were declared and \$315,000 thousand paid)

Review of operations

The profit for the Consolidated Entity after providing for income tax amounted to \$228,396 thousand (31 December 2017: \$225,089 thousand)

Significant changes in the state of affairs

There were no significant changes in the state of affairs of the Consolidated Entity during the financial year.

Matters subsequent to the end of the financial year

Other than as disclosed in Note 24, no other matter or circumstance has arisen since 31 December 2018 that has significantly affected, or may significantly affect the Consolidated Entity's operations, the results of those operations, or the Consolidated Entity's state of affairs in future financial years.

Likely developments and expected results of operations

No significant changes to the operations of the Company are foreseen.

Environmental regulation

The company is subject to all environmental legislation as per the *Environmental Protection Act*. During the 12 months ended 31 December 2018 the Company adhered to all environmental regulation set under the law of the Commonwealth, the State and any other environmental regulator.

Indemnity and insurance of officers

During the financial year, the company paid a premium in respect of a contract to insure the directors and executives of the company against a liability to the extent permitted by the *Corporations Act 2001*. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

Indemnity and insurance of auditor

The company has not, during or since the end of the financial year, indemnified or agreed to indemnify the auditor of the company or any related entity against a liability incurred by the auditor.

During the financial year, the company has not paid a premium in respect of a contract to insure the auditor of the company or any related entity.

Victoria Power Networks (Finance) Pty Ltd
Directors' report
31 December 2018

Proceedings on behalf of the company

No person has applied to the Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the company, or to intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the company for all or part of those proceedings.

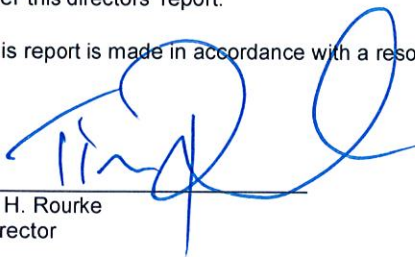
Rounding of amounts

The company is of a kind referred to in Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out immediately after this directors' report.

This report is made in accordance with a resolution of directors,



T. H. Rourke
Director

4 March 2019



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The Board of Directors
Victoria Power Networks (Finance) Pty Ltd
40 Market Street
Melbourne VIC 3000

4 March 2019

Dear Board Members

Auditor's Independence Declaration to Victoria Power Networks (Finance) Pty Ltd

In accordance with section 307C of the *Corporations Act 2001*, I am pleased to provide the following declaration of independence to the directors of Victoria Power Networks (Finance) Pty Ltd.

As lead audit partner for the audit of the financial statements of Victoria Power Networks (Finance) Pty Ltd for the financial year ended 31 December 2018, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely

DELOITTE TOUCHE TOHMATSU
DELOITTE TOUCHE TOHMATSU



Samuel Vorweg
Partner
Chartered Accountants

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General information

The financial statements cover Victoria Power Networks (Finance) Pty Ltd as a Consolidated Entity consisting of Victoria Power Networks (Finance) Pty Ltd and the entities it controlled at the end of, or during, the year. The financial statements are presented in Australian dollars, which is Victoria Power Networks (Finance) Pty Ltd's functional and presentation currency.

Victoria Power Networks (Finance) Pty Ltd is a proprietary company (the 'Company'), incorporated and operating in Australia. The Company and its subsidiaries listed in Note 40 are referred to as the 'Consolidated Entity'.

Registered office and principal place of business

Level 9
40 Market Street
MELBOURNE VIC 3000

The financial statements were authorised for issue, in accordance with a resolution of directors, on 4 March 2019. The directors have the power to amend and reissue the financial statements.

Victoria Power Networks (Finance) Pty Ltd
Statement of profit or loss and other comprehensive income
For the year ended 31 December 2018

		Consolidated	
	Note	2018	2017
		\$'000	\$'000
Revenue	1	1,823,420	1,544,617
Other (losses) / gains	2	(1,024)	6,034
Expenses			
Expenses from ordinary activities	3	(1,069,009)	(1,035,570)
Finance expenses	4	<u>(426,949)</u>	<u>(194,247)</u>
Profit before income tax expense		326,438	320,834
Income tax expense	5	<u>(98,042)</u>	<u>(95,745)</u>
Profit after income tax expense for the year		228,396	225,089
Other comprehensive income			
<i>Items that will not be reclassified subsequently to profit or loss</i>			
Actuarial gains on defined benefits plans		6,157	15,050
Income tax relating to these items		(1,847)	(4,515)
<i>Items that may be reclassified subsequently to profit or loss</i>			
Cash flow hedges - interest rate risk		(51,784)	(27,584)
Cash flow hedges - foreign currency risk		485	(13,782)
Income tax relating to these items		<u>15,390</u>	<u>12,410</u>
Other comprehensive income for the year, net of tax		<u>(31,599)</u>	<u>(18,421)</u>
Total comprehensive income for the year		<u><u>196,797</u></u>	<u><u>206,668</u></u>
Profit for the year is attributable to:			
Non-controlling interest		772	453
Owners of Victoria Power Networks (Finance) Pty Ltd	29	<u>227,624</u>	<u>224,636</u>
		<u><u>228,396</u></u>	<u><u>225,089</u></u>
Total comprehensive income for the year is attributable to:			
Non-controlling interest		772	453
Owners of Victoria Power Networks (Finance) Pty Ltd		<u>196,025</u>	<u>206,215</u>
		<u><u>196,797</u></u>	<u><u>206,668</u></u>

The above statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes

Victoria Power Networks (Finance) Pty Ltd
Statement of financial position
As at 31 December 2018

		Consolidated	
	Note	2018	2017
		\$'000	\$'000
Assets			
Current assets			
Cash and cash equivalents	6	57,661	29,990
Trade and other receivables	7	160,778	152,110
Inventories	8	45,679	36,580
Derivative financial instruments	31	32,027	119,030
Other financial assets	9	625	375
Other	10	21,250	24,792
Total current assets		318,020	362,877
Non-current assets			
Investments in associates	11	569	368
Derivative financial instruments	31	269,847	180,844
Property, plant and equipment	12	6,892,549	6,713,995
Intangibles	13	825,315	832,800
Retirement benefit assets	14	26,877	26,997
Other financial assets	15	375	750
Total non-current assets		8,015,532	7,755,754
Total assets		8,333,552	8,118,631
Liabilities			
Current liabilities			
Trade and other payables	16	495,365	686,096
Current tax liabilities		617	448
Contract liabilities	17	9,911	19,617
Borrowings	18	1,081,181	1,230,083
Derivative financial instruments	31	762	1,184
Provisions	19	94,073	93,200
Other financial liabilities - Contingent consideration	20	375	375
Total current liabilities		1,682,284	2,031,003
Non-current liabilities			
Trade and other payables	21	42,916	39,104
Contract liabilities	22	3,079	3,206
Borrowings	23	3,626,282	3,203,511
Derivative financial instruments	31	81,949	94,996
Deferred tax liabilities	24	720,803	766,243
Provisions	25	18,366	19,228
Other financial liabilities - Contingent consideration	26	-	133
Total non-current liabilities		4,493,395	4,126,421
Total liabilities		6,175,679	6,157,424
Net assets		2,157,873	1,961,207
Equity			
Issued capital	27	1,639,196	1,639,196
Reserves	28	(33,642)	2,268
Retained profits	29	551,133	319,198
Equity attributable to the owners of Victoria Power Networks (Finance) Pty Ltd		2,156,687	1,960,662
Non-controlling interest	30	1,186	545
Total equity		2,157,873	1,961,207

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

Victoria Power Networks (Finance) Pty Ltd
Statement of changes in equity
For the year ended 31 December 2018

Consolidated	Issued capital \$'000	Financial equity / distribution reserve \$'000	Hedging Reserves \$'000	Retained profits \$'000	Non-controlling interest \$'000	Total equity \$'000
Balance at 1 January 2017	1,639,196	17,918	13,306	552,711	92	2,223,223
Profit after income tax expense for the year	-	-	-	224,636	453	225,089
Other comprehensive income for the year, net of tax	-	-	(28,956)	10,535	-	(18,421)
Total comprehensive income for the year	-	-	(28,956)	235,171	453	206,668
<i>Transactions with owners in their capacity as owners:</i>						
Dividends paid	-	-	-	(468,684)	-	(468,684)
Balance at 31 December 2017	<u>1,639,196</u>	<u>17,918</u>	<u>(15,650)</u>	<u>319,198</u>	<u>545</u>	<u>1,961,207</u>
Consolidated	Issued capital \$'000	Financial equity / distribution reserve \$'000	Reserves \$'000	Retained profits \$'000	Non-controlling interest \$'000	Total equity \$'000
Balance at 1 January 2018	1,639,196	17,918	(15,650)	319,198	545	1,961,207
Profit after income tax expense for the year	-	-	-	227,624	772	228,396
Other comprehensive income for the year, net of tax	-	-	(35,910)	4,311	-	(31,599)
Total comprehensive income for the year	-	-	(35,910)	231,935	772	196,797
<i>Transactions with owners in their capacity as owners:</i>						
Dividends paid	-	-	-	-	(131)	(131)
Balance at 31 December 2018	<u>1,639,196</u>	<u>17,918</u>	<u>(51,560)</u>	<u>551,133</u>	<u>1,186</u>	<u>2,157,873</u>

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

Victoria Power Networks (Finance) Pty Ltd
Statement of cash flows
For the year ended 31 December 2018

		Consolidated	
	Note	2018	2017
		\$'000	\$'000
Cash flows from operating activities			
Receipts from customers		1,728,249	1,699,545
Payments to suppliers and employees		(1,104,451)	(847,935)
Interest paid		(166,784)	(150,633)
Income taxes paid		(490)	(168)
Interest received		775	657
Net (repayment) / receipt of trust monies		583	(471)
Net cash from operating activities	38	457,882	700,995
Cash flows from investing activities			
Payments for property, plant and equipment	12	(500,564)	(463,307)
Payments for intangibles	13	(167)	(1,198)
Proceeds from disposal of property, plant and equipment		4,726	3,774
Inflows from customer deposits		17,506	41,538
Investment in associate		97	-
Long term cash investment		(138)	-
Net cash used in investing activities		(478,540)	(419,193)
Cash flows from financing activities			
Dividends paid to shareholders		(153,684)	(315,000)
Proceeds from borrowings - external		1,302,872	794,172
Repayment of borrowings - external		(1,092,803)	(781,000)
Payment of establishment costs		(8,056)	(951)
Net cash from/(used in) financing activities		48,329	(302,779)
Net increase/(decrease) in cash and cash equivalents		27,671	(20,977)
Cash and cash equivalents at the beginning of the financial year		29,990	50,967
Cash and cash equivalents at the end of the financial year	6	57,661	29,990

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

Victoria Power Networks (Finance) Pty Ltd
Notes to the financial statements
31 December 2018

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Victoria Power Networks (Finance) Pty Ltd
Notes to the financial statements
31 December 2018

Note 1. Revenue

	Consolidated	
	2018	2017
	\$'000	\$'000
<i>Network revenue</i>		
Distribution Use of System	922,507	903,321
Transmission Use of System	288,402	301,437
	<u>1,210,909</u>	<u>1,204,758</u>
<i>Other operating revenue</i>		
Construction and maintenance revenue	158,988	92,810
Prescribed metering	92,980	102,504
Alternative Control Services - connections and transfers	18,651	17,049
Alternative Control Services - public lighting	12,715	12,157
Alternative Control Services - other	25,400	21,870
Service level agreement revenue - related party	33,628	28,772
Interest income - external party	768	621
Other revenue from contracts with customers	13,395	13,867
Other miscellaneous revenue	9,888	14,454
Interest income - related party	246,098	35,755
	<u>612,511</u>	<u>339,859</u>
Revenue	<u><u>1,823,420</u></u>	<u><u>1,544,617</u></u>

(a) Recognising revenue from major business activities

(i) Network revenue

Timing of recognition: Network revenue represents distribution use of system and transmission use of system revenue from Electricity Retailers for the transportation and delivery of electricity through the Distribution System to their customers. Revenue is calculated on a per Energy Retailer customer basis for electricity consumed, time connected to the Distribution Network and/or demand based charges.

The use of system contract includes one performance obligation, which is to provide distribution services. This performance obligation is satisfied when the end customer receives electricity. The Company promises to provide transport and deliver electricity through the Distribution System to their customers are performance obligations that are satisfied over time as the customer is able to simultaneously consume the electricity transmitted and distributed to the customer's location.

Transaction price: Rates per quantity unit and customer tariff type are approved by the Australian Energy Regulatory ('AER') each year. The method utilised to recognise revenue for the use of system contract is an output method, which is based on actual volume of electricity distributed and actual number of customers serviced each period.

(ii) Construction and maintenance revenue

Timing of recognition: Construction revenue represents electricity related contracted services including design & construct, asset maintenance, commercial solar installations and other similar activities.

The delivery of a construction contract includes one performance obligation, which is to develop an asset for a customer. This performance obligation is satisfied over time either because the customer simultaneously benefit from the maintenance services completed and the work performed enhances the customer's assets; or the new assets are highly specific for the customer and the Company has the right to receive payment for all the services performed at the end of each reporting period.

The method utilised to recognise revenue for the construction revenue is an input method, which is based on actual labour cost and materials consumed to perform the required service during each reporting period.

Transaction price: Revenue is recognised in line with contracted amounts. Variations in contract work claims and incentive payments are included to the extent that the amount can be measured reliably and its receipt is considered probable.

Victoria Power Networks (Finance) Pty Ltd
Notes to the financial statements
31 December 2018

Note 1. Revenue (continued)

(iii) Prescribed metering revenue

Timing of recognition: Prescribed metering revenue comprises charges to cover the cost of maintaining, operating and replacing the meter once it has reached the end of its economic life. A per annum charge varies depending on the meter type installed. The Distribution Businesses promise to provide metering maintenance services to their customers are performance obligations that are satisfied over time as there is a stand-ready obligation to provide metering maintenance services on an on-going basis.

Transaction price: Prescribed metering revenue is based on a metering charge set by meter type as approved by the Australian Energy Regulator ('AER') each year.

(iv) Alternative Control Services Revenue

Timing of recognition: Alternative Control Services ("ACS") revenue relates to a set of customer specific activities, primarily on behalf of Electricity Retailers, that fall under a particular area of regulation due to their monopoly or semi-monopoly nature.

ACS activities are of short duration and are recognised either when performed or if the charge is based on duration of the service, such as public lighting.

Transaction price: Rates per activity are based on either a fixed fee approved by the Australian Energy Regulator ("AER") or hourly labour rates approved by the AER and recovery of materials at cost.

(v) Service level agreement revenue

Timing of recognition: Service level agreement revenue relates to IT system, support and management services provided to entities outside of the Consolidated Entity. Revenue is recognised as services are performed.

Transaction price: Revenue is based on agreed contracted rates for services.

Revenue from contract types	Consolidated Point in time 2018 (\$'000)	2017 (\$'000)	Consolidated Over time 2018 (\$'000)	2017 (\$'000)	Consolidated Total 2018 (\$'000)	Total 2017 (\$'000)
Regulated - Network revenue						
Distribution Use of System	-	-	922,507	903,321	922,507	903,321
Transmission Use of System	-	-	288,402	301,437	288,402	301,437
	-	-	1,210,909	1,204,758	1,210,909	1,204,758
Semi-Regulated and Unregulated - Other operating revenue						
Construction revenue	-	-	158,988	92,810	158,988	92,810
Prescribed metering	-	-	92,980	102,504	92,980	102,504
Alternative Control Services - connections and transfers	18,651	17,049	-	-	18,651	17,049
Alternative Control Services - public lighting	-	-	12,715	12,157	12,715	12,157
Alternative Control Services - other	5,625	4,463	19,775	17,407	25,400	21,870
Service level agreement revenue - related party	-	-	33,628	28,772	33,628	28,772
Other revenue from contracts with customers	6,827	7,262	6,568	6,604	13,395	13,866
	31,103	28,774	324,654	260,254	355,757	289,028

The unsatisfied performance obligations as at 31 December 2018 relate to construction revenue of \$81,652 thousand. Management expects that 100% of the transaction price allocated to the unsatisfied contracts as at 31 December 2018 will be recognised as revenue during the next reporting period.

Note 1. Revenue (continued)

(b) Critical accounting policies, estimates and assumptions

There is a certain level of estimation involved in the measurement of the Consolidated Entity's revenue, which includes:

- In relation to distribution revenue an estimation of the amount of electricity consumed but not billed at period end,
- In relation to services provided under contract an estimation of stage of completion; and
- In relation to "pass-through" type revenue an estimation of timing of cash-flows and the net present value of such cashflows.

As the basis of estimation for distribution revenue is based on actual electricity consumption and in the case of pass through revenue the actual and accrued cost incurred, the Directors do not envisage significant uncertainty risk with respect to amounts recorded in relation to applying the revenue recognition accounting policies.

Victoria Power Networks (Finance) Pty Ltd
Notes to the financial statements
31 December 2018

Note 2. Other (losses) / gains

	Consolidated	
	2018	2017
	\$'000	\$'000
Gain on disposal of property, plant and equipment	157	1,205
Gain / (loss) cross currency interest rate swap - fair value hedge (hedging instrument)	25,024	(1,525)
(Loss) / gain foreign currency bank loan - fair value hedge relationship (hedged item)	(27,076)	7,560
Gain / (loss) cross currency interest rate swap not designated in a hedge relationship	435	(665)
Gain on foreign currency bank loan not designated as a hedged item in a hedge relationship	138	479
Research and development grant	-	2,761
Gain on investment in associate	298	219
Impairment of plant & equipment	-	(4,000)
	<u>(1,024)</u>	<u>6,034</u>

Note 3. Expenses from ordinary activities

	Consolidated	
	2018	2017
	\$'000	\$'000
Personnel expense	344,528	339,487
Transmission fees	288,402	301,437
Materials expense	169,003	151,600
Capitalised expenses*	(495,516)	(448,896)
External services	387,274	344,778
Operating lease rentals	12,203	11,831
Other expenses	20,109	12,276
Depreciation and amortisation expense	325,092	302,183
Taxes, fees & charges	17,914	20,874
	<u>1,069,009</u>	<u>1,035,570</u>

* Capitalised expenses include a combination of external labour, construction and professional services, materials expense and personnel expense.

Note 4. Finance expenses

	Consolidated	
	2018	2017
	\$'000	\$'000
Interest and finance expenses - external parties	164,403	156,103
Interest and finance expenses - related parties	<u>262,546</u>	<u>38,144</u>
	<u>426,949</u>	<u>194,247</u>

(a) Interest and finance expenses – related parties

Interest and finance expenses to related parties relate to unwinding of discounting on intercompany tax payable with VPN as head entity in the tax consolidated group. The increase in the non-cash interest expense in 2018 is due to a change in assumption in the timing of settling the intercompany tax balances.

There is a corresponding increase in related party payables.

Victoria Power Networks (Finance) Pty Ltd
Notes to the financial statements
31 December 2018

Note 5. Income tax expense

The current tax expense does not include the impact of carry forward tax losses of the VPN tax consolidated group. The VPN tax consolidated group has no current tax obligations.

	Consolidated	
	2018	2017
	\$'000	\$'000
<i>Income tax expense</i>		
Current tax expense in respect of the current year	130,101	89,872
Deferred tax - origination and reversal of temporary differences	(31,896)	5,888
Adjustments for current tax of prior periods	(163)	(15)
	<u>98,042</u>	<u>95,745</u>
<i>Numerical reconciliation of income tax expense and tax at the statutory rate</i>		
Profit before income tax expense	326,438	320,834
Tax at the statutory tax rate of 30%	97,931	96,250
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Non-deductible expenses	313	363
Non-assessable income	(39)	(828)
Effects of different taxation rates within consolidated group	-	(25)
	<u>98,205</u>	<u>95,760</u>
Adjustments for current tax of prior periods	(163)	(15)
Income tax expense	<u>98,042</u>	<u>95,745</u>

Note 5. Income tax expense (continued)

Current tax

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

Deferred tax

Deferred tax is accounted for using the comprehensive statement of financial position liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items. In principle, 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. However, 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 or accounting profit. 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 reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Consolidated Entity expects, 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 the Consolidated Entity intends to settle its current tax assets and liabilities on a net basis.

(b) Critical accounting judgements, estimates and assumptions

(i) Income taxes

The Consolidated Entity applies the criteria outlined in AASB 112 with regards to the calculation and recognition of deferred tax assets. The application of the AASB 112 criteria involves the exercise of judgement regarding the calculation of accounting and tax bases for the Consolidated Entity's assets and liabilities. Furthermore, the potential reversal of temporary differences also requires the use of estimates of future profitability, availability of taxable profits on both revenue and capital account and potential future changes in accounting and tax bases.

In particular, the expectation of the availability of future taxable profits against which deferred tax assets arising in respect of revenue losses is subject to estimation and judgement.

(ii) Recovery of deferred tax assets

Deferred tax assets are recognised for deductible temporary differences only if the Consolidated Entity considers it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Note 6. Current assets - cash and cash equivalents

	Consolidated	
	2018	2017
	\$'000	\$'000
Cash at bank and in hand	48,071	19,750
Deposits at call	9,590	10,240
	<u>57,661</u>	<u>29,990</u>

Cash and cash equivalents accounting policies

Cash and cash equivalents include cash on hand, cash at bank and deposits at call with financial institutions.

Term deposits are presented as cash equivalents if they have a maturity of three months or less from the date of acquisition and are repayable with 24 hours' notice with no loss of interest.

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Note 7. Current assets - trade and other receivables

	Consolidated	
	2018	2017
	\$'000	\$'000
Trade receivables	3,526	259
Less: Allowance for expected credit losses	(3)	(34)
	<u>3,523</u>	<u>225</u>
Other receivables	41,991	46,416
Less: Allowance for expected credit losses	(8,100)	(8,620)
	<u>33,891</u>	<u>37,796</u>
Contract assets - unbilled electricity	104,934	104,246
Contract assets - other	18,430	9,843
	<u>123,364</u>	<u>114,089</u>
	<u><u>160,778</u></u>	<u><u>152,110</u></u>

(a) Trade and other receivables accounting policies

(i) Trade receivables

Trade receivables are primarily for network fees which are received from electricity retailers. The retailer payments are governed by a Use of System Agreement which stipulates that all payments are to be made on the tenth day after monthly invoicing.

Trade receivables are generally due for settlement within 30 days. They are presented as current assets unless collection is not expected for more than 12 months after the reporting date.

(ii) Other receivables

Other receivables are predominantly from revenue for any non-electricity tariff services including customer initiated augmentation work, Alternative Control Services and external project work.

(iii) Contract assets

Contract assets - unbilled electricity is an estimate of electricity consumption unbilled and unread at the end of the reporting period.

(iv) Fair value and credit risk

Due to the short-term nature of the current receivables, their fair value is considered the same as their carrying value.

(v) Impairment and risk exposure

Trade receivables and other receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Consolidated Entity holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method. Details about the Consolidated Entity's impairment policies, the Consolidated Entity's exposure to credit risk, foreign currency risk and interest rate risk and the calculation of the loss allowance are provided in Note 32(e).

(b) Critical accounting judgments, estimates and assumptions

Allowance for expected credit losses

The allowance for expected credit losses assessment requires a degree of estimation and judgement. It is based on the lifetime expected credit loss, grouped based on days overdue, and makes assumptions to allocate an overall expected credit loss rate for each group. These assumptions include recent contract performance and historical collection rates.

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Note 8. Current assets - inventories

	Consolidated	
	2018	2017
	\$'000	\$'000
Construction, general purpose, AMI meters & maintenance stock	45,679	36,580

Inventories accounting policies

Costs are assigned to inventory on hand on the basis of weighted average costs. Inventories are valued at the lower of cost or net realisable value.

Note 9. Current assets - other financial assets

	Consolidated	
	2018	2017
	\$'000	\$'000
Term deposit	625	375

Note 10. Current assets - other

	Consolidated	
	2018	2017
	\$'000	\$'000
Prepayments	14,484	14,298
Deferred transmission fee	6,766	10,494
	21,250	24,792

Other assets accounting policies

Transmission fees deferred/provided for represent the present value of the Directors' best estimates of the future economic benefits/sacrifices that will be received/incurred for transmission costs under/over collected through current electricity tariffs charged to customers.

Note 11. Non-current assets - investments in associates

	Consolidated	
	2018	2017
	\$'000	\$'000
Investments in associates	569	368

Movements in shares in associates

Carrying amount at the beginning of the financial year	368	149
Share of profits after income tax	201	219
Carrying amount at the end of the financial year	569	368

Investment in associates accounting policies

Investments in associates are recorded at cost. Investments in associates are accounted for under equity accounting and the carrying value of the investment is valued based on the share of profit in the entity and transactions with owners.

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Note 12. Non-current assets - property, plant and equipment

	Consolidated	
	2018 \$'000	2017 \$'000
Freehold Land - at cost	145,392	142,760
Freehold buildings - at cost	215,130	206,783
Less: Accumulated depreciation	(71,270)	(55,606)
	143,860	151,177
Plant and equipment - at cost	996,343	1,149,956
Less: Accumulated depreciation	(364,593)	(520,075)
	631,750	629,881
Distribution system - at cost	8,192,154	7,806,720
Less: Accumulated depreciation	(2,220,607)	(2,016,543)
	5,971,547	5,790,177
	6,892,549	6,713,995

Consolidated	Freehold Land \$'000	Freehold buildings \$'000	Plant and equipment \$'000	Distribution System \$'000	Total \$'000
Balance at 1 January 2017	142,111	129,826	647,113	5,632,717	6,551,767
Additions	829	29,295	93,812	339,371	463,307
Disposals	(180)	(1,220)	(8,082)	-	(9,482)
Disposals - accumulated depreciation	-	751	6,318	-	7,069
Impairment of assets	-	-	-	(4,000)	(4,000)
Depreciation expense	-	(7,475)	(109,280)	(177,911)	(294,666)
Balance at 31 December 2017	142,760	151,177	629,881	5,790,177	6,713,995
Additions	2,779	8,559	103,863	385,363	500,564
Disposals	(147)	(212)	(257,476)	71	(257,764)
Disposals - accumulated depreciation	-	166	254,382	(1,060)	253,488
Depreciation expense	-	(15,830)	(98,900)	(203,004)	(317,734)
Balance at 31 December 2018	145,392	143,860	631,750	5,971,547	6,892,549

As at 31 December 2018, \$427,735 thousand (2017: \$372,787 thousand) of capital work in progress was included in the distribution system category carrying value.

Note 12. Non-current assets - property, plant and equipment (continued)

(a) Property, plant and equipment accounting policies

Property, plant and equipment are stated as cost less accumulated depreciation and impairment (if any).

(i) Cost

The purchase method of accounting is used for all acquisition of assets. Cost is determined as the fair value of the assets given up, or liabilities undertaken at the date of acquisition plus incidental costs directly attributable to the acquisition.

Construction work in progress is stated at cost plus attributable overheads. Cost includes all costs directly related to specific projects including materials, labour and an allocation of overhead expenses.

(ii) Depreciation

Depreciation is provided on property, plant and equipment, including freehold buildings but excluding land.

Depreciation is calculated on a straight line basis so as to write off the net cost or other revalued amount of each asset over its useful life to its estimated residual value. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period. The following estimated useful lives are used in the calculation of depreciation in current and prior periods.

Buildings	40 years
Plant and equipment	3-20 years
Distribution system	15-80 years

Assets in the course of construction are not subject to depreciation until they are put into use.

(iii) Impairment

Other assets, including property, plant and equipment, are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the assets carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the assets fair value less costs of disposal and its value in use. No impairment of other assets including property, plant and equipment has been recognised during the period.

(iv) Asset sales

The net proceeds on disposal of assets are brought to account at the date when control passes to the purchaser, usually when an unconditional contract of sale is signed.

(b) Critical accounting judgements, estimates and assumptions

Estimation of useful lives of assets

The Consolidated Entity determines the estimated useful lives and related depreciation and amortisation charges for its property, plant and equipment and finite life intangible assets. The useful lives could change significantly as a result of technical innovations or some other event. The depreciation and amortisation charge will increase where the useful lives are less than previously estimated lives, or technically obsolete or non-strategic assets that have been abandoned or sold will be written off or written down.

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Note 13. Non-current assets - intangibles

	Consolidated	
	2018 \$'000	2017 \$'000
Goodwill - at cost	1,311	1,311
Intellectual property - at cost	109,311	143,240
Less: Accumulated amortisation	(65,263)	(96,010)
	44,048	47,230
Software - at cost	20,523	204,343
Less: Accumulated amortisation	(13,689)	(193,206)
	6,834	11,137
Licences	773,122	773,122
	825,315	832,800

Consolidated	Goodwill \$'000	Licenses \$'000	Software \$'000	Intellectual Property \$'000	Total \$'000
Balance at 1 January 2017	1,311	773,122	14,428	50,414	839,275
Additions	-	-	1,198	-	1,198
Disposals	-	-	(329)	-	(329)
Disposals - accumulated amortisation	-	-	173	-	173
Amortisation expense	-	-	(4,333)	(3,184)	(7,517)
Balance at 31 December 2017	1,311	773,122	11,137	47,230	832,800
Additions	-	-	167	-	167
Disposals	-	-	(183,986)	(33,929)	(217,915)
Disposals - accumulated amortisation	-	-	183,692	33,929	217,621
Amortisation expense	-	-	(4,176)	(3,182)	(7,358)
Balance at 31 December 2018	1,311	773,122	6,834	44,048	825,315

During 2018, there was a write-off for fully depreciated software and intellectual property of \$183,692 thousand and \$33,929 thousand respectively.

(a) Intangible assets accounting policies

(i) Goodwill

Goodwill is not amortised but it is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Note 13. Non-current assets - intangibles (continued)

(ii) Distribution licence

The distribution licence is an exclusive licence to distribute electricity within a defined geography or service territory.

The factors that played a significant role in determining that the licence has an indefinite life are as follows:

- the licence is an exclusive licence to distribute electricity within the defined service territories, or geographic regions;
- the licence is vested in perpetuity, subject to ongoing compliance with the licence conditions; and
- there is presently no available technology which is likely to replace the method of distribution of electricity.

Impairment is reviewed at each reporting period date and whenever there is an indication that the distribution licence may be impaired.

Impairment of intangible assets

Determining whether distribution licence assets are impaired require an estimation of the fair value less costs of disposal of the cash-generating units to which the licence belongs. The fair value less costs of disposal calculation required the Directors to estimate the future cash flows expected to arise from the cash-generating units and a suitable discount rate in order to calculate present value.

(iii) Software

The value of software assets are recorded at cost. Software assets are amortised on a straight line basis over the life of the asset.

(iv) Intellectual property

Intellectual property represents distribution network assets and systems. The values of these assets are recorded at cost, based on a fair value determined by reference to independent valuations. Intellectual property is amortised on a straight line basis over the period during which the benefits are expected to arise, which is currently a maximum of twenty years. The unamortised balance of the intellectual property is reviewed each balance date and charged to the income statement to the extent that the future benefits are no longer probable.

(v) Amortisation methods and useful lives

Amortisation is provided on intellectual property and software. Amortisation is amortised on a straight line basis so as to write off the net cost over the periods benefits are expected to arise. The amortisation periods are as follows:

Intellectual Property	20 years
Software	3-10 years

Note 13. Non-current assets - intangibles (continued)

(b) Critical accounting judgements, estimates and assumptions

Determining cash generating units and impairment testing

Indefinite life intangible assets have been allocated to two cash-generating units, the Powercor and CitiPower electricity distribution networks, for the purposes of completing the annual impairment test. The balance of \$773,122 thousand has been allocated between the Powercor and CitiPower cash-generating units at \$608,837 thousand (2017: \$608,837 thousand) and \$164,285 thousand (2017: \$164,285 thousand) respectively. The basis on which these cash-generating units' recoverable amounts have been determined is their fair value less costs of disposal.

A five year discounted cash flow analysis has been used to determine fair value less costs of disposal. The discount rate used in the analysis was 4.06% (2017: 4.07%)

The key assumptions on which the Directors have based their assessment of future cash-flows and the approach to determining values for each were:

Terminal value

The terminal value was based on a multiple of the Regulated Asset Base (RAB) of the CitiPower and Powercor distribution networks. The RAB multiple used is in line with current market transactions.

Regulated revenue and expenditures

Regulated revenues and expenditures for the period 2019 to 2023 are primarily based on the Australian Energy Regulator's 2016 to 2020 Electricity Distributions Price Review decision plus a forecast on the current business plan for years subsequent to the 2020 determination. Electricity distribution revenue is based on the application of a 'revenue cap' to control distribution revenues during the regulatory control period, such that distribution revenues are no longer impacted by fluctuating volumes.

Non-regulated revenue and expenditure

Non-regulated revenue and expenditure were based on Management's best estimates with reference to historic performance.

The discounted cash flow model is not particularly sensitive to any assumption, such that a reasonably possible change in any assumption would not result in an impairment of the indefinite life intangible assets.

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Note 14. Non-current assets - retirement benefit assets

Defined benefit superannuation plans

Powercor Australia Limited and CitiPower Pty Ltd (entities within the Consolidated Entity) operate defined benefit superannuation plans for qualifying employees. Under the plans, the employees are entitled to retirement benefits based on their final salary at the time of retirement or resignation. No other post-retirement benefits are provided to these employees.

The defined benefit superannuation plans are funded plans. The Equipsuper Contribution and Funding Policy provides for a review of the financial position of the Plans each six months, as at 30 June and 31 December, with the Company contribution rate comprising a long term contribution rate and an adjustment to meet the financing objective of a Funding Ratio of 105%.

The Funding Ratio is the ratio of assets to accrued liabilities, being the greater of vested benefits and the present value of past membership benefits. Where the Funding Ratio is greater than 100% the primary financing objective is to achieve 105% over five years. Where the Funding Ratio is less than 100% the primary financing objective is to achieve 100% over three years and 105% over five years.

In the most recent review of the financial position as at 30 June 2018 the actuary recommended a Company contribution rate of nil. The next review of the financial position and Company contribution rate is due as at 31 December 2018, to be completed by 31 March 2019.

The Superannuation Industry (Supervision) (SIS) legislation governs the superannuation industry and provides the framework within which superannuation plans operate. The SIS regulations require an actuarial valuation to be performed for each defined benefit superannuation plan every three years or every year if the plan pays defined benefit pensions.

The Plan's Trustee is responsible for the governance of the Plan. The Trustee has a legal obligation to act solely in the best interests of Plan beneficiaries. The Trustee has the following roles:

- Administration of the Plan and payment to the beneficiaries from Plan assets when required in accordance with the Plan rules;
- Management and investment of the Plan assets; and
- Compliance with superannuation law and other applicable regulations.

The prudential regulator, the Australian Prudential Regulation Authority ("APRA"), licences and supervises regulated superannuation plans.

The expected return on plan assets assumption is determined by weighting the expected long-term return for each asset class by the target allocation of assets to each asset class and allowing for correlations of the investment returns between asset classes. The expected long-term returns for each asset class are determined by investment specialists based on their long term forecasts for each asset class. The returns used for each asset class are net of investment tax and investment fees. An allowance for administration expenses has been deducted from the expected return.

Statement of financial position amounts

The amounts recognised in the statement of financial position are determined as follows:

	Consolidated	
	2018	2017
	\$'000	\$'000
Present value of the defined benefit obligation	(279,401)	(281,186)
Fair value of defined benefit plan assets	306,278	308,183
Net asset in the statement of financial position	26,877	26,997

Fair value of Plan assets

	Total	Level 1	Level 2	Level 3
	\$'000	\$'000	\$'000	\$'000
Consolidated entity				
Asset category				
Investment funds	306,278	-	306,278	-

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Note 14. Non-current assets - retirement benefit assets (continued)

Categories of plan assets

The major categories of plan assets are as follows:

	Consolidated	
	2018	2017
	%	%
Cash and cash equivalents	17.0%	7.0%
Equity instruments	33.0%	50.0%
Debt instruments	21.0%	12.0%
Property	12.0%	9.0%
Other assets	17.0%	22.0%

Reconciliations

	Consolidated	
	2018	2017
	\$'000	\$'000
Reconciliation of the present value of the defined benefit obligation, which is fully funded:		
Balance at the beginning of the year	281,186	291,398
Current service cost	7,143	7,687
Interest cost	9,684	10,838
Actuarial losses / (gains) arising from changes in financial assumptions	(8,013)	8,245
Additions through business combinations	1,312	(1,333)
Actuarial losses arising from experience	-	(177)
Benefits paid	(13,633)	(36,528)
Other	(1,210)	(1,973)
Contribution by plan participants	2,932	3,029
Balance at the end of the year	<u>279,401</u>	<u>281,186</u>
Reconciliation of the fair value of plan assets:		
Balance at the beginning of the year	308,183	310,305
Actuarial return on plan assets less interest income	(536)	21,781
Contributions by entities in the consolidated entity	-	3
Benefits paid	(13,633)	(36,528)
Interest income	10,542	11,566
Contributions from plan participants	2,932	3,029
Other	(1,210)	(1,973)
Balance at the end of the year	<u>306,278</u>	<u>308,183</u>

Note 14. Non-current assets - retirement benefit assets (continued)

Significant actuarial assumptions

The significant actuarial assumptions used (expressed as weighted averages) were as follows:

	Consolidated	
	2018	2017
	%	%
Discount rate	3.6%	3.9%
Future salary increases	3.5%	3.5%
Expected rate of pension increase	2.5%	2.5%

The sensitivity of the defined benefit obligation to changes in the weighted principal assumptions is:

	Impact on defined benefit obligation					
	Change in assumption (%)		Increase in assumption (\$'000)		Decrease in assumption (\$'000)	
	2018	2017	2018	2017	2018	2017
Discount rate	0.5%	0.5%	(12,650)	(13,553)	13,544	14,548
Salary rate	0.5%	0.5%	10,755	11,682	(10,256)	(11,118)

The defined benefit obligation has been recalculated by changing the assumptions as outlined above, whilst retaining all other assumptions.

Risk exposure

There are a number of risks to which the Plan exposes the Consolidated Entity. The more significant risks relating to the defined benefits are:

- Investment risk - The risk that investment returns will be lower than the assumed and the Consolidated Entity will need to increase contributions to offset this shortfall.
- Salary growth risk - The risk that wages or salaries (on which future benefit amounts will be based) will rise more rapidly than assumed, increasing defined benefit amounts and thereby requiring additional employer contributions.
- Legislative risk - The risk is that legislative changes could be made which increase the cost of providing the defined benefits.
- Pension risks - The risk is firstly that pensioner mortality will be lighter than expected, resulting in pensions being paid for a longer period. Secondly, that a greater proportion of eligible members will elect to take a pension benefit, which is generally more valuable than the corresponding lump sum benefit.
- Inflation risk - The risk that inflation is higher than anticipated, increasing pension payments, and thereby requiring additional employer contributions.

Defined benefit superannuation accounting policies

For defined benefit superannuation plans, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at each reporting date. Actuarial gains and losses are recognised in full, directly in other comprehensive income, in the period in which they occur.

Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the benefits become vested.

The defined benefit (liability)/asset recognised in the Statements of Financial Position represents the present value of the defined benefit obligation adjusted for unrecognised past service cost, net of the fair value of plan assets.

Any asset resulting from this calculation is limited to the past service cost, plus the present value of available refunds and reductions in future contributions to the plan.

The Plan assets are invested by the Trustee in a pool of assets with plans providing defined benefits for other employers. The assets have a benchmark weighting to equities of 50% and therefore the plan has a significant concentration of equity market risk. However within the equity investments, the allocation both globally and across the sectors is diversified.

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Note 14. Non-current assets - retirement benefit assets (continued)

Critical accounting estimates and judgements

(i) Discount Rate applied to Defined Benefits

As discussed in above, defined benefit plan obligations are discounted to present value. The discount rate is determined by reference to the market yield on high quality corporate bonds from observable yield curves.

(ii) Assumptions used in actuarial valuation

The Consolidated Entity relies on valuations performed by suitably qualified actuaries in recognising the defined benefit superannuation plan accounting. Disclosures regarding the outcomes of such valuations and the key assumptions used have been outlined above.

Note 15. Non-current assets - other financial assets

	Consolidated	
	2018	2017
	\$'000	\$'000
Term deposit	375	750

Note 16. Current liabilities - trade and other payables

	Consolidated	
	2018	2017
	\$'000	\$'000
Trade payables	162,041	198,476
Accrued interest - other	27,508	25,128
Goods & services tax (GST) payable	14,163	12,959
Other payables	5,922	3,853
Trust funds & deposits	933	986
Customer deposit	113,149	95,644
Payable to related party	171,542	195,023
Deferred lease incentive	107	343
Dividend payable	-	153,684
	495,365	686,096

Refer to note 32 for further information on financial instruments.

The carrying amounts of current trade and other payables are assumed to be the same as their fair values, due to their short-term nature.

Note 16. Current liabilities - trade and other payables (continued)

Trade and other payables accounting policies

(i) Trade and other payables

These amounts represent liabilities for goods and services provided to the Consolidated Entity prior to the end of the financial period which are unpaid. Trade and other payables are presented as current liabilities unless payment is not due within 12 months from the reporting date. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

(ii) Accrued interest

Accrued interest is the amount of interest that has accumulated on a borrowing since the last interest payment date which is still unpaid at the end of the reporting period.

(iii) Trust funds and deposits

Where customers are required to lodge security deposits for electricity connection works, the deposits will be refunded with interest over the period specified in each individual contract. All balances held in this category are included in the Statement of Financial Position.

(iv) Customer deposits

Where customers request augmentation works, deposits are received in advance of works commencing.

(v) Payable to related party

Balance represents an intercompany payable with Victoria Power Networks Pty Ltd ("VPN") in accordance with the taxation funding arrangement for the VPN tax consolidated group. The current portion of the balance represents the tax payable which will be cash settled within 12 months.

Note 17. Current liabilities - contract liabilities

	Consolidated	
	2018	2017
	\$'000	\$'000
Contract liabilities	9,911	19,617

Contract liabilities accounting policy

Contract liabilities represent the Consolidated Entity's obligation to transfer goods or services to a customer and are recognised when a customer pays consideration, or when the Consolidated Entity recognises a receivable to reflect its unconditional right to consideration (whichever is earlier) before the Consolidated Entity has transferred the goods or services to the customer.

Note 18. Current liabilities - borrowings

	Consolidated	
	2018	2017
	\$'000	\$'000
Bank loans	830,000	760,081
Medium term notes	150,000	-
US Senior notes	101,181	470,002
	1,081,181	1,230,083

Refer to note 32 for further information on financial instruments.

Note 18. Current liabilities - borrowings (continued)

(i) Compliance with loan covenants

Victoria Power Networks (Finance) Pty Ltd has complied with the financial covenants of its borrowing facilities during the 2018 and 2017 reporting periods.

(ii) Risk exposures

Details of the Consolidated Entity's exposure to risks arising from current and non-current borrowings are set out in note 32.

(iii) Borrowings accounting policies

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs.

Borrowings are classified as current liabilities unless the Consolidated Entity has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

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Note 19. Current liabilities - provisions

	Consolidated	
	2018	2017
	\$'000	\$'000
Employee benefits	75,892	74,236
Environmental provision	500	320
Vegetation management	5,300	2,519
Legal claims	7,965	1,840
Onerous lease	749	5,317
Other	2,360	5,539
Uninsured losses	1,307	3,429
	<u>94,073</u>	<u>93,200</u>

Amounts not expected to be settled within the next 12 months

The leave obligations cover the Consolidated Entity's liability for long service leave and annual leave.

The current provision for employee benefits includes accrued annual leave and long service leave. Long service leave covers all unconditional entitlements where employees have completed the required period of service and also those where employees are entitled to pro-rata payments in certain circumstances. The current portion of the provision of \$75,892 thousand (2017 - \$74,236 thousand) is presented as current, since the Consolidated Entity does not have an unconditional right to defer settlement for any of these obligations. However, based on past experience, the Consolidated Entity does not expect all employees to take the full amount of accrued leave or require payment within the next 12 months.

The following amounts reflect leave that is not expected to be taken within the next 12 months:

	Consolidated	
	2018	2017
	\$'000	\$'000
Employee benefits obligation expected to be settled after 12 months	<u>59,510</u>	<u>58,250</u>

(a) Information about individual provisions and significant estimates

Employee benefits

The provision for employee benefits relates to the Consolidated Entity's liability for long service leave and annual leave.

Environment provision

The environmental provision represents the present value of the Directors' best estimate of the future sacrifice of economic benefits that will be required to remediate network sites which have been issued with EPA clean up notices.

Vegetation management

The provision for vegetation management represents the present value of the Directors' best estimate of the future sacrifice of economic benefits that will be required in order to maintain compliance with the Electricity Safety Regulations in low bushfire risk areas.

Legal claims

The provision for legal claims represents the present value of the Directors' best estimate of the future sacrifice of economic benefits that will be required to settle legal claims.

Onerous contracts

The onerous contracts provision represents the present value of the Directors' best estimate of the future sacrifice of economic benefits to finalise construction contracts with customers where the project is forecast to be loss making.

Uninsured losses

The provision for uninsured losses represents the present value of the Directors' best estimate of the future sacrifice of economic benefits that will be required to settle public liability and personal injury claims received which are not covered by the insurance policies of the Consolidated Entity.

Note 19. Current liabilities - provisions (continued)

(b) Accounting policies for provisions

Provisions are recognised when the Consolidated Entity has a present obligation (legal or constructive) as a result of a past event, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

(c) Critical accounting judgements, estimates and assumptions

Employee Benefits

The Consolidated Entity relies on valuations performed by suitably qualified actuaries in recognising the defined benefit superannuation plan accounting. Note 14 provides disclosures regarding the outcomes of such valuations and the key assumptions used.

Discount Rate applied to Employee Entitlements and Defined Benefits

Long term employee benefits balances and defined benefit plan obligations are discounted to present value. The discount rate is determined by reference to the market yield on high quality corporate bonds from observable yield curves.

Environment provision

The Consolidated Entity relies on valuations performed by Environmental Specialists to estimate the clean-up cost of EPA notices.

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Note 20. Current liabilities - other financial liabilities - contingent consideration

	Consolidated	
	2018	2017
	\$'000	\$'000
Other (contingent consideration)	375	375

Contingent consideration representing the estimated fair value of the contingent consideration relating to the acquisition of NG Group Holdings Pty Ltd.

Note 21. Non-current liabilities - trade and other payables

	Consolidated	
	2018	2017
	\$'000	\$'000
Trust funds & deposits	1,090	507
Deferred lease incentive	14,766	14,186
Payable to related party	27,060	24,411
	42,916	39,104

Refer to note 16 for further information.

Note 22. Non-current liabilities - contract liabilities

	Consolidated	
	2018	2017
	\$'000	\$'000
Contract liabilities	3,079	3,206

Refer to note 17 for further information.

Note 23. Non-current liabilities - borrowings

	Consolidated	
	2018	2017
	\$'000	\$'000
Medium term notes	918,618	1,079,284
Fixed rate note	528,978	303,671
Foreign denominated notes	2,178,686	1,820,556
	3,626,282	3,203,511

Refer to note 32 for further information on financial instruments.

Refer to note 18 for further information on borrowings accounting policies

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Note 24. Non-current liabilities - deferred tax liabilities

(i) Taxable and deductible temporary differences

	Consolidated			Closing balance \$'000
	Opening balance \$'000	Charged to income \$'000	Charged to other comprehensive income \$'000	
2018				
Property, plant and equipment	(611,179)	24,508	-	(586,671)
Intangible assets	(181,225)	-	-	(181,225)
Provisions	34,761	(150)	-	34,611
Accrued revenue	(3,986)	1,099	-	(2,887)
Doubtful debts and impairment losses	2,596	(165)	-	2,431
Deferred income	4,358	63	-	4,421
Prepayments	(891)	(36)	-	(927)
Defined benefit superannuation liability	(8,099)	1,883	(1,847)	(8,063)
Cash flow hedges	6,708	-	15,390	22,098
Investment in associates	(81)	(173)	-	(254)
Other	168	(67)	-	102
Discounting of intercompany loans	(9,373)	4,934	-	(4,439)
	<u>(766,243)</u>	<u>31,896</u>	<u>13,543</u>	<u>(720,803)</u>

	Consolidated			Closing balance \$'000
	Opening balance \$'000	Charged to income \$'000	Charged to other comprehensive income \$'000	
2017				
Property, plant and equipment	(593,788)	(17,391)	-	(611,179)
Intangible assets	(181,225)	-	-	(181,225)
Provisions	26,124	8,637	-	34,761
Accrued revenue	(4,153)	167	-	(3,986)
Doubtful debts and impairment losses	2,711	(115)	-	2,596
Deferred income	4,188	170	-	4,358
Prepayments	(786)	(105)	-	(891)
Defined benefit superannuation liability	(5,671)	2,087	(4,515)	(8,099)
Cash flow hedges	(5,702)	-	12,410	6,708
Investment in associates	(15)	(66)	-	(81)
Other	157	11	-	168
Discounting of intercompany loans	(10,090)	717	-	(9,373)
	<u>(768,250)</u>	<u>(5,888)</u>	<u>7,895</u>	<u>(766,243)</u>

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Note 24. Non-current liabilities - deferred tax liabilities (continued)

(ii) Australian Taxation Office Audit

Asset dispute matters

Victoria Power Networks Pty Ltd (VPN) and its wholly owned Australian resident entities (including Victoria Power Networks (Finance) Pty Ltd are part of a tax consolidated group under Australian tax law. The Company's parent entity, VPN is the head entity in the tax consolidated group.

The Head of Agreement for the deductibility of capitalised labour costs dispute was signed by the relevant parties (including VPN) and the ATO on 27 September 2016. This agreement was subsequently converted into a Deed of Settlement and executed on 20 September 2018.

The negotiations with the ATO on the dispute on transferred assets have been exhausted. On 25 August 2017, the ATO denied VPN's objections which triggered the litigation court process. The Court hearing took place in December 2018. Subsequent to year end on 7 February 2019, the Federal Court handed down its decision on VPN's transferred assets and cash customer contributions tax matter. The court found in favour of the Commissioner of Taxation.

VPN is currently reviewing the judgement. No decision has yet been made as to whether VPN will appeal the decision. There is no immediate cash tax payable by VPN due to its existing tax losses available.

(iii) Deferred tax assets and liabilities

	Consolidated	
	2018	2017
	\$'000	\$'000
Deferred tax assets comprise:		
Temporary differences	63,744	48,591
Deferred tax (liabilities) comprise:		
Temporary differences	(784,547)	(814,834)
Net deferred tax liability	<u>(720,803)</u>	<u>(766,243)</u>

Note 25. Non-current liabilities - provisions

	Consolidated	
	2018	2017
	\$'000	\$'000
Employee benefits	4,821	4,518
Environmental provision	13,545	14,710
	<u>18,366</u>	<u>19,228</u>

Refer to note 19 for further information on provisions.

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Note 25. Non-current liabilities - provisions (continued)

Movements in provisions

Movements in each class of provision (current and non-current) during the current financial year, other than employee benefits, are set out below:

Consolidated - 2018	Employee benefits \$'000	Uninsured losses \$'000	Vegetation management \$'000	Legal claims \$'000	Environment \$'000	Onerous contracts \$'000	Other \$'000
Carrying amount at the start of the year	78,754	3,429	2,519	1,840	15,030	5,317	5,539
Additional provisions recognised	24,978	325	2,781	7,965	-	-	-
Reductions arising from payments/other sacrifices of future economic benefits	(24,668)	(270)	-	(1,840)	-	-	-
Reduction / Addition resulting from re-measurement or settlement without cost	1,649	(2,177)	-	-	(985)	(4,568)	(3,179)
Carrying amount at the end of the year	<u>80,713</u>	<u>1,307</u>	<u>5,300</u>	<u>7,965</u>	<u>14,045</u>	<u>749</u>	<u>2,360</u>

Note 26. Non-current liabilities - other financial liabilities - Contingent consideration

	Consolidated	
	2018 \$'000	2017 \$'000
Other (Contingent consideration)	-	133

Refer to Note 20 for further information.

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Note 27. Equity - issued capital

	Consolidated		
	2018	2017	
	Shares	Shares	
			2018
			\$'000
			2017
			\$'000
Ordinary shares - fully paid	500	500	1,639,196
			1,639,196

Ordinary shares

Ordinary shares entitle the holder to participate in dividends and have no special voting rights.

Ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

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 the proceeds.

Capital risk management

The Consolidated Entity's objective in managing capital is to safeguard the Consolidated Entity's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to minimise the cost of capital.

In order to maintain or adjust its capital structure, the Consolidated Entity may adjust the level of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The capital structure of the Consolidated Entity is monitored through the gearing ratio. This ratio is defined as net senior debt divided by total capital, where net senior debt is defined as total senior interest bearing financial assets and financial liabilities (including derivative financial instruments) less cash and cash equivalents and total capital, where total capital is defined as equity shown in the consolidated balance sheet plus net debt.

During the period and year ended 31 December 2018 and 31 December 2017, the Consolidated Entity's strategy was to maintain the net debt / RAB ratio at less than 75% in order to secure access to finance at a reasonable cost.

The Consolidated Entity's risk management and compliance committee reviews the capital structure on a semi-annual basis.

The Consolidated Entity is not subject to any externally imposed capital requirements.

Note 28. Equity - reserves

The following table shows a breakdown of the Statement of Financial Position line item 'reserves'. A description of the nature and purpose of each reserve is provided below the table.

	Consolidated	
	2018	2017
	\$'000	\$'000
Hedging reserve - cash flow hedges	(51,560)	(15,650)
Financial equity reserve	17,918	17,918
	(33,642)	2,268

Hedging reserve

The hedging reserve represents hedging gains and losses recognised on the effective portion of cash flow hedges. The cumulative deferred gain or loss on the hedge is recognised in profit or loss when the hedged transaction impacts the profit or loss, or is included as a basis adjustment to the non-financial hedged item, consistent with the applicable accounting policy.

Financial equity reserve

The Financial equity reserve represents the gains and losses recognised on the discounting of intercompany loans to present values. The carrying value of the loans has been determined on the basis of the best estimate of when they will be settled, with the loans accounted for on the basis of present values with any discounting of the loan balances taken to the reserve. In the current year, no tax discounting has been applied given the company settles the taxation transactions occurring within the last 12 months via a cash settlement.

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Note 28. Equity - reserves (continued)

Movements in reserves

Movements in each class of reserve during the current and previous financial year are set out below:

Consolidated	Hedging reserve - cash flow hedges \$'000	Financial equity / distribution reserve \$'000	Total \$'000
Balance at 1 January 2017	13,306	17,918	31,224
AUD interest rate swaps	(4,464)	-	(4,464)
Interest rate swaps transferred to Profit or Loss	(23,120)	-	(23,120)
Cross currency interest swaps	(186,057)	-	(186,057)
Cross currency swaps FX translation transferred to Profit or Loss	166,776	-	166,776
Cross currency interest rate swaps transferred to Profit or Loss	5,849	-	5,849
Forward foreign exchange contracts	(358)	-	(358)
Foreign exchange contracts transferred to capital expenditure	8	-	8
Income tax relating to these items	12,410	-	12,410
Balance at 31 December 2017	(15,650)	17,918	2,268
AUD interest rate swaps	(71,582)	-	(71,582)
Interest rate swaps transferred to Profit or Loss	18,214	-	18,214
Cross currency swaps FX translation transferred to Profit or Loss	99	-	99
Cross currency interest rate swaps transferred to Profit or Loss	1,484	-	1,484
Forward foreign exchange contracts	485	-	485
Income tax relating to these items	15,390	-	15,390
Balance at 31 December 2018	(51,560)	17,918	(33,642)

Note 29. Equity - retained profits

	Consolidated	
	2018 \$'000	2017 \$'000
Retained profits at the beginning of the financial year	319,198	552,711
Profit after income tax expense for the year	227,624	224,636
Dividends paid	-	(468,684)
Actuarial gain on defined benefit plans, net of tax	4,311	10,535
Retained profits at the end of the financial year	551,133	319,198

Note 30. Equity - non-controlling interest

	Consolidated	
	2018 \$'000	2017 \$'000
Reserves	1,186	545

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Note 31. Derivative financial instruments

	Consolidated	
	2018	2017
	\$'000	\$'000
<i>Current assets</i>		
Forward foreign exchange contracts	255	232
Cross Currency swaps	31,772	118,798
	<u>32,027</u>	<u>119,030</u>
<i>Non-current assets</i>		
Forward foreign exchange contracts	45	12
Interest rate swap contracts	7,010	14,042
Cross Currency Swaps	262,792	166,790
	<u>269,847</u>	<u>180,844</u>
<i>Current liabilities</i>		
Interest rate swap contracts	(637)	(820)
Forward foreign exchange contracts	(125)	(364)
	<u>(762)</u>	<u>(1,184)</u>
<i>Non-current liabilities</i>		
Forward foreign currency contracts	(33)	(223)
Interest rate swap contracts	(63,136)	(16,617)
Cross currency Swaps	(18,780)	(78,156)
	<u>(81,949)</u>	<u>(94,996)</u>
	<u>219,163</u>	<u>203,694</u>

Refer to note 32 for further information on financial instruments.

(i) Classification of derivatives

Derivatives are classified as held for trading and accounted for at fair value through profit or loss unless they are designated as hedges. They are presented as current assets or liabilities if they are expected to mature within 12 months after the end of the reporting period.

For hedged forecast transactions that result in the recognition of a non-financial asset, the Consolidated Entity has elected to include related hedging gains and losses in the initial measurement of the cost of the asset.

Note 32. Financial instruments

(a) Financial risk management objectives

The Consolidated Entity's activities expose it to a variety of financial risks: market risk (including foreign exchange, and interest rate), credit risk and liquidity risk. Our major exposure to interest rate risk and foreign currency risk arises from our long-term borrowings. We have also translation foreign currency risk associated with transactional foreign currency exposures, such as purchases made in foreign currencies.

The Consolidated Entity's overall risk management strategy focuses on monitoring and managing these financial risks such that potential adverse effects on the Consolidated Entity's financial performance are minimised. Financial risk management is carried out by the Consolidated Entity's Treasury function under policies approved by the Board of Directors. The Consolidated Entity has written policies covering specific areas such as foreign exchange risk, interest rate risk, credit risk, liquidity risk, use of derivative and non-derivative financial instruments and the investment of excess liquidity.

The Consolidated Entity uses the following type of derivative financial instruments to hedge these risk exposures:

- Interest rate swap contracts: the Consolidated Entity agrees to exchange the difference between fixed and floating interest amounts calculated on agreed notional principal amounts. Such contracts enable the Consolidated Entity to mitigate the risk of changing interest rates on the fair value of fixed rate debt held and the cash flow exposures of floating rate debt held.
- Cross-currency swap contracts: the Consolidated Entity agrees to exchange specified principal and interest foreign currency amounts at an agreed future date at a specified exchange rate. Such contracts enable the Consolidated Entity to mitigate the risk of adverse movements in foreign exchange rates.
- Foreign currency forward contracts: the Consolidated Entity undertakes certain transactions denominated in foreign currencies, primarily USD, from which exposure to exchange rate fluctuations arise. Such contracts enable the Consolidated Entity to lock in the exchange rate at the future date for the payment or receipt.

Hedge accounting is a technique that enables the matching of the gains and losses on designated hedging instruments and hedged items in the same accounting period to minimise volatility in Profit or Loss. To the extent permitted by AASB 9, we formally designate and document these financial instruments as fair value and cash flow hedges for accounting purposes. In order to qualify for hedge accounting, AASB 9 requires that prospective hedge effectiveness testing meets all of the following criteria:

- an economic relationship exists between the hedged item and hedging instrument
- the effect of credit risk does not dominate the value changes resulting from the economic relationship
- the hedge ratio is the same as that resulting from amounts of hedged items and hedging instruments for risk management.

Note 32. Financial instruments (continued)

(b) Derivatives

The Consolidated Entity uses derivative financial instruments for two types of hedges:

	Fair value hedges	Cash flow hedges
Objective	To convert fixed interest rate borrowings to floating interest rate borrowings.	To hedge the exposure arising from variability in future interest and foreign currency cash flows arising from borrowings that bear interest at variable rates, or are denominated in foreign currency. Cash flow hedging is also used to mitigate the foreign currency exposure arising from anticipated future transactions
Recognition date	At the date the instrument is entered into.	At the date the instrument is entered into.
Measurement	Measured at fair value.	Measured at fair value
Changes in fair value	Changes in the fair value of the hedging instrument and changes in the fair value of the hedged item that is attributable to the hedged risk ('fair value hedge adjustment') are recognised in Profit or Loss. Ineffectiveness reflects the extent to which the fair value movements do not offset and is primarily driven by movements in credit of the hedging instrument.	Ineffectiveness is recognised in the Profit or Loss if the change in the fair value of the hedging instrument exceeds the change in fair value of the underlying hedged item for the hedged risk. The portion of fair value movement qualifying as effective movement is recognised in the cash flow hedge reserve in equity. All cash flow hedges are in effective hedge relationships on the basis that the critical terms of the hedging instrument and hedged item are aligned (including face values, cash flows and currency). During the year, there has been no material ineffectiveness attributable to the cash flow hedges.

Fair value hedges have an economic relationship on the basis that the critical terms of the hedging instrument and hedged item (including face value, cash flows and maturity date) are aligned. The relationship between the hedged risk and the corresponding value of the hedging derivatives results in a hedge ratio of one.

The cumulative amount of fair value hedge adjustments which are included in the carrying amount of our borrowings in the Statement of Financial Position is shown below:

	Consolidated	
	2018	2017
	\$'000	\$'000
Fixed rate instruments		
Face value as at 31 December	2,855,011	2,312,877
Unamortised discounts/premiums	(7,577)	(4,251)
Amortised cost	2,847,434	2,308,626
Cumulative fair value hedge adjustments	(45,144)	(18,068)
Carrying amount	2,802,290	2,290,558
	2018	2017
	\$'000	\$'000
Change in value of hedged item during year	(27,076)	(7,560)

For fixed rate instruments, face value represents the face value in the underlying currency converted at the spot exchange rate as at reporting date. Revaluation impacts since inception of the borrowings due to foreign exchange movements are reflected in the amortised cost balance.

Note 32. Financial instruments (continued)

(i) Fair value measurements

The Consolidated Entity measures and recognises the following assets and liabilities at fair value on a recurring basis:

- Financial assets and financial liabilities at fair value through profit or loss (FVTPL)
- Derivative financial instruments

Foreign currency forward contracts are measured using the discounted cash flow method. Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contract forward rates, discounted at a rate that reflects the credit risk of various counterparties. These are classified as level 2 instruments.

Interest rate swaps are measured using the discounted cash flow method. Future cash flows are estimated based on forward interest rates (from observable yield curves at the end of the reporting period), discounted at a rate that reflects the credit risk of various counterparties. These are classified as level 2 instruments.

Cross-currency interest rate swaps are measured using the discounted cash flow method. Future cash flows are estimated based on forward currency rates (from observable yield curves at the end of the reporting period) and contract currency rates, discounted at a rate that reflects the credit risk of various counterparties. These are classified as level 2 instruments.

Accounting policy for fair value measurement

When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either: in the principal market; or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interests. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

The table below provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) and applied within a valuation technique.
- Level 3 fair value measurements are those derived from inputs that are not based on observable market data (unobservable inputs) and applied within a valuation technique.

Consolidated Entity - at 31 December 2018	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Financial assets				
Interest rate swap contracts - cash flow hedges	-	5,519	-	5,519
Forward foreign exchange contracts - cash flow hedges	-	300	-	300
Cross currency swaps - fair value hedges	-	10,679	-	10,679
Cross currency swaps - cash flow hedges	-	325,696	-	325,696
Interest rate swap contracts - fair value hedges	-	1,491	-	1,491
Total financial assets	-	343,685	-	343,685

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Note 32. Financial instruments (continued)

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Financial Liabilities				
Cross currency swaps - cash flow hedges	-	(2,955)	-	(2,955)
Cross currency swaps - fair value hedges	-	(57,636)	-	(57,636)
Forward foreign exchange contracts - cash flow hedges	-	(158)	-	(158)
Interest rate swap contracts - cash flow hedges	-	(63,773)	-	(63,773)
Total financial liabilities	-	(124,522)	-	(124,522)
Consolidated Entity - at 31 December 2017				
	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Financial assets				
Forward foreign exchange contracts - cash flow hedges	-	244	-	244
Interest rate swap contracts - cash flow hedges	-	14,042	-	14,042
Interest rate swaps – fair value through profit and loss	-	1,628	-	1,628
Cross currency swaps - fair value hedges	-	15,201	-	15,201
Cross currency swaps - cash flow hedges	-	268,759	-	268,759
Total financial assets	-	299,874	-	299,874
	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Financial liabilities				
Interest rate swaps – cash flow hedges	-	17,437	-	17,437
Forward foreign exchange contracts - cash flow hedges	-	587	-	587
Contingent consideration payable	-	-	508	508
Cross Currency Swaps - cash flow hedges	-	45,476	-	45,476
Cross Currency Swaps - fair value hedges	-	32,680	-	32,680
Total financial liabilities	-	96,180	508	96,688

There were no transfers between Level 1 and 2 during the year. There were no transfers into or out of Level 3 during the year.

(ii) Fair value of financial instruments

Except as detailed in the following table, the Directors consider that the carrying amounts of financial assets and financial liabilities recognised in the consolidated financial statements approximate their fair values. These instruments are valued using the same methodology as the level 2 instruments described in this note.

	Consolidated Carrying value \$'000	Fair value \$'000
2018		
Foreign denominated notes	2,278,521	2,308,388
Fixed rate note	531,615	564,169
	<u>2,810,136</u>	<u>2,872,557</u>
2017		
Foreign denominated notes	2,290,558	2,343,327
Fixed rate note	303,671	322,820
	<u>2,594,229</u>	<u>2,666,147</u>

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Note 32. Financial instruments (continued)

(iii) Amounts recognised in profit or loss

During the year, the following amounts were recognised in profit or loss in relation to foreign currency transactions and interest rate swaps:

	Consolidated	
	2018 \$'000	2017 \$'000
Amount reclassified from cash flow hedge reserve to profit or loss – amount recognised in finance expenses	96,866	172,624

(c) Hedging

Consolidated entity 2018	Notional \$'000	Weighted average effective interest rate %	Carrying amount - Asset \$'000	Carrying amount - Liability \$'000	Changes in the value of hedging instrument recognised in other comprehensive income \$'000	Changes in fair value used for calculating hedge ineffectiveness* \$'000	Weighted average Maturity date
Foreign currency risk							
Cross-currency interest rate swaps - cash flow hedges	1,986,275	3.25%	325,696	2,955	(2,592)	99,458	05/01/2026
Forward foreign exchange contracts- cash flow hedge	21,332	-	300	158	(485)	485	11/05/2019
Interest rate risk							
AUD - interest rate swap contracts - cash flow hedges	3,775,000	2.46%	5,519	63,773	54,376	(54,859)	05/11/2023
Foreign Currency - Cross-currency interest rate swaps - fair value hedges	1,986,275	3.25%	10,679	57,636	-	(29,479)	05/01/2026

Note 32. Financial instruments (continued)

(d) Market risk

(i) Foreign exchange risk

The Consolidated Entity's activities expose it primarily to the financial risks of changes in foreign exchange rates and interest rates. The Consolidated Entity measures the market risk exposures using sensitivity analysis and cash flow forecasting. There has been no change from the prior year to the types of market risks the Consolidated Entity is exposed to or manner in which the risks are managed and measured.

Foreign exchange risk arises from recognised assets and liabilities that are denominated in a currency that is not the entity's functional currency. The Consolidated Entity undertakes certain transactions denominated in foreign currencies, primarily US Dollars (USD) and Hong Kong Dollars (HKD), from which exposure to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters.

Consolidated Entity's exposure to foreign currency risk (prior to hedging contracts) at the reporting period, expressed in the foreign currency, was as follows:

	USD		HKD	
	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000
Borrowing*	1,140,000	1,505,000	3,187,000	2,350,000

*The Consolidated Entity deems the above are material exposure. The Consolidated Entity has additional exposure to EUR and NOK that are deemed immaterial.

The following table details the Consolidated Entity's sensitivity to a 10% increase and decrease in the value of the Australian Dollar (AUD) against the relevant foreign currencies. The sensitivity analysis includes outstanding foreign currency denominated financial assets and liabilities (including derivatives) and adjusts their translation at period end for a 10% change in foreign exchange rates on a total portfolio basis with all other variables held constant.

	Impact on post-tax profit*		Impact on other components of equity		Total impact on equity	
	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000
AUD/USD & AUD/HKD exchange rate - increase 10%	-	-	(34,302)	(20,612)	(34,302)	(20,612)
AUD/USD & AUD/HKD exchange rate - decrease 10%	-	-	44,942	32,174	44,942	32,174

*Changes in market rates under this scenario are assumed to have a nil impact on derivative hedge ineffectiveness as the Consolidated Entity has highly effective hedges in place.

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Note 32. Financial instruments (continued)

(ii) Interest Rate Risk

The Consolidated Entity is exposed to interest rate risk as it invests and borrows funds at both fixed and floating interest rates. The risks are managed by maintaining an appropriate mix between fixed and floating rate borrowings and through the use of interest rate swap contracts and forward interest rate contracts. Hedging activities are evaluated regularly to confirm alignment with the debt and liquidity management policy and ensure that the Consolidated Entity is not exposed to excess risk from interest rate volatility.

	Average fixed interest rate		Notional principal amount		Fair value	
Receive floating / pay fixed	2018 %	2017 %	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000
Consolidated						
Less than 1 year	2.18%	2.10%	400,000	400,000	(637)	(820)
1 to 2 years	2.24%	2.18%	400,000	400,000	(1,898)	(1,482)
2 to 5 years	2.47%	2.36%	1,200,000	1,200,000	(21,521)	(5,627)
5 years+	2.56%	2.53%	1,775,000	1,775,000	(34,199)	4,534
			<u>3,775,000</u>	<u>3,775,000</u>	<u>(58,255)</u>	<u>(3,395)</u>

The sensitivity analysis contained in the table below has been determined based on the exposure to interest rates for both derivative and non-derivative instruments at the reporting date with the stipulated change taking place at the start of the financial year and held constant for the reporting period. A sensitivity of 1% (100 basis points) has been selected as this is considered reasonable given the current level of both short and long term interest rates.

	Net profit*		Cash flow hedge reserve		Total impact on equity	
Consolidated	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000
Impact of movement in interest rates (AUD)						
1% increase in interest rates - increase/(decrease)	(970)	(556)	110,305	111,117	109,335	110,561
1% decrease in interest rates - (decrease)/increase	970	556	(117,642)	(119,721)	(116,672)	(119,165)
Impact of movement in interest rates (USD) / (HKD)						
1% increase in interest rates - increase/(decrease)	-	-	(4,394)	(7,392)	(4,394)	(7,392)
1% decrease in interest rates - (decrease)/increase	-	-	1,842	6,876	1,842	6,876

*Changes in market rates under this scenario are assumed to have a nil impact on derivative hedge effectiveness as the Consolidated Entity has highly effective hedges in place.

Profit would have been affected mainly as a result of the ineffective portion of cash flow and fair value hedge transactions and floating rate financial assets and liabilities that are not in a cash flow hedge relationship. Equity, through the cash flow hedge reserve, would have been affected mainly as a result of an increase/decrease in the fair value of interest rate swaps which qualify for cash flow hedge accounting.

Note 32. Financial instruments (continued)

(e) Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss. The Consolidated Entity has 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. The Consolidated Entity's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions contracted is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the risk management committee annually.

The Consolidated Entity has adopted a lifetime expected loss allowance in estimating expected credit losses to trade receivables through the use of a provisions matrix using fixed rates of credit loss provisioning. These provisions are considered representative across all customers of the Consolidated Entity based on recent sales experience, historical collection rates and forward-looking information that is available.

Generally, trade receivables are written off when there is no reasonable expectation of recovery. Indicators of this include the failure of a debtor to engage in a repayment plan, no active enforcement activity and a failure to make contractual payments for a period greater than 12 months.

Trade receivables consist of a large number of customers with ongoing credit evaluation performed on their financial condition. Where appropriate, additional collateral credit support is obtained to mitigate the risk of loss.

The Consolidated Entity does not have significant credit risk exposure to any single counterparty. 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.

The carrying amount of financial assets recorded in the financial statements, net of any allowance for losses, represents the Consolidated Entity's maximum exposure to credit risk without taking account of the value of any collateral obtained.

Impaired trade receivables

The Consolidated Entity applies the AASB 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets.

To measure expected credit losses, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due. The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the trade receivables for the same types of contracts. The Consolidated Entity therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the contract assets.

The expected loss rates are based on the payment profiles over a period of 24 month before 31 December 2018 or 1 January 2018 respectively and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

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Note 32. Financial instruments (continued)

On that basis, the loss allowance as at 31 December 2018 and 1 January 2018 (on adoption of AASB 9) was determined as follows for both trade receivables and contract assets:

	Current	More than 30 days past due	More than 60 days past due	More than 90 days past due	Total
31 December 2018					
Expected loss rate	0.6%	17.1%	30.2%	95.0%	4.8%
Gross carrying amount – trade receivables	35,083	2,402	1,482	6,550	45,517
Gross carrying amount - contract assets	123,364	-	-	-	123,364
Loss allowance	1,023	410	447	6,223	8,103
	Current	More than 30 days past due	More than 60 days past due	More than 90 days past due	Total
1 January 2018					
Expected loss rate	0.4%	51.7%	8.1%	98.6%	5.4%
Gross carrying amount - trade receivables	33,050	1,919	4,955	6,751	46,675
Gross carrying amount - contract assets	114,089	-	-	-	114,089
Loss allowance	607	992	399	6,656	8,654

Allowance for expected credit losses

The expected credit loss allowance represent expected loss rate on trade receivables and contract assets where no incurred credit losses has eventuated. Set out below is the movement in the expected credit losses allowance of trade receivables and contract assets:

	Consolidated	
	2018	2017
	\$'000	\$'000
Opening balance	8,654	9,037
Increase in loss allowance recognised in profit or loss during the year	4,327	4,189
Receivables written off during the year as uncollectable	(672)	(4,140)
Unused amounts reversed	(4,206)	(432)
Closing balance	<u>8,103</u>	<u>8,654</u>

Trade receivables and contract assets are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the group, and a failure to make contractual payments for a period of greater than 90 days past due. Impairment losses on trade receivables and contract assets are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

Note 32. Financial instruments (continued)

(f) Liquidity risk

The Board of Directors is ultimately responsible for liquidity risk and has adopted an appropriate liquidity risk management framework to manage the Consolidated Entity's funding and liquidity requirements. The Consolidated Entity manages liquidity risk by:

- maintaining adequate reserves, banking and reserve borrowing facilities;
- continuously monitoring forecast and actual cash flows; and
- matching the maturity profiles of financial assets and liabilities.

Liquidity and interest rate tables

The following table details the Consolidated Entity's remaining contractual maturity for its derivative and non-derivative financial liabilities. The table is drawn up based upon the future undiscounted principal and interest cash flows.

Consolidated 2018	Weighted average effective interest rate %	0 to 1 year \$'000	1 to 2 years \$'000	2 to 5 years \$'000	Over 5 years \$'000	Total contractual cash flows \$'000	Carrying amount \$'000
Financial liabilities (derivative and non derivative)							
Cross currency swap-Receive USD / HKD	2.8%	(18,411)	(18,411)	(55,233)	(728,565)	(820,620)	(664,985)
Cross currency swap-Pay AUD	-	23,336	22,629	72,927	723,931	842,823	683,766
Borrowings ¹	3.1%	482,418	394,892	2,315,741	2,619,298	5,812,349	4,707,462
Forward contracts	-	165	53	-	-	218	158
Trade and other payables	-	523,408	375	-	-	523,783	523,783
Interest Rate Swaps	2.5%	18,863	20,108	33,501	(3,097)	69,375	63,773
Trust fund and deposit	-	933	-	-	1,117	2,050	2,050
Total financial liabilities		1,030,712	419,646	2,366,936	2,612,684	6,429,978	5,316,007

¹ The amounts included as borrowings in the maturity tables are the contractual undiscounted cash flows, including principal and interest payments calculated based on contractual maturities.

Consolidated 2017	Weighted average effective interest rate %	0 to 1 year \$'000	1 to 2 years \$'000	2 to 5 years \$'000	Over 5 years \$'000	Total contractual cash flows \$'000	Carrying amount \$'000
Financial liabilities (derivative and non derivative)							
Cross currency swap-Receive USD / HKD	3.2%	(30,702)	(30,598)	(91,899)	(1,146,292)	(1,299,491)	(1,299,491)
Cross currency swap-Pay AUD	4.4%	36,157	39,611	132,907	1,254,546	1,463,221	1,377,646
Borrowings ¹	3.2%	609,356	645,451	2,011,717	1,927,747	5,194,271	4,433,595
Forward contracts	-	363	132	108	-	603	587
Trade and other payables	-	709,540	375	-	-	709,673	709,673
Interest Rate Swaps	2.4%	3,468	2,156	890	13,967	20,481	17,437
Trust fund & deposits	-	986	-	-	507	1,493	1,493
Total financial liabilities		1,329,168	657,127	2,053,723	2,050,475	6,090,251	5,240,940

¹ The amounts included as borrowings in the maturity tables are the contractual undiscounted cash flows, including principal and interest payments calculated based on contractual maturities.

Note 32. Financial instruments (continued)

(g) Offsetting financial assets and financial liabilities

The Consolidated Entity does not have financial instruments that meet the presentation offset requirements of AASB 132 "Financial Instruments: Presentation" and as such each individual financial instrument is presented gross in the Financial Statements. However, the Consolidated Entity has for credit management purposes, Master Netting arrangements where offset is permitted as a result of certain credit events. Application of these credit arrangements for the Consolidated Entity at the financial reporting date would result in the following offsets as detailed below:

Financial assets and financial liabilities are offset and the net amount is reported below where the Consolidated Entity currently has a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The net amount shows the impact on the Consolidated Entity's statement of financial position if all set off rights were exercised.

	Gross amount \$'000	Financial instruments not set off \$'000	Net amount \$'000
Consolidated - 2018			
<i>Assets</i>			
Forward foreign exchange contracts	300	(158)	142
Interest rate swap contracts	7,010	(4,954)	2,056
Cross currency swaps	294,564	(18,780)	275,784
Total assets	301,874	(23,892)	277,982

<i>Liabilities</i>			
Forward foreign exchange contracts	(158)	158	-
Interest rate swap contracts	(63,773)	4,954	(58,819)
Cross currency swaps	(18,780)	18,780	-
Total liabilities	(82,711)	23,892	(58,819)

	Gross amount \$'000	Financial instruments not set off \$'000	Net amount \$'000
Consolidated - 2017			
<i>Assets</i>			
Forward foreign exchange contracts	244	(244)	-
Interest rate swaps contracts	14,042	(14,042)	-
Cross currency swaps	285,588	(78,156)	207,432
Total assets	299,874	(92,442)	207,432

<i>Liabilities</i>			
Forward foreign exchange contracts	(587)	244	(343)
Interest rate swap contracts	(17,437)	14,042	(3,395)
Cross currency swaps	(78,156)	78,156	-
Total liabilities	(96,180)	92,442	(3,738)

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Note 33. Key management personnel disclosures

Key management personnel comprises General Managers, Chief Financial Officer and Chief Executive Officer of the Consolidated Entity. The compensation of the key management personnel of the Consolidated Entity is set out below:

	Consolidated	
	2018	2017
Cash salary and fees	4,483,925	4,447,496
Cash bonus	2,545,589	2,403,978
Non-monetary benefits	164,887	239,223
Superannuation	225,093	243,990
Retirement benefits*	-	1,221,997
	<u>7,419,494</u>	<u>8,556,684</u>

The remuneration of the General Managers, Chief Financial Officer and Chief Executive Officer is determined by the Remuneration Committee having regard to the performance of individuals and market trends.

*Retirement benefits reflect amounts paid to Executives who have exited the business in the year.

Note 34. Contingencies

The Consolidated Entity does not have any contingent assets or liabilities at 31 December 2018 (2017: nil).

Note 35. Commitments

(a) Capital expenditure commitments

Significant capital expenditure contracted for at the end of the reporting period but not recognised as liabilities is as follows:

	Consolidated	
	2018	2017
	\$'000	\$'000
Property, plant and equipment payable:		
Within one year	234,474	165,003
One to five years	<u>29,960</u>	<u>30,274</u>
	<u>264,434</u>	<u>195,277</u>

Expenditure commitments

	Consolidated	
	2018	2017
	\$'000	\$'000
Expenditure contracted for at the reporting date but not recognised as liabilities is as follows:		
Within one year	<u>89,392</u>	<u>15,752</u>

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Note 35. Commitments (continued)

(b) Operating lease commitments

Operating leases relate primarily to property leases with lease terms between 3 and 50 years where the Consolidated Entity does not have an option to purchase properties at the expiry of the lease period

	Consolidated	
	2018	2017
	\$'000	\$'000
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	8,773	8,591
One to five years	36,739	35,843
More than five years	<u>71,282</u>	<u>81,123</u>
	<u>116,794</u>	<u>125,557</u>

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Note 36. Related party transactions

(a) Shareholders

51% of the shares of Victoria Power Networks (Finance) Pty Ltd's immediate parent, VPN, are held by Hong Kong listed groups, Cheung Kong Infrastructure and Power Assets Holdings. The remaining 49% of the shares are held by Spark Infrastructure, an Australian listed entity.

(b) Parent entity

The parent entity of the Consolidated Entity is Victoria Power Networks Pty Ltd.

(c) Directors' loans

There were no loans in existence at balance date made, guaranteed or secured to Directors of the Company, Director related entities, their spouses, relatives, or relatives of spouses.

(d) Subsidiaries

Interests in subsidiaries are set out in note 40 of the financial statements.

(e) Directors' equity holdings

There were no Director equity holdings in existence at the balance date.

(f) Other transactions with Directors or entities related to them

No Director-related entity has declared an interest in a contract, or proposed contract, during the year ended 31 December 2018 with the Company or any entities in the Consolidated Entity, except in instances where terms are no more favourable than those expected under normal commercial arrangements, as is the case with the normal supply of electricity.

The following table summarises trading transactions with related parties that are not members of the Consolidated Entity:

	Consolidated	
	2018	2017
	\$'000	\$'000
Sales of goods and services:		
SA Power Networks	19,284	21,283
Wellington Electricity	63	118
International Infrastructure Services Company - NZ Branch	2,262	2,423
Transmission Operations Australia Pty Ltd	26,031	473
International Infrastructure Services Company - Australian Branch	233	233
Australian Energy Operations Pty Ltd	2,080	10,483
Transmission Operations Australia 2 Pty Ltd	554	1,631
United Energy Distribution Holdings Pty Ltd	-	2,800
UE & Multinet Pty Ltd	6,831	-
CK William Australia Holdings Pty Ltd	1,083	-
ENEA Australia Pty Ltd	352	-
Payment for goods and services:		
SA Power Networks	681	779
Transmission Operations Australia	6	-
International Infrastructure Services Company - Australian Branch	53	57

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Note 36. Related party transactions (continued)

The following balances are outstanding at the reporting date in relation to transactions with related parties:

	Consolidated	
	2018	2017
	\$'000	\$'000
Amounts owed by related parties (excluding GST):		
SA Power Networks	2,242	3,935
Wellington Electricity	-	22
Transmission Operations Australia Pty Ltd	3,256	32
Transmission Operations Australia 2 Pty Ltd	47	-
International Infrastructure Services Company - NZ Branch	188	200
International Infrastructure Services Company - Australian Branch	21	20
United Energy Distribution Holdings Pty Ltd	-	2,800
UE & Multinet Pty Ltd	642	-
CK William Australia Holdings Pty Ltd	83	-
Amounts owed to related parties (excluding GST):		
SA Power Networks	49	86
Australian Energy Operations Pty Ltd	-	25
International Infrastructure Services Company - Australian Branch	5	18

No provisions for doubtful debts have been raised against related party balances.

Note 37. Remuneration of auditors

Fees for services rendered by the Company's auditor in relation to the statutory audit are borne by a related party.

The auditor of Victoria Power Networks (Finance) Pty Ltd is Deloitte Touch Tohmatsu.

Victoria Power Networks (Finance) Pty Ltd
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Note 38. Reconciliation of profit after income tax to net cash from operating activities

(a) Reconciliation of profit after income tax to net cash from operating activities

	Consolidated	
	2018	2017
	\$'000	\$'000
Profit after income tax expense for the year	228,396	225,089
Adjustments for:		
Depreciation and amortisation	325,092	302,183
Income tax expense recognised in profit or loss	98,042	95,745
Non-cash interest revenue	(246,098)	(35,755)
Non-cash interest expense	262,546	38,144
Income taxes paid	(490)	(168)
Gain on sale of non-current assets	(157)	(1,205)
Impairment write down of plant and equipment	-	4,000
Superannuation adjustment	6,277	6,959
Amortised finance charges	3,604	2,620
Hedging and foreign exchange (gain) / loss	1,479	(5,849)
Non-cash Research and Development Grant	-	(2,761)
Gain on investment in associate	(298)	(219)
Gain on revaluation of contingent consideration	4	(359)
Change in operating assets and liabilities:		
Decrease/(increase) in trade and other receivables	(8,668)	(3,320)
Decrease/(increase) in inventories	(9,099)	(3,346)
Decrease/(increase) in other assets	3,542	2,329
Increase/(decrease) in trade and other payables	(196,468)	101,002
Increase/(decrease) in provisions	11	27,569
(Decrease)/increase in deferred income	(9,833)	(51,663)
Net cash from operating activities	<u>457,882</u>	<u>700,995</u>

Victoria Power Networks (Finance) Pty Ltd
Notes to the financial statements
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Note 38. Reconciliation of profit after income tax to net cash from operating activities (continued)

(b) Financing arrangements

Unrestricted access was available at balance date to the following lines of credit:

	2018	Consolidated
	2017	
	\$'000	\$'000
Total facilities		
Bank overdrafts	3,000	3,000
Working capital facilities	75,000	90,000
Bank loans	1,100,000	1,050,000
Medium Term Notes	1,080,000	1,080,000
Foreign denominated notes	2,279,867	2,294,809
Fixed Rate Note	528,978	304,737
	<u>5,066,845</u>	<u>4,822,546</u>
Used at balance date		
Bank loans	830,000	762,000
Medium Term Notes	1,080,000	1,080,000
Foreign denominated notes	2,279,867	2,294,809
Fixed Rate Note	528,978	304,737
	<u>4,718,845</u>	<u>4,441,546</u>
Unused at balance date		
Bank overdrafts	3,000	3,000
Working capital facilities	75,000	90,000
Bank loans	270,000	288,000
	<u>348,000</u>	<u>381,000</u>

Victoria Power Networks (Finance) Pty Ltd
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Note 39. Net debt reconciliation

This section sets out an analysis of net debt and the movements in net debt for each of the years presented.

	Consolidated	
	2018	2017
	\$'000	\$'000
Net debt		
Cash and cash equivalents	57,661	29,990
Borrowings - repayable within one year	(1,081,181)	(1,230,083)
Borrowings - repayable after one year	(2,178,686)	(3,203,511)
Net debt	(3,202,206)	(4,403,604)

Consolidated	Cash/bank overdraft \$'000	Borrow. due within 1 year \$'000	Borrow. due after 1 year \$'000	Total \$'000
Balance at 1 January 2017	50,967	(1,399,400)	(3,194,184)	(4,542,617)
Cash flows	(20,977)	781,000	(793,221)	(33,198)
Foreign exchange adjustments	-	12,037	162,793	174,830
Other non-cash movements	-	(623,720)	621,101	(2,619)
Balance at 31 December 2017	29,990	(1,230,083)	(3,203,511)	(4,403,604)
Cash flows	27,671	1,092,803	(1,294,816)	(174,342)
Foreign exchange adjustments	-	118,669	(186,921)	(68,252)
Other non-cash movements	-	(1,062,570)	1,483,042	420,472
Balance at 31 December 2018	57,661	(1,081,181)	(3,202,206)	(4,225,726)

Victoria Power Networks (Finance) Pty Ltd
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Note 40. Interests in subsidiaries

(a) Subsidiaries

Details of the Consolidated Entity's subsidiaries at 31 December 2018 are set out below:

Name of entity	Place of business/ country of incorporation	Principal activities	Ownership interest held by the group	
			2018 %	2017 %
CHED Services Pty Ltd	Australia	Back office services	100.0	100.0
Powercor Network Services Pty Ltd	Australia	Construction & Maintenance	100.0	100.0
Powercor Australia Ltd	Australia	Electricity Distribution	100.0	100.0
CitiPower Pty Ltd	Australia	Trustee	100.0	100.0
The CitiPower Trust	Australia	Electricity Distribution	100.0	100.0
Energy Solutions Pty Ltd	Australia	Construction & Maintenance	100.0	100.0
NG Group Holdings Pty Ltd	Australia	Holding company	50.0 ¹	50.0 ¹
NG Energy Pty Ltd	Australia	Solar installations	50.0 ¹	50.0 ¹
NG Maintenance Pty Ltd	Australia	Electricity services	50.0 ¹	50.0 ¹
Next Generation Electrical Group Pty Ltd	Australia	Electricity services	50.0 ¹	50.0 ¹
Next Generation Learning Pty Ltd	Australia	Dormant	50.0 ¹	50.0 ¹
ENEA Australia Pty Ltd	Australia	Consulting	49.0	49.0

¹ The directors have concluded that the Consolidated Entity controls these entities even though it holds less than 51% of the voting rights of this subsidiary. This is because the Consolidated Entity is the largest shareholder with a 50% equity interest while the remaining shares are held by two investors.

All wholly owned entities are members of the tax-consolidated group, of which Victoria Power Networks Pty Ltd is the head entity.

Significant restrictions

There are no significant restrictions applied to members of the Consolidated Entity.

Subsidiaries accounting policies

Subsidiaries are all entities (including structured entities) over which the Consolidated Entity has control. The Consolidated Entity controls an entity when the Consolidated Entity 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 to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Consolidated Entity. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Consolidated Entity

Intercompany transactions, balances and unrealised gains on transactions between Consolidated Entity companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Consolidated Entity.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated income statement, statement of comprehensive income, statement of changes in equity and balance sheet respectively.

Note 41. Significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out either in the respective notes or below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Note 41. Significant accounting policies (continued)

New or amended Accounting Standards and Interpretations adopted

The Consolidated Entity has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the Consolidated Entity.

The following Accounting Standards and Interpretations are most relevant to the Consolidated Entity:

AASB 15 Revenue from Contracts with Customers

The Consolidated Entity has adopted AASB 15 *Revenue from Contracts with Customers* from 1 January 2018. The standard provides a single comprehensive model for revenue recognition. The core principle of the standard is that an entity shall recognise revenue to depict the transfer of promised goods or services to customers at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard introduced a new contract-based revenue recognition model with a measurement approach that is based on an allocation of the transaction price. This is described further in Note 1. Credit risk is presented separately as an expense rather than adjusted against revenue. Contracts with customers are presented in an entity's Statement of Financial Position as a contract liability, a contract asset, or a receivable, depending on the relationship between the entity's performance and the customer's payment. Customer acquisition costs and costs to fulfil a contract can, subject to certain criteria, be capitalised as an asset and amortised over the contract period. The Consolidated Entity applied the AASB 15 simplified transition approach and the application of this new standard did not have a material impact on recognition of revenue.

AASB 9 Financial Instruments (2014)

The Consolidated Entity has adopted AASB 9 (2014) from 1 January 2018 which introduces additional requirements in addition to the early adopted AASB 9 (2010) including a new expected credit loss model. The Consolidated Entity applied the AASB 9 simplified approach to measure expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets. The application of this new standard did not have a material impact on recognition of impairment losses.

Basis of preparation

The financial statements have been prepared on the basis of historical cost, except for the revaluation of certain non-current assets and financial instruments. Cost is based on the fair values of the consideration given in exchange for the assets.

The Consolidated Entity is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors Reports) Instrument 2016/191, dated 24 March 2016, and in accordance with that Instrument, amounts in the financial statements, except where indicated, have been rounded off to the nearest thousand dollars.

Net current asset deficiency

As at 31 December 2018, the Consolidated Entity's current liabilities exceed its current assets by \$1,364,264 thousand (2017: \$1,668,126 thousand).

Notwithstanding the working capital deficiency, the Directors believe that the going concern assumption is appropriate and that the Consolidated Entity will be able to pay its debts as and when they fall due given:

- The Consolidated Entity has access to \$348,000 thousand in unused finance facilities as at 31 December 2018;
- The Consolidated Entity has forecasted to generate operating cash flows and profits in 2019;
- Included in current liabilities are \$830,000 thousand revolving debt facility not expected to be repaid in 2019 and \$59,510 thousand employee entitlement provisions not expected to be called in 2019;
- The Consolidated Entity has a long history of refinancing expiring debt facilities.

Historical cost convention

The financial statements have been prepared under the historical cost convention, except for, where applicable, the revaluation of financial assets and liabilities at fair value through profit or loss, financial assets at fair value through other comprehensive income, investment properties, certain classes of property, plant and equipment and derivative financial instruments.

Rounding of amounts

The Company is of a kind referred to in Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Victoria Power Networks (Finance) Pty Ltd ('company' or 'parent entity') as at 31 December 2018 and the results of all subsidiaries for the year then ended. Victoria Power Networks (Finance) Pty Ltd and its subsidiaries together are referred to in these financial statements as the 'Consolidated Entity'.

Note 41. Significant accounting policies (continued)

Subsidiaries are all those entities over which the Consolidated Entity has control. The Consolidated Entity controls an entity when the Consolidated Entity 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 to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Consolidated Entity. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between entities in the Consolidated Entity are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Consolidated Entity.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent.

Non-controlling interest in the results and equity of subsidiaries are shown separately in the statement of profit or loss and other comprehensive income, statement of financial position and statement of changes in equity of the Consolidated Entity. Losses incurred by the Consolidated Entity are attributed to the non-controlling interest in full, even if that results in a deficit balance.

Where the Consolidated Entity loses control over a subsidiary, it derecognises the assets including goodwill, liabilities and non-controlling interest in the subsidiary together with any cumulative translation differences recognised in equity. The Consolidated Entity recognises the fair value of the consideration received and the fair value of any investment retained together with any gain or loss in profit or loss.

Current and non-current classification

Assets and liabilities are presented in the Statement of Financial Position based on current and non-current classification.

An asset is classified as current when:

- it is either expected to be realised or intended to be sold or consumed in the Consolidated Entity's normal operating cycle;
- it is held primarily for the purpose of trading;
- it is expected to be realised within 12 months after the reporting period; or
- the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period.

All other assets are classified as non-current.

A liability is classified as current when:

- it is either expected to be settled in the Consolidated Entity's normal operating cycle;
- it is held primarily for the purpose of trading;
- it is due to be settled within 12 months after the reporting period; or
- there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period.

All other liabilities are classified as non-current.

Deferred tax assets and liabilities are always classified as non-current.

Investments and other financial assets

Investments and other financial assets are initially measured at fair value. Transaction costs are included as part of the initial measurement, except for financial assets at fair value through profit or loss. Such assets are subsequently measured at either amortised cost or fair value depending on their classification. Classification is determined based on both the business model within which such assets are held and the contractual cash flow characteristics of the financial asset unless, an accounting mismatch is being avoided.

Financial assets are derecognised when the rights to receive cash flows have expired or have been transferred and the Consolidated Entity has transferred substantially all the risks and rewards of ownership. When there is no reasonable expectation of recovering part or all of a financial asset, its carrying value is written off.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are carried at amortised cost using the effective interest rate method. Gains and losses are recognised in profit or loss when the asset is derecognised or impaired.

Note 41. Significant accounting policies (continued)

Financial assets at amortised cost

A financial asset is measured at amortised cost only if both of the following conditions are met: (i) it is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and (ii) the contractual terms of the financial asset represent contractual cash flows that are solely payments of principal and interest.

Investments

Investments includes non-derivative financial assets with fixed or determinable payments and fixed maturities where the Consolidated Entity has the positive intention and ability to hold the financial asset to maturity. This category excludes financial assets that are held for an undefined period. Investments are carried at amortised cost using the effective interest rate method adjusted for any principal repayments. Gains and losses are recognised in profit or loss when the asset is derecognised or impaired.

Foreign currency transactions

All foreign currency transactions during the financial period are brought to account using the exchange rate in effect at the date of the transaction. Foreign currency monetary items at reporting date are translated using the exchange rate at that date.

Exchange rate differences are brought to account in the Statement of Profit or Loss and Other Comprehensive Income in the period in which they arise except that:

(i) exchange differences which related to assets under construction for future productive use are included in the cost of those assets where they are regarded as an adjustment to interest costs on foreign currency borrowings; and

(ii) exchange differences on transactions entered into in order to hedge certain foreign currency risks (refer Note 32).

Goods and Services Tax ('GST') and other similar taxes

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the tax authority is included in other receivables or other payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the tax authority, are presented as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the tax authority.

New Accounting Standards and Interpretations not yet mandatory or early adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the Consolidated Entity for the annual reporting period ended 31 December 2018. The Consolidated Entity's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the Consolidated Entity, are set out below.

Note 41. Significant accounting policies (continued)

AASB 16 Leases

AASB 16 Leases will replace existing accounting requirements for leases under AASB 117 Leases. Under current requirements, leases are classified based on their nature as either finance leases, which are recognised on the Consolidated Statement of Financial Position, or operating leases, which are not recognised on the Consolidated Statement of Financial Position. Under AASB 16 Leases, the Consolidated Entity's accounting for operating leases as a lessee will result in the recognition of a right-of-use (ROU) asset and an associated lease liability on the Consolidated Statement of Financial Position. The lease liability represents the present value of future lease payments, with the exception of short-term and low value leases. An interest expense will be recognised on the lease liabilities and a depreciation charge will be recognised for the ROU assets. There will also be additional disclosure requirements under the new standard. The Consolidated Entity's accounting for leases as a lessor remains largely unchanged under AASB 16. The implementation project has made progress in setting accounting policy, finalising a 2018 impact assessment, budgeting and costing of transition and ongoing compliance, identifying data and system requirements, and finalising the implementation plan.

The Consolidated Entity will initially apply AASB 16 on 1 January 2019, using the modified retrospective simplified transition approach and will not restate comparative amounts for the year prior to first transition. When applying the modified retrospective approach to leases previously classified as operating leases under AASB 117, the Consolidated Entity can elect, on a lease-by-lease basis, whether to apply a number of practical expedients on transition. The Consolidated Entity is assessing the potential impact of using these practical expedients.

The Consolidated Entity has assessed the estimated impact that AASB 16 would have had on its Consolidated financial statements on 31 December 2018: recognition of \$90,210 thousand of lease liabilities and right-of-use assets. The impact predominantly relates to the Consolidated Entity's property leases for office premises. The actual impact of applying AASB 16 on the financial statements in the period of initial application will depend on future economic conditions, including the Consolidated Entity's borrowing rate at 1 January 2019, the composition of the Consolidated Entity's lease portfolio, the extent to which the Consolidated Entity chooses to use practical expedients and recognition exemptions, and the new accounting policies, which are subject to change until the Consolidated Entity presents its first financial statements that include the date of initial application.

Interpretation 23 Uncertainty over Income Tax Treatments

The interpretation is effective from 1 January 2019 and explains how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment. In particular, it discusses:

- how to determine the appropriate unit of account, and that each uncertain tax treatment should be considered separately or together as a group, depending on which approach better predicts the resolution of the uncertainty;
- that the entity should assume a tax authority will examine the uncertain tax treatments and have full knowledge of all related information, i.e. that detection risk should be ignored;
- that the entity should reflect the effect of the uncertainty in its income tax accounting when it is not probable that the tax authorities will accept the treatment;
- that the impact of the uncertainty should be measured using either the most likely amount or the expected value method, depending on which method best predicts the resolution of the uncertainty, and
- that the judgements and estimates made must be reassessed whenever circumstances have changed or there is new information that affects the judgements.

The Consolidated Entity does not expect this interpretation to have a material impact on the Consolidated Entity's results in the future reporting periods.

Note 42. Events after the reporting period

Other than as disclosed in Note 24, no other matter or circumstance has arisen since 31 December 2018 that has significantly affected, or may significantly affect the Consolidated Entity's operations, the results of those operations, or the Consolidated Entity's state of affairs in future financial years.

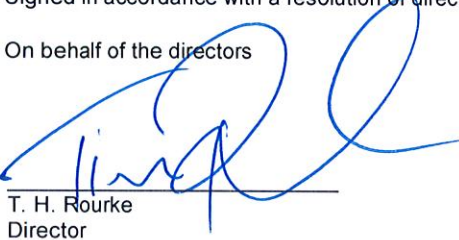
Victoria Power Networks (Finance) Pty Ltd
Directors' declaration
31 December 2018

In the directors' opinion:

- the attached financial statements and notes comply with the *Corporations Act 2001*, the Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements;
- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 41 to the financial statements;
- the attached financial statements and notes give a true and fair view of the consolidated entity's financial position as at 31 December 2018 and of its performance for the financial year ended on that date; and
- there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of directors made pursuant to section 295(5)(a) of the *Corporations Act 2001*.

On behalf of the directors



T. H. Rourke
Director

4 March 2019

Independent Auditor's Report to the members of Victoria Power Networks (Finance) Pty Ltd

Opinion

We have audited the financial report of Victoria Power Networks (Finance) Pty Ltd (the "Company") and its subsidiaries (the "Group") which comprises the statement of financial position as at 31 December 2018, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the Directors' declaration.

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

- (i) giving a true and fair view of the Company and Group's financial position as at 31 December 2018 and of their financial performance for the year then ended; and
- (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

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

Other Information

The Directors are responsible for the other information. The other information comprises the Directors Report included in the Group's annual report for the year ended 31 December 2018, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

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In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

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

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

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

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We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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DELOITTE TOUCHE TOHMATSU



Samuel Vorwerg
Partner
Chartered Accountants
Melbourne, 4 March 2019