



**Ausgrid Group
Annual report
30 June 2023**



Ausgrid Group

Annual report 30 June 2023

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	Notes	2023 \$M	2022 \$M
Revenue	3	2,381	2,397
Distribution of energy costs	4(a)	(442)	(436)
Depreciation and amortisation expense	4(c)	(633)	(641)
Finance costs	4(d)	(444)	(443)
Employee benefits expense	4(b)	(283)	(251)
Other expenses	4(b)	(263)	(238)
Other income		-	45
(Loss)/gain on disposal of property, plant and equipment		(20)	247
Profit before income tax		296	680
Income tax expense		-	-
Profit for the year		296	680
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Changes in the fair value of cash flow hedges		(4)	1,122
Reclassification to profit or loss		4	243
Income tax relating to these items	5	-	(407)
<i>Items that will not be reclassified subsequently to profit or loss</i>			
Defined benefit superannuation actuarial gains	18(c)	6	-
Income tax relating to these items	5	(2)	-
Other comprehensive income for the year		4	958
Total comprehensive income for the year		300	1,638
Profit for the year attributable to Partners:			
Ausgrid Operator Partnership (AOP)		70	156
Ausgrid Asset Partnership (AAP)		181	488
PLUS ES Partnership (PLUS ES)		45	36
Aurora Property Partnership (APP)		-	-
Profit for the year		296	680
Total comprehensive income for the year attributable to Partners:			
AOP		74	156
AAP		182	1,438
PLUS ES		44	44
APP		-	-
Total comprehensive income for the year		300	1,638

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

	Notes	2023 \$M	2022 \$M
Current assets			
Cash and cash equivalents		248	432
Trade and other receivables	7	105	281
Contract assets	7	280	290
Prepayments		33	32
Inventories		34	22
Assets classified as held for sale	8	1	5
Derivative financial assets	15	3	68
Total current assets		704	1,130
Non-current assets			
Property, plant and equipment	9	17,426	17,013
Intangible assets	10	3,523	3,529
Derivative financial assets	15	1,003	1,019
Other receivables	7	3	2
Defined benefit plan asset	18	9	1
Total non-current assets		21,964	21,564
Total assets		22,668	22,694
Current liabilities			
Trade and other payables	11	327	338
Contract liabilities	14	9	10
Borrowings	12	1,822	727
Provisions	13	296	301
Deferred government grants		2	2
Other liabilities	14	3	6
Total current liabilities		2,459	1,384
Non-current liabilities			
Contract liabilities	14	78	67
Borrowings	12	9,791	11,051
Derivative financial liabilities	15	332	372
Provisions	13	60	64
Deferred government grants		35	36
Deferred tax liabilities	6	236	234
Total non-current liabilities		10,532	11,824
Total liabilities		12,991	13,208
Net assets		9,677	9,486

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

Ausgrid Group
Consolidated statement of financial position
As at 30 June 2023
(continued)

	Notes	2023 \$M	2022 \$M
Equity attributable to Partners of AOP			
Contributed equity	16	1,651	1,716
Reserves		27	23
Retained earnings	17	132	62
Total equity attributable to Partners of AOP		1,810	1,801
 Equity attributable to Partners of AAP			
Contributed equity	16	7,021	7,021
Reserves		524	523
Retained earnings	17	17	(64)
Total equity attributable to Partners of AAP		7,562	7,480
 Equity attributable to Partners of PLUS ES			
Contributed equity	16	183	183
Reserves		7	8
Retained earnings	17	59	14
Total equity attributable to Partners of PLUS ES		249	205
 Equity attributable to Partners of APP			
Contributed equity	16	56	-
Reserves		-	-
Retained earnings	17	-	-
Total equity attributable to Partners of APP		56	-
 Total equity attributable to Partners of the Ausgrid Group		9,677	9,486

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

	Contributed equity \$M	Cash flow hedge reserve \$M	Defined benefit superannuation reserve \$M	Retained earnings \$M	Total \$M
Balance at 1 July 2022	8,920	531	23	12	9,486
Profit for the year	-	-	-	296	296
Other comprehensive income					
Defined benefit superannuation actuarial gains - AOP	-	-	4	-	4
Total comprehensive income for the year	-	-	4	296	300
Transactions recorded directly in equity:					
Capital return to Partners	(74)	-	-	-	(74)
Equity injection from Partners	65	-	-	-	65
Distributions paid	-	-	-	(100)	(100)
Total transactions	(9)	-	-	(100)	(109)
Balance at 30 June 2023	8,911	531	27	208	9,677
Closing balance of equity attributable to					
AOP	1,651	-	27	132	1,810
AAP	7,021	524	-	17	7,562
PLUS ES	183	7	-	59	249
APP	56	-	-	-	56
Balance at 30 June 2023	8,911	531	27	208	9,677

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

Ausgrid Group
Consolidated statement of changes in equity
For the year ended 30 June 2023
(continued)

	Contributed equity \$M	Cash flow hedge reserve \$M	Defined benefit superannuation reserve \$M	Retained earnings \$M	Total \$M
Balance at 1 July 2021	8,920	(427)	23	(668)	7,848
Profit for the year	-	-	-	680	680
Other comprehensive income					
Changes in cash flow hedges - AAP and PLUS ES	-	958	-	-	958
Total comprehensive income for the year	-	958	-	680	1,638
Balance at 30 June 2022	8,920	531	23	12	9,486
Closing balance of equity attributable to					
AOP	1,716	-	23	62	1,801
AAP	7,021	523	-	(64)	7,480
PLUS ES	183	8	-	14	205
Balance at 30 June 2022	8,920	531	23	12	9,486

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

Ausgrid Group
Consolidated statement of cash flows
For the year ended 30 June 2023

	Notes	2023 \$M	2022 \$M
Cash flows from operating activities			
Receipts from customers		2,227	2,270
Payments to suppliers and employees		(1,005)	(880)
Interest received		7	1
Interest paid		(426)	(423)
Net cash inflow from operating activities	25	<u>803</u>	<u>968</u>
Cash flows from investing activities			
Payments for property, plant and equipment		(821)	(600)
Payments for intangible assets		(80)	(44)
Proceeds from sale of property, plant and equipment		201	194
Net cash outflow from investing activities		<u>(700)</u>	<u>(450)</u>
Cash flows from financing activities			
Proceeds from borrowings		1,983	845
Repayment of borrowings		(2,151)	(1,173)
Transaction costs paid		(10)	(7)
Distributions		(100)	-
Capital return to Partners		(74)	-
Equity injection from Partners		65	-
Net cash outflow from financing activities		<u>(287)</u>	<u>(335)</u>
Net (decrease)/increase in cash and cash equivalents		<u>(184)</u>	<u>183</u>
Cash and cash equivalents at the beginning of the year		432	249
Cash and cash equivalents at the end of the year		<u>248</u>	<u>432</u>

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

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1 Summary of significant accounting policies

This annual report is for the consolidated financial statements of AOP (parent entity), AAP, PLUS ES, APP and their respective controlled entities (**Ausgrid Group**) for the year ended 30 June 2023.

Ausgrid Group is domiciled in Australia. Its registered office and principal place of business is 24-28 Campbell Street, Sydney NSW 2000.

Ausgrid Group is a stapled structure comprised of AOP, AAP, PLUS ES and APP. The accounting standards require the nomination of one parent entity in a consolidated group, so for the purpose of preparing these consolidated financial statements only, AOP was identified as the parent. AOP and its partnership entities, AAP, PLUS ES and APP, were established on 20 October 2016 (AOP and AAP), 1 November 2017 (PLUS ES) and 27 April 2023 (APP). A consortium comprising IFM Investors, AustralianSuper and APG Asset Management (**APG**) holds 50.4% partnership interest and the New South Wales (**NSW**) State Government (through entities established in accordance with the *Electricity Retained Interest Corporation Act 2015 (NSW)*) holds 49.6% partnership interest in AOP, AAP, PLUS ES and APP.

Pursuant to the Partnership Deeds, all the Partners agreed to ensure equivalence in that the proportion of Partnership interest held by each Partner should be identical between AOP, AAP, PLUS ES and APP.

On 1 December 2016, AAP entered into a 99 year finance lease to lease the Ausgrid Group's electricity distribution and transmission network assets from the NSW State Government. On the same date, these assets were leased from AAP to AOP through a 98 year 364 day sublease, and AOP was granted a license to operate the network assets by the NSW State Government.

The Ausgrid Group is the controller, operator and manager of the distribution network and parts of the transmission network covering Sydney, the Central Coast and the Hunter Region of NSW and provides electricity services to both residential and commercial customers in NSW. AOP is both a Distribution Network Service Provider (**DNSP**) and a Transmission Network Service Provider (**TNSP**) in the National Electricity Market (**NEM**) which is regulated by the Australian Energy Regulator (**AER**). Over a regulatory control period, the AER determines the annual expected revenue that the Ausgrid Group is allowed to recover from customers based on the framework set out in the National Electricity Law (**NEL**) and National Electricity Rules (**NER**). The Ausgrid Group distributes electricity on behalf of energy retailers to their customers within Ausgrid Group's network area. The retailers pay the Ausgrid Group for the provision of network services to their customers according to the regulated network tariffs approved by the AER, and for related metering and ancillary network services provided to the retailers' customers.

The Ausgrid Group also delivers street lighting services to local councils and unregulated services with a focus on contestable metering and infrastructure services.

These financial statements were authorised for issue by the Directors on 22 August 2023.

(a) Basis of preparation

These general purpose financial statements have been prepared to meet the information needs of the Partners of AOP, AAP, PLUS ES and APP as required under the Partnership Deeds dated 20 October 2016 (AAP and AOP), 1 November 2017 (PLUS ES) and 27 April 2023 (APP), and in accordance with Australian Accounting Standards and interpretations issued by the Australian Accounting Standards Board (**AASB**). The Ausgrid Group is a for-profit entity for the purpose of preparing the financial statements.

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

(i) Compliance with IFRS

The consolidated financial statements of the Ausgrid Group also comply with International Financial Reporting Standards (**IFRS**) as issued by the International Accounting Standards Board (**IASB**).

1 Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

(ii) Historical cost convention

These financial statements are prepared on a historical cost basis, except for the following:

- derivative financial instruments which are measured at their fair value;
- defined benefit plan which is measured at fair value; and
- assets classified as held for sale which are measured at the lower of their carrying value or Fair Value Less Costs of Disposal (**FVLCD**).

(iii) Critical accounting estimates and judgements

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Ausgrid Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 2.

(iv) Going concern

As at 30 June 2023, the Ausgrid Group had net current liabilities of \$1,755 million (30 June 2022: \$254 million) due to \$1,814 million of borrowings being classified as current borrowings as it matures within the next 12 months (refer to Note 12 for details).

The Directors have considered the following factors in determining whether the Ausgrid Group can pay its debts as and when they fall due for the next 12 months:

- The Ausgrid Group generated net operating cash inflows of \$803 million for the year ended 30 June 2023 (2022: \$968 million). The Ausgrid Group is forecasting net operating cash inflows for the next 12 months.
- As at 30 June 2023, the Ausgrid Group had available cash and cash equivalents of \$248 million (2022: \$432 million) and undrawn bank facilities of \$344 million (2022: \$475 million) maturing on 1 June 2024.
- On 27 June 2023, the Ausgrid Group priced a multi-tranche US Private Placement (**USPP**) transaction totalling \$1,488 million (A\$ equivalent) which settled on 26 July 2023. The proceeds were used to fully repay Syndicated Facility Agreement (**SFA**) Facility B4 and partially repay Capex Facility C (refer to Note 12 for details).
- The Ausgrid Group's credit rating was reaffirmed by Moody's in April 2023 and Standard and Poor's (**S&P**) in July 2023 with a stable rating outlook. This supports continued access to bank lending and capital markets.
- The Ausgrid Group Treasury Policy requires that the refinancing process for borrowing facilities to be commenced no later than 12 months prior to maturity date. Consistent with this policy, key bond program documentation is updated and reviewed annually to facilitate potential bond issuance in a wide range of capital markets. Management continues to engage with potential lenders in relation to refinancing borrowings maturing within the next 12 months.
- According to the Partnership Deeds, each Partner is jointly and severally liable and are responsible for discharging the liabilities of the Partnerships in proportion with their respective Partnership interest, and each Partner indemnifies the other Partners from the default of the liabilities. Accordingly, the Partners will provide continuing financial support so that the Ausgrid Group is able to pay its debts as and when they fall due.

Based on the factors above, the consolidated financial statements have been prepared on a going concern basis.

(b) Principles of consolidation

The consolidated financial statements include the assets and liabilities of the controlled entities within the Ausgrid Group as at 30 June 2023. Group transactions, balances and unrealised gains and losses on transactions between group entities are eliminated.

1 Summary of significant accounting policies (continued)

(c) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Ausgrid Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The financial statements are presented in Australian Dollars (**A\$**), which is the functional and presentation currency of each entity in the Ausgrid Group.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the date of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognised in profit or loss.

Foreign exchange gains and losses that relate to borrowings are presented in profit or loss, within finance costs. All other foreign exchange gains and losses are presented in profit or loss on a net basis within other income or operating expenses.

(d) Revenue recognition

Revenue is recognised when the relevant performance obligations embedded in contracts with customers are satisfied, i.e. when the control of a good or service transfers to a customer. Performance obligations are completed at a point in time or over time. Revenue is recognised for the major business activities of the Ausgrid Group as follows:

(i) Network use of system revenue

Network Use of System (**NUOS**) revenue represents the rendering of electricity network services to customers within the Ausgrid Group's network area. Upon delivery of electricity, customers receive and consume the benefit resulting in revenue being recognised over time. The Ausgrid Group applies the 'right to invoice' practical expedient, and recognises revenue based on the billing amount which is determined based on the relevant tariff multiplied by the electricity consumption volume, as well as the number of network access days and a demand or capacity charge (if applicable). The Ausgrid Group bills retailers weekly and monthly. Revenue associated with unbilled services is recognised as described in unread meters below.

NUOS revenue includes three components: Distribution Use of System (**DUOS**) revenue, Transmission Use of System (**TUOS**) revenue and revenue to recover the Ausgrid Group's annual contribution to the NSW Climate Change Fund (**CCF**). DUOS revenue relates to customer use of the Ausgrid Group's distribution network. TUOS revenue relates to customer use of the Ausgrid Group's transmission network, and also includes revenue to recover transmission costs paid to TNSPs and embedded generators.

(ii) Excess/shortfall in regulatory revenue

(a) DUOS

The Ausgrid Group's allowed DUOS revenues for a five year regulatory period are set by the AER as part of the regulatory determination process. Under this framework, where such DUOS revenues exceed or fall below the Ausgrid Group's Maximum Allowable Revenue (**MAR**), as determined by the AER, no liability or asset is recognised. Instead, adjustments will be made to future prices to reflect this excess or shortfall as it relates to the provision of future services.

(b) TUOS

TUOS revenue relates to customer use of the Ausgrid Group's transmission network allowed under the MAR, and also includes revenue to recover transmission costs paid to TNSPs and embedded generators. Where such TUOS revenue exceeds or is below actual transmission costs paid to TNSPs and embedded generators, no liability or asset is recognised. Instead, adjustments will be made to future prices to reflect this excess or shortfall as it relates to the provision of future services.

1 Summary of significant accounting policies (continued)

(d) Revenue recognition (continued)

(ii) Excess/shortfall in regulatory revenue (continued)

(c) CCF revenue

CCF revenue operates as a pass-through to customers based on payments made to the NSW CCF. Where such CCF revenue exceeds or is below actual contributions paid to the NSW Office of Environment & Heritage, no liability or asset is recognised. Instead, adjustments will be made to future prices to reflect this excess or shortfall as it relates to the provision of future services.

(iii) Unread meters

Applying the expected value method, the unread meters accrual is an estimate of the NUOS charges associated with the rendering of electricity distribution services not invoiced at the end of each reporting period. The accrual for unread meters includes both meters that have been read but not yet billed and meters that have not been read as at the reporting date. The methodology used by the Ausgrid Group reflects a bottom up approach where an accrual is estimated for all unread meters within the Ausgrid Group's network area. The accrual is calculated for each component of the network price including peak, shoulder and off peak electricity consumption, network access, demand and capacity charges.

The Ausgrid Group assesses the unread meters accrual at the end of each reporting period based on the expected value method (as described above) and revenue is only recognised to the extent that it is highly probable that a significant reversal will not occur.

(iv) Transmission revenue

Transmission revenue represents revenue from Transgrid from their use of the Ausgrid Group's transmission assets. Upon the use of Ausgrid Group's transmission assets, Transgrid receives and consumes the benefit resulting in revenue being recognised over time. The Ausgrid Group applies the 'right to invoice' practical expedient and recognises revenue based on the billing amount.

(v) Capital contributions

Capital contributions represent non-cash capital contributed by customers and developers to the Ausgrid Group's distribution network.

Standard Control Services (**SCS**) capital contributions are contributed mainly by developers, who are not ongoing customers of the Ausgrid Group. Revenue is recognised at fair value at a point in time when the connection to the network is completed and the asset is energised.

Alternative Control Services (**ACS**) capital contributions represent street lighting capital contributions where the Ausgrid Group assumes an ongoing maintenance obligation to the customer who contributed the asset. The fair value of capital contributions from these specific customers are treated as contract liabilities and recognised as revenue over the ongoing maintenance period, i.e. the useful life of the asset contributed.

(vi) Street lighting revenue

Street lighting revenue relates to the ongoing maintenance and replacement of street lighting assets. As the street lighting maintenance and replacement services are provided continuously to the customer, it is treated as one performance obligation. Revenue is recognised over time when the street lighting services are provided.

(vii) Ancillary network services revenue

Ancillary Network Services (**ANS**) revenue relates to non-routine connection and other ad hoc metering services provided to individual customers on an as needed basis. Depending on the service, it can be at the request of an electricity retailer, accredited service provider or end customer. Revenue is recognised over time when the performance obligation is satisfied, i.e. when services are delivered.

1 Summary of significant accounting policies (continued)

(d) Revenue recognition (continued)

(viii) Metering revenue

Metering revenue relates to ACS regulated metering. ACS regulated metering service charges represent the ongoing provision of metering services and metering data services for meters within the Ausgrid Group's network area (type 5 and 6 meters). This is a daily charge consisting of both capital and non-capital components. Revenue is recognised over time when the performance obligation is satisfied, i.e. when services are delivered.

(ix) Unregulated revenue

Unregulated revenue is made up of unregulated metering revenue and other external revenue. Unregulated metering revenue represents the ongoing provision of metering services and metering data services for contestable meters (type 1 to 4 meters). Other external revenue mainly consists of rental income and infrastructure services revenue. Infrastructure services revenue represents revenue for design and construction of electrical and fibre infrastructure, and instrument calibration. Revenue is recognised over time when the services are delivered and/or the relevant performance obligations are satisfied.

(x) Government grants

Government grants are recognised in the statement of financial position initially as deferred revenue when they are received, and released to income when the Ausgrid Group complies with the conditions attaching to them. Grants that compensate the Ausgrid Group for the cost of an asset are recognised in profit or loss on a systematic basis over the useful life of the asset. Grants that compensate the Ausgrid Group for expenses incurred are recognised in profit or loss in the same period in which the expenses are incurred.

(xi) Interest income

Interest income is recognised using the effective interest method. When a receivable is impaired, the Ausgrid Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

(e) Income tax

Under tax law in Australia, the partnerships within the Ausgrid Group are not subject to tax, as each Partner reports its share of income from the partnerships in its own tax return.

The corporate entities within the Ausgrid Group have no taxable income. Therefore, there is no income tax expense or income tax payable for the year.

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

(f) Leases

The Ausgrid Group leases various premises including network, depot and office facilities. Lease payments under these leases vary, some of which are subject to annual, biennial or triennial reviews to reflect market rentals.

(i) Measurement and recognition of lease liabilities

Lease liabilities include the net present value of the following lease payments:

- fixed payments, less any lease incentives receivable;
- variable lease payments that are based on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Ausgrid Group under residual value guarantees;
- the exercise price of a purchase option if the Ausgrid Group is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the Ausgrid Group exercising that option.

1 Summary of significant accounting policies (continued)

(f) Leases (continued)

(i) Measurement and recognition of lease liabilities (continued)

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The Ausgrid Group is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the Right of Use (ROU) asset.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

(ii) Measurement and recognition of ROU assets

ROU assets are measured at cost comprising the following:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

ROU assets are generally depreciated over the shorter of the underlying asset's useful life and the lease term on a straight-line basis. If the Ausgrid Group is reasonably certain to exercise a purchase option, the ROU asset is depreciated over the underlying asset's useful life.

Payments associated with short-term leases and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less without a purchase option. Low-value assets are assets with a value less than \$15,000 over the entire lease term.

Lease income from operating leases where the Ausgrid Group is a lessor is recognised as revenue in profit or loss on a straight-line basis over the lease term. The Ausgrid Group leases out its properties, including premises, land and network assets, under operating lease agreements at market rentals, predominantly on a fixed term basis.

(g) Impairment of assets

Goodwill is tested for impairment annually or whenever there is an indicator of impairment. Assets 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 asset's carrying amount exceeds its recoverable amount, where the recoverable amount is the higher of an asset's FVLCOB or Value in Use (VIU). For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (Cash-generating Unit (CGU)).

(h) Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts.

(i) Trade receivables

Trade receivables are recognised initially at fair value when the right to consideration becomes unconditional and subsequently measured at amortised cost using the effective interest method, less expected credit losses. Trade receivables are generally due for settlement within 30 days. They are presented as current assets unless collection is not expected within 12 months after the reporting date.

1 Summary of significant accounting policies (continued)

(i) Trade receivables (continued)

Collectability of trade receivables is reviewed on an ongoing basis. Debts for which the Ausgrid Group has no reasonable expectations of recovering are written off by reducing the carrying amount directly.

The Ausgrid Group applies the AASB 9 Financial Instruments (**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 the expected credit losses, trade receivables and contract assets are grouped based on shared credit risk characteristics and the days past due. Contract assets relate to unbilled receivables and have substantially the same risk characteristics as trade receivables. The Ausgrid Group has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for contract assets.

(j) Contract assets

Contract assets represent the right to consideration for performance obligations completed to date when the right is conditional on something other than the passage of time. The contract assets balance primarily represents the unread meters accrual.

(k) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the average purchase price of each item. In the case of inventory for internal use, costs include direct labour, materials and a portion of variable overhead which comprises the cost of bringing the inventories to their appropriate location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(l) Property, plant and equipment

(i) Acquisition of assets

The cost method of accounting is used for the initial recording of all acquisitions of assets controlled by the Ausgrid Group. Cost is the amount of cash or cash equivalents paid at the time of acquisition or construction, adjusted for any gains or losses on qualifying cash flow hedges in respect of the purchases of relevant assets.

After initial recognition as an asset, items of property, plant and equipment are measured at cost less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

(ii) Historical cost method

Property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, only when it is probable that future economic benefits associated with the item will flow to the Ausgrid Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

(iii) Impairment assessment

Each year, property, plant and equipment is assessed for impairment if an indication of impairment exists. The Ausgrid Group makes an estimate of the recoverable amount to confirm that the carrying amount of the asset does not exceed its recoverable amount.

The recoverable amount is based on the higher of the FVLCOD or the VIU for the CGU. In assessing FVLCOD or VIU, the estimated future cash flows for the business are discounted to their present value using a discount rate that reflects the risks specific to the business and relevant market assessments.

An asset's carrying amount is written down to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

1 Summary of significant accounting policies (continued)

(I) Property, plant and equipment (continued)

(iv) *Retirements or disposals*

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss when the asset is derecognised.

(v) *Capitalisation of costs*

Items of property, plant and equipment are initially recognised at cost. Cost includes expenditure that is directly attributable to the acquisition and/or construction of the asset, including costs of materials, services, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an allocated proportion of supporting overhead costs. Capitalised costs also include borrowing costs in accordance with Note 1(r) (where relevant).

Management judgement is required in the assessment of the types of costs that are directly attributable to the construction of property, plant and equipment. Satisfying the directly attributable criteria requires an assessment of those unavoidable costs that, if not incurred, would result in the property, plant and equipment not being constructed or being capable of operating in the manner intended by management. Directly attributable overheads are allocated to the cost of construction of an asset using direct labour dollars or direct costs.

(vi) *Depreciation*

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate components of property, plant and equipment.

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Leased assets are depreciated over the shorter of their useful lives or the lease term. The estimated useful lives or, in the case of leased assets, the shorter lease term, are as follows:

Categories	Depreciation period (years)
Buildings	40-60
Network assets:	
Information Technology (IT)	4-10
Legacy meters (type 5 and 6 meters)	25
Transmission and distribution equipment	35-50
Mains	45-60
Tunnels	70
Street lighting	20
Leased land	48-99
Plant and equipment:	
Contestable meters (type 1 to 4 meters)	15
Plant	7-25
Fleet	10-15
Furniture	10
Office equipment	7
IT hardware	4-10
Leased assets	lease term

Asset lives are reviewed annually and, where required, adjustments are made to the remaining useful lives of separately identifiable parts of assets having regard to factors such as asset usage and the rate of technical and commercial obsolescence. Adjustments are treated as changes in accounting estimates to be applied prospectively.

1 Summary of significant accounting policies (continued)

(m) Intangible assets

(i) Network assets

Network assets include easements and the Ausgrid Group's network distribution licence. Easements represent an interest in land which allows access to network assets. The Ausgrid Group's network distribution licence and easements are amortised on a straight-line basis over the 99 year lease period.

(ii) Customer contracts

Customer contracts acquired in a business combination are recognised at fair value at the acquisition date. They have a finite useful life and are subsequently carried at cost less accumulated amortisation and impairment losses. Customer contracts are amortised over a period of five years using the straight-line amortisation method.

(iii) Computer software

Computer software is amortised over a period of four years using the straight-line amortisation method. The useful life of software is reviewed annually, and adjustments where applicable, are treated as changes in accounting estimates to be applied prospectively.

Costs incurred in configuring or customising Software-as-a-Service (**SaaS**) arrangements are recognised as intangible assets only if the implementation activities create an intangible asset that the Ausgrid Group controls and the intangible asset meets the recognition criteria. Costs that do not result in intangible assets are expensed as incurred, unless they are paid to the suppliers of the SaaS arrangement to significantly customise the cloud-based software for the Ausgrid Group, in which case the costs are recorded as a prepayment for services and amortised over the expected renewable term of the arrangement.

(iv) Goodwill

Goodwill arises from business combinations. The excess of the consideration transferred and the amount of any non-controlling interest in the acquiree over the fair value of the net identifiable assets acquired is recorded as goodwill. After initial recognition, goodwill is measured at cost less any accumulated impairment losses. 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.

(n) Assets classified as held for sale

Non-current assets and disposal groups are classified as held for sale and measured at the lower of their carrying amount and FVLCD, if their carrying amount will be recovered principally through a sale transaction as opposed to continued use. Once classified as held for sale, depreciation and amortisation ceases. For an asset or disposal group to be classified as held for sale, it must be available for immediate sale in its present condition and its sale must be highly probable.

(o) Derivatives and hedging activities

The Ausgrid Group uses derivative financial instruments to hedge its exposure to interest rate and foreign currency risk. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured to their fair value at the end of each reporting period.

The fair value of Interest Rate Swaps (**IRS**), Cross Currency Interest Rate Swaps (**CCIRS**) and forward contracts is the estimated amount that the Ausgrid Group would receive or pay to terminate the derivative at the reporting date, taking into account current interest and foreign exchange rates and the current creditworthiness of the Ausgrid Group and its derivative counterparties.

Derivative financial instruments are classified into current and non-current portions when the Ausgrid Group expects to hold a derivative as an economic hedge for a period beyond 12 months after the reporting date. For derivative financial instruments designated into hedging relationships, the classification will be consistent with the hedge relationship.

1 Summary of significant accounting policies (continued)

(o) Derivatives and hedging activities (continued)

At the inception of a hedge relationship, the Ausgrid Group formally designates and documents the hedge relationship to which the Ausgrid Group wishes to apply hedge accounting, and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Ausgrid Group will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

The Ausgrid Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Ausgrid Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Ausgrid Group continues to recognise the financial asset and the associated liability.

The Ausgrid Group derecognises a financial liability when, and only when, the Ausgrid Group's obligation specified in the contract is discharged, cancelled or expired.

Hedges that meet the criteria for hedge accounting are accounted for as described below:

(a) Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognised in profit or loss immediately, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognised in finance costs in profit or loss.

(b) Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated in the cash flow hedge reserve in equity. The gain or loss relating to the ineffective portion is recognised immediately in finance costs in profit or loss.

(p) Trade and other payables

Trade and other payables are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method. They are presented as current liabilities unless payment is not due within 12 months from the reporting date. The amounts are unsecured.

(q) Contract liabilities

Contract liabilities relate to consideration received in advance of performance under the contract. These liabilities are recognised as revenue as (or when) the Ausgrid Group delivers the performance obligation under the contract.

(r) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Transaction costs are amortised using the effective interest method over the life of the loan. 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 drawdown occurs.

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

Borrowing costs incurred for the construction of qualifying assets are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Other borrowing costs are expensed.

1 Summary of significant accounting policies (continued)

(s) Provisions

Provisions are recognised when the Ausgrid Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow will be required is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as finance cost.

(t) Employee benefits

All liabilities for employee benefits that are expected to be paid for services provided by employees up to the reporting date represent present obligations and are fully provided for in the financial statements.

Liabilities for employee benefits for wages, salaries, annual leave, preserved sick leave and long service leave that are expected to be wholly settled within 12 months of the reporting date, represent present obligations resulting from employees' services provided, are calculated at undiscounted amounts based on wage and salary rates that the Ausgrid Group expects to pay as at the reporting date and include related on-costs, such as workers compensation and payroll tax.

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date based on an actuarial assessment. The discount rate is the market yield on national corporate bonds as at 30 June 2023 that have maturity dates aligned with the terms of the Ausgrid Group's obligations. The accrued portion of future benefits is determined using the projected unit credit method. Consideration is given to expected future wage and salary levels, and a range of demographic assumptions including retirement, withdrawal, death and disability rates. The calculation is performed by a qualified actuary.

The amounts provided have been apportioned between current and non-current provisions. The current provisions represent the portion which is expected to be paid within the ensuing 12 months or where there is no unconditional right to defer settlement of the obligation.

(u) Superannuation

(i) Defined contribution plan

A defined contribution plan is a post-employment benefit under which an entity pays fixed contributions to a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees.

(ii) Defined benefit plan

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The net obligation in respect of the defined benefit plan is calculated separately for each policy by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value, and the fair value of any plan assets is deducted.

The discount rate is the market yield on national corporate bonds as at 30 June 2023 that have maturity dates aligned with the terms of the Ausgrid Group's obligations. The calculation is performed by a qualified actuary using the projected unit credit method.

All remeasurements arising from the defined benefit plan are recognised in other comprehensive income in the year in which they occur.

1 Summary of significant accounting policies (continued)

(u) Superannuation (continued)

(ii) Defined benefit plan (continued)

Where the calculation results in a benefit to the Ausgrid Group, the recognised asset is limited to the future economic benefits that will be available to the Ausgrid Group through a reduction in future contributions or a cash refund.

Past service cost is the increase in the present value of the defined benefit obligation for employee services in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service costs may either be positive (where benefits are introduced or improved) or negative (where existing benefits are reduced). Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. Past service costs and net interest expense or income are recognised in profit or loss.

(v) Other liabilities

(i) Deferred revenue

Deferred revenue represents the advanced rental income received from external tenants.

(ii) Deposits

Deposits represent liabilities for contractors' deposits which can be refunded at any time after the end of the financial year and unclaimed monies which are held for up to six years before being transferred to Revenue NSW. The amount which can be refunded in the succeeding financial year and at any time is shown as current and the remainder of the liability as non-current.

(w) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of Goods and Services Tax (**GST**).

The net amount of GST recoverable from, or payable to, the Australian Taxation Office (**ATO**) is included as a current asset or current liability in the statement of financial position.

The GST component of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

(x) Distributions

The Ausgrid Group recognises a liability for distributions to Partners of the Ausgrid Group when the distribution is authorised by the Partnerships (AOP, AAP, PLUS ES and APP) in accordance with their respective Partnership Deeds.

(y) Segment reporting

The Chief Operating Decision Makers (**CODM**) of the Ausgrid Group, as defined by AASB 8 Operating Segments (**AASB 8**), is the Executive Leadership Team, which is made up of the Chief Executive Officer and his direct reports. The CODM review the performance of the Ausgrid Group as a whole and make decisions regarding the allocation of resources on this basis. For the purposes of AASB 8, the Ausgrid Group has one operating segment.

The Ausgrid Group is required to report its different regulatory lines of business as part of its reporting to the AER. Information in relation to the regulatory lines of business has been disclosed in the consolidated financial statements. The form of regulatory control that applies to the Ausgrid Group's services depends on whether the services are categorised as SCS, ACS, or unregulated services:

- SCS comprise core distribution and transmission network services that the AER determines are for the benefit of all end customers, the costs of which are recovered from all end customers. SCS is subject to a revenue cap mechanism which limits the amount of revenue that can be recovered from providing the applicable services in a given regulatory control period;

1 Summary of significant accounting policies (continued)

(y) Segment reporting (continued)

- ACS are services that the AER determines are either dedicated to, or requested by, a small number of end customers, the costs of which are directly recovered from those end customers. ACS is subject to a price cap mechanism which limits the price that can be charged for the applicable service. ACS include certain types of metering services, street lighting services and ancillary network services, such as facilitating network connections; and
- Unregulated services comprise services that the AER believes are provided on a sufficiently competitive or contestable basis such that economic regulation is not necessary. These services include contestable metering services, infrastructure services, and lease of property.

Refer to Note 1(d) for detailed revenue recognition accounting policies in relation to these services.

(z) Rounding of amounts

The Ausgrid Group has applied Australian Securities and Investments Commission (**ASIC**) Legislative Instrument 2016/191 (Rounding in Financial/Directors' Reports). The amounts shown in this report have been rounded to the nearest \$1,000,000, unless otherwise indicated.

(aa) New accounting standards and interpretations adopted

A number of amended Australian Accounting Standards and Interpretations became applicable for the current reporting period. The Ausgrid Group did not need to change its accounting policies or make retrospective adjustments as a result of adopting these amended standards and interpretations.

(ab) New accounting standards and interpretations not yet adopted

Certain Australian Accounting Standards and Interpretations have recently been issued or amended but are not yet effective and have not been adopted by the Ausgrid Group for the year ended 30 June 2023. The amendments are as follows:

- AASB 2021-2 Amendments to Australian Accounting Standards - Disclosure of Accounting Policies and Definition of Accounting Estimates; and
- AASB 2020-1 Amendments to Australian Accounting Standards - Classification of Liabilities as Current or Non-current.

These standards, amendments or interpretations are not expected to have a material impact on the Ausgrid Group in the current or future reporting periods and on foreseeable future transactions.

2 Use of estimates and judgements

The preparation of the consolidated financial statements requires judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised.

Judgements made by management in the application of Accounting Standards that have a significant effect on the financial statements, and estimates with a significant risk of material adjustment in the next year, are discussed below and in the various respective notes:

2 Use of estimates and judgements (continued)

Note 1(d)(iii) and 7 - Unread meters
 Note 1(l) and 9 - Property, plant and equipment
 Note 1(m) and 10 - Intangible assets
 Note 1(s) and 13 - Provisions
 Note 18 - Superannuation - defined benefit plan
 Note 26(f) - Recognised fair value measurements

During the year ended 30 June 2023, the following significant event has occurred that provides further information on the estimates and judgements disclosed in the consolidated financial statements.

Interbank Offered Rate (IBOR) reform

The Ausgrid Group adopted AASB 2020-8 Amendments to Australian Accounting Standards - Interest Rate Benchmark Reform - Phase 2 on 1 July 2021.

The amendments provide practical expedients to account for changes in the basis for determining contractual cash flows as a result of IBOR reform and provide additional temporary relief from applying specific hedge accounting requirements to hedging relationships that are directly affected by IBOR reform. The relief requires the transitions to occur on an economically equivalent basis, only involve changes required by benchmark interest rate reform, be identical for both the host contract and embedded derivative, and occur no later than when the IBOR rate ceases to be published.

The Ausgrid Group holds a portfolio of foreign currency denominated fixed rate borrowings that are exposed to changes in fair value due to movements in market interest rates. The Ausgrid Group uses fair value hedge accounting to manage this interest rate risk exposure, which is determined as the change in fair value of the borrowings arising from changes in the US\$ benchmark rate for US\$ denominated borrowings.

The Ausgrid Group has US\$ CCIRS designated in hedge relationships which previously referenced three month US\$ London Interbank Offered Rate (**LIBOR**). These hedge relationships have now been amended to reference three month Secured Overnight Financing Rate (**SOFR**). The Ausgrid Group has assessed that the transition has been done on an economically equivalent basis and did not result in gain or loss in the income statement.

3 Revenue

	2023 \$M	2022 \$M
Revenue components		
DUOS	1,374	1,446
TUOS		
Pass-through	270	282
Non pass-through	96	81
CCF pass-through	145	135
NUOS	1,885	1,944
Transmission	27	24
SCS capital contributions	118	123
Other	6	4
Total SCS revenue	2,036	2,095

3 Revenue (continued)

	2023	2022
	\$M	\$M
Metering	54	54
Street lighting	40	34
ANS	70	64
ACS capital contributions	3	2
Total ACS revenue	167	154
Unregulated revenue	171	147
Total unregulated revenue	171	147
Interest income	7	1
Total other revenue	7	1
Total revenue¹	2,381	2,397

- (1) Revenue billings of \$1,283 million (2022: \$1,363 million) is derived from retailers that individually make up more than 10% of the Ausgrid Group's total revenue and relate to SCS revenue. For SCS revenue, the retailer carries the bad debt risk of customers' inability to pay. The Ausgrid Group's regulated revenue is protected from retailer insolvency by a mechanism which allows recovery of revenue lost due to retailer failure.

4 Expenses

(a) Distribution of energy costs

	2023 \$M	2022 \$M
SCS regulated pass-through costs		
TNSP	304	302
CCF	137	133
Total regulated pass-through costs	441	435
Other energy costs	1	1
Total distribution of energy costs	442	436

(b) Operating expenses

	2023 \$M	2022 \$M
(i) Operating expenses by nature		
Employee benefits expense	227	200
Superannuation expense (defined benefit plan)	2	3
Superannuation expense (defined contribution plan)	53	48
Reform costs	1	-
Employee benefits expenses	283	251
Contracted services	128	118
IT expenses	74	58
Land and other taxes	24	25
Materials	22	18
Other	15	19
Other expenses	263	238
Total operating expenses	546	489

(ii) Operating expenses by line of business

SCS	402	356
ACS	104	94
Unregulated	40	39
Total operating expenses	546	489

4 Expenses (continued)

(c) Depreciation and amortisation expense

	2023 \$M	2022 \$M
Depreciation of property, plant and equipment	547	545
Amortisation of intangible assets	86	96
Total depreciation and amortisation expense	633	641

(d) Finance costs

	2023 \$M	2022 \$M
Interest expense	411	172
Interest expense on IRS designated as cash flow hedges - reclassified from other comprehensive income	4	243
Amortisation of loan transaction costs	20	18
Unwinding of discount	3	-
Lease interest	6	3
Capitalised interest	(5)	(5)
Hedge ineffectiveness	4	10
Adjustments to the SFA	-	3
Other	1	(1)
Total finance costs	444	443

5 Taxation

	2023 \$M	2022 \$M
Income tax recognised in other comprehensive income		
<i>Items that may be reclassified subsequently to profit or loss:</i>		
Changes in cash flow hedges	-	(407)
<i>Items that will not be reclassified subsequently to profit or loss:</i>		
Defined benefit superannuation actuarial gain	(2)	-
Total income tax recognised in other comprehensive income	(2)	(407)

6 Deferred taxation

	Cash flow hedge reserve \$M	Defined benefit superannuation plan \$M	Total \$M
Balance at 1 July 2021	183	(10)	173
Recognised in other comprehensive income	(407)	-	(407)
Balance at 30 June 2022	(224)	(10)	(234)
Recognised in other comprehensive income	-	(2)	(2)
Balance at 30 June 2023	(224)	(12)	(236)

7 Trade and other receivables and contract assets

	2023 \$M	2022 \$M
Current		
Trade receivables	57	53
Less: provision for impairment of trade receivables	(10)	(5)
Interest receivables from derivatives	47	36
Other receivables	11	197
Total current trade and other receivables	105	281
Contract assets		
Unread meters	249	263
Other	31	27
Total current contract assets	280	290
Non-current		
Other receivables	3	2
Total non-current other receivables	3	2

8 Assets classified as held for sale

	2023 \$M	2022 \$M
Land and buildings	1	5
Total assets classified as held for sale	1	5

9 Property, plant and equipment

	Land and buildings \$M	Network assets \$M	Plant and equipment \$M	Total ¹ \$M
At 30 June 2023				
At cost	808	19,082	986	20,876
Accumulated depreciation	(111)	(2,987)	(352)	(3,450)
Net carrying amount	697	16,095	634	17,426
Year ended 30 June 2023				
Net carrying amount at 1 July 2022	685	15,807	521	17,013
Additions	18	797	180	995
Disposals	(1)	(27)	(7)	(35)
Transfers	20	(20)	-	-
Depreciation expense	(25)	(462)	(60)	(547)
Net carrying amount	697	16,095	634	17,426
At 30 June 2022				
At cost	771	18,340	832	19,943
Accumulated depreciation	(86)	(2,533)	(311)	(2,930)
Net carrying amount	685	15,807	521	17,013
Year ended 30 June 2022				
Net carrying amount at 1 July 2021	745	15,729	457	16,931
Additions	20	614	126	760
Disposals	(61)	(68)	(4)	(133)
Depreciation expense	(19)	(468)	(58)	(545)
Net carrying amount	685	15,807	521	17,013

(1) ROU assets in property, plant and equipment

On 1 December 2016, the Ausgrid Group entered into a 99 year finance lease with the NSW State Government. The underlying leased assets arising from the 99 year finance lease are land and buildings, network assets and plant and equipment. These leased assets, with a ROU carrying value of \$16,739 million as at 30 June 2023, constitute a major portion of the Ausgrid Group's property, plant and equipment. The non-leased assets are land and buildings of \$65 million, and plant and equipment of \$622 million as at 30 June 2023. The depreciation expense on ROU assets during the year was \$484 million.

Assets under construction

At 30 June 2023, property, plant and equipment included the following assets under construction:

Land and buildings	\$29 million (2022: \$27 million)
Network assets	\$401 million (2022: \$454 million)
Plant and equipment	\$74 million (2022: \$57 million)

9 Property, plant and equipment (continued)

Capital expenditure

	2023 \$M	2022 \$M
SCS capital expenditure		
Replacement	561	404
Augmentation	37	22
Connection	17	18
Reliability	8	2
Non-network and other	139	79
Total SCS capital expenditure	762	525
ACS capital expenditure		
Street lighting and other ACS activities	53	39
Total ACS capital expenditure	53	39
Unregulated capital expenditure		
PLUS ES	123	101
Network Service Provider (NSP)	5	1
Total unregulated capital expenditure	128	102
Total capital expenditure	943	666

Replacement capital expenditure relates to the replacement of assets that have reached the end of their serviceable or technical life, or have condition issues that necessitate the replacement of the asset.

Augmentation capital expenditure relates to new capital investment that expands the network's capacity to deliver electricity that is not connection or reliability capital expenditure.

Connection capital expenditure relates to new capital investment required to connect new customers, with the majority of connection related works funded by customers under a contestable framework.

Reliability capital expenditure relates to capital expenditure that improves network reliability in specific areas.

Non-network and other capital expenditure relates to the spend required to support the businesses operation and includes information technology, property and fleet.

ACS capital expenditure relates to the installation of new street lighting assets, replacement of street lighting assets and a proportion of non-network and other capital expenditure that supports the ACS line of business.

Unregulated capital expenditure relates to investments within the Ausgrid Group's unregulated business including contestable meters and electrical and telecommunication infrastructure, and a proportion of non-network and other capital expenditure that supports the unregulated line of business.

10 Intangible assets

	Network assets \$M	Customer contracts \$M	Computer software \$M	Goodwill \$M	Total \$M
At 30 June 2023					
At cost	1,686	4	581	2,135	4,406
Accumulated amortisation	(110)	(4)	(421)	-	(535)
Accumulated impairment	-	-	-	(348)	(348)
Net carrying amount	1,576	-	160	1,787	3,523
Year ended 30 June 2023					
Net carrying amount at 1 July 2022	1,593	-	149	1,787	3,529
Additions	-	-	80	-	80
Amortisation expense	(17)	-	(69)	-	(86)
Net carrying amount	1,576	-	160	1,787	3,523
At 30 June 2022					
At cost	1,686	4	500	2,135	4,325
Accumulated amortisation	(93)	(4)	(351)	-	(448)
Accumulated impairment	-	-	-	(348)	(348)
Net carrying amount	1,593	-	149	1,787	3,529
Year ended 30 June 2022					
Net carrying amount 1 July 2021	1,611	1	183	1,787	3,582
Additions	-	-	44	-	44
Disposals	(1)	-	-	-	(1)
Amortisation expense	(17)	(1)	(78)	-	(96)
Net carrying amount	1,593	-	149	1,787	3,529

Assets under construction

At 30 June 2023, assets under construction included in intangible assets related to computer software of \$71 million (2022: \$31 million).

(a) Impairment test of goodwill

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs. The Ausgrid Group has two CGUs, the NSP (comprising AAP, AOP and APP) and PLUS ES. The recoverable amount of each CGU has been determined based on the FVLCO approach.

In applying the FVLCO approach, the recoverable amount of each CGU is assessed using a discounted cash flow methodology. The cash flow forecasts are based on the latest business plans up to 30 June 2028 and the long-term corporate model for future years. These cash flows are then discounted using a relevant long-term post-tax discount rate. The discount rate is determined based on post-tax weighted average cost of capital using market based inputs.

The valuation is considered to be level 3 in the fair value hierarchy, as some of the inputs are based on non-market observable inputs.

10 Intangible assets (continued)

(a) Impairment test of goodwill (continued)

Goodwill is allocated to CGUs as follows:

	2023 \$M	2022 \$M
NSP	1,722	1,722
PLUS ES	65	65
Total	1,787	1,787

(i) NSP CGU

The NSP CGU carrying value was supported by its recoverable amount and no impairment exists at 30 June 2023 (2022: \$nil impairment). The key assumptions used in the discounted cash flow analysis were:

- Post-tax discount rate of 6.30% (2022: 6.10%);
- Terminal value Regulated Asset Base (**RAB**) multiple of 1.35x for SCS (2022: 1.35x) and a multiple of 26.97x (2022: 28.50x) applied to ACS and unregulated business terminal year cash flows;
- Terminal growth rate of 2.50% (2022: 2.50%); and
- Cash flow horizon of 30 years (2022: 30 years). Cash flow forecast includes assumptions related to growth in revenue, operating expenditure and capital expenditure, with the growth assumption primarily driven by the assumptions in the regulatory building block model, with growth being a function of the RAB and the allowable return from the AER in the current regulatory period (1 July 2019 to 30 June 2024) and expected future returns in years after 30 June 2024.

(ii) PLUS ES CGU

The PLUS ES CGU carrying value was supported by its recoverable amount and no impairment exists at 30 June 2023 (2022: \$nil impairment). The key assumptions used in the discounted cash flow analysis were:

- Post-tax discount rate of 8.40% (2022: 8.20%);
- Terminal growth rate of 3.00% (2022: 3.00%); and
- Cash flow horizon of 20 years (2022: 20 years). Cash flow forecast includes assumptions related to growth in revenue, operating expenditure and capital expenditure.

(b) Sensitivity to changes in assumptions

(i) NSP CGU

There is no foreseeable change to the NSP CGU key assumptions that would cause the carrying value of the CGU to exceed its recoverable amount.

(ii) PLUS ES CGU

There is no foreseeable change to the PLUS ES CGU key assumptions that would cause the carrying value of the CGU to exceed its recoverable amount.

11 Trade and other payables

	2023 \$M	2022 \$M
Current		
Trade payables	113	83
Interest payable	145	138
Accruals	49	56
Other payables	20	61
Total current trade and other payables	327	338

12 Borrowings

	2023 \$M	2022 \$M
Current		
Lease liabilities	8	4
Total current lease liabilities	8	4
A\$ denominated interest bearing loans	1,565	-
A\$ denominated interest bearing notes	250	-
US\$ denominated interest bearing notes	-	724
Less: Transaction costs	(1)	(1)
Total current loans and notes	1,814	723
Total current borrowings	1,822	727
Non-current		
Lease liabilities	59	34
Total non-current lease liabilities	59	34
A\$ denominated interest bearing loans	2,770	3,844
A\$ denominated interest bearing notes	2,377	2,622
US\$ denominated interest bearing notes	2,940	2,973
EUR denominated interest bearing notes	1,684	1,627
Less: Transaction costs	(39)	(49)
Total non-current loans and notes	9,732	11,017
Total non-current borrowings	9,791	11,051

Common Terms Deed (CTD)

On 13 December 2022, the Ausgrid Group established a new CTD to borrow A\$ denominated debt and entered into a four year facility of \$500 million (B6), a 7.25 year facility of \$425 million (B7), and a 5.25 year facility of \$600 million (B8). Facilities B7 and B8 were fully drawn to partially repay SFA Facility B4 and fully repay SFA Facility B5. Facility B6 was fully drawn to partially repay the US144A notes that matured on 1 May 2023.

As a result of the refinance, a \$4 million expense relating to the accelerated amortisation of transaction costs of SFA Facility B4 and SFA Facility B5 was recognised in Finance costs (refer to Note 4(d)).

12 Borrowings (continued)

USPP

On 27 June 2023, the Ausgrid Group priced a multi-tranche USPP transaction totalling \$1,488 million (A\$ equivalent) which settled on 26 July 2023. The transaction was structured across a range of tenors and currencies, including a seven year tranche of US\$95 million, ten year tranches of US\$261 million, AU\$50 million, and CAD270 million, 12 year tranches of US\$150 million and GBP39 million, and 15 year tranches of US\$56 million, CAD60 million, and GBP77 million. The proceeds were used to fully repay SFA Facility B4 and partially repay Capex Facility C.

(a) Loans and notes

	Drawdown ¹ \$M	Foreign exchange movements ² \$M	Fair value adjustments ³ \$M	Transaction costs \$M	Carrying value \$M
30 June 2023					
Fixed rate notes					
10 year US\$770M USPP	966	195	(96)	(3)	1,062
12 year US\$430M USPP	540	109	(62)	(2)	585
15 year US\$430M USPP	540	109	(74)	(3)	572
10 year A\$29M USPP	29	-	-	-	29
12 year A\$103M USPP	103	-	-	-	103
15 year A\$88M USPP	88	-	-	(1)	87
7 year A\$750M Australian Medium Term Note (AMTN)	750	-	(20)	(1)	729
6.5 year A\$750M AMTN	750	-	(93)	(2)	655
7.25 year EUR650M EMTN	1,037	29	(64)	(2)	1,000
10 year EUR525M EMTN	845	16	(179)	(4)	678
10.25 year US\$500M 144A	659	96	(42)	(5)	708
	6,307	554	(630)	(23)	6,208
Floating rate notes and facilities					
15 year A\$100M USPP	100	-	-	(1)	99
7 year A\$450M AMTN	450	-	-	-	450
5 year A\$220M AMTN	220	-	-	-	220
3.5 year A\$250M AMTN	250	-	-	-	250
Bank Facilities ⁴	3,090	-	-	(9)	3,081
Asian Syndicated Facility (ASF) ⁵	1,245	-	-	(7)	1,238
	5,355	-	-	(17)	5,338
Total loans and notes	11,662	554	(630)	(40)	11,546

- (1) The drawdown represents A\$ denominated loans and notes or, in regards to foreign currency denominated notes, the A\$ equivalent translated at the hedged rate at inception.
- (2) This relates to foreign exchange movements from the date of original drawdown of non A\$ notes to 30 June 2023.
- (3) The fair value adjustment of \$630 million (2022: \$396 million) is made up of hedge accounting adjustments due to interest rate movements.

12 Borrowings (continued)

(a) Loans and notes (continued)

- (4) Bank Facilities include Facility B4, C and D of the SFA and Facilities B6, B7 and B8 of the CTD. The original drawdown of the SFA Facilities was \$11,931 million. This was reduced to \$1,565 million due to repayments of \$11,779 million, partially offset by additional drawdowns of \$1,413 million since the inception of the SFA. The original drawdown of the CTD Facilities was \$1,525 million.
- (5) The original drawdown of the ASF was \$1,650 million. This was reduced to \$1,245 million due to repayment of \$405 million.

	Drawdown \$M	Foreign exchange movements \$M	Fair value adjustments \$M	Transaction costs \$M	Carrying value \$M
30 June 2022					
Fixed rate notes					
10 year US\$770M USPP	966	152	(46)	(3)	1,069
12 year US\$430M USPP	540	84	(32)	(2)	590
15 year US\$430M USPP	540	84	(40)	(3)	581
10 year A\$29M USPP	29	-	-	-	29
12 year A\$103M USPP	103	-	-	-	103
15 year A\$88M USPP	88	-	-	(1)	87
7 year A\$750M AMTN	750	-	(16)	(2)	732
6.5 year A\$750M AMTN	750	-	(102)	(2)	646
7.25 year EUR650M EMTN	1,037	(50)	(23)	(2)	962
10 year EUR525M EMTN	845	(48)	(134)	(4)	659
5 year US\$500M 144A	659	67	(2)	(1)	723
10.25 year US\$500M 144A	659	67	(1)	(6)	719
	6,966	356	(396)	(26)	6,900
Floating rate notes and facilities					
15 year A\$100M USPP	100	-	-	(1)	99
7 year A\$450M AMTN	450	-	-	(1)	449
5 year A\$220M AMTN	220	-	-	-	220
3.5 year A\$250M AMTN	250	-	-	(1)	249
Bank Facilities	2,424	-	-	(11)	2,413
Asian Syndicated Facility	1,420	-	-	(10)	1,410
	4,864	-	-	(24)	4,840
Total loans and notes	11,830	356	(396)	(50)	11,740

12 Borrowings (continued)

(a) Loans and notes (continued)

	Maturity	Facility limit \$M	Drawn ¹ \$M	Undrawn \$M
30 June 2023				
7 year A\$750M AMTN fixed rate	30 Oct 24	750	750	-
7 year A\$450M AMTN floating rate	30 Oct 24	450	450	-
6.5 year A\$750M AMTN fixed rate	5 Feb 27	750	750	-
5 year A\$220M AMTN floating rate	24 Feb 26	220	220	-
3.5 year A\$250M AMTN floating rate	5 Feb 24	250	250	-
Total AMTN		2,420	2,420	-
10.25 year US\$500M 144A fixed rate	1 Aug 28	755	755	-
Total US144A notes		755	755	-
7.25 year EUR650M EMTN fixed rate	30 Jul 25	1,066	1,066	-
10 year EUR525M EMTN fixed rate	7 Oct 31	861	861	-
Total EMTN		1,927	1,927	-
10 year US\$770M USPP fixed rate	1 Oct 27	1,161	1,161	-
12 year US\$430M USPP fixed rate	1 Oct 29	649	649	-
15 year US\$430M USPP fixed rate	1 Oct 32	649	649	-
10 year A\$29M USPP fixed rate	1 Oct 27	29	29	-
12 year A\$103M USPP fixed rate	1 Oct 29	103	103	-
15 year A\$88M USPP fixed rate	1 Oct 32	88	88	-
15 year A\$100M USPP floating rate	1 Oct 32	100	100	-
Total USPP notes		2,779	2,779	-
5.25 year SFA Term Facility B4	1 Dec 23	975	975	-
4 year Syndicated Facility B6T ²	15 Dec 26	105	105	-
7.25 year Syndicated Facility B7T ²	15 Mar 30	195	195	-
5.25 year Syndicated Facility B8T ²	15 Mar 28	435	435	-
7 year ASF Term Facility A1	2 Jul 26	995	995	-
10 year ASF Term Facility A2	2 Jul 29	250	250	-
Total term loans		2,955	2,955	-
Capex Facility C	1 Jun 24	721	548	173
Working Capital Facility D ³	1 Jun 24	250	42	208
4 year Syndicated Facility B6R ²	15 Dec 26	395	395	-
7.25 year Syndicated Facility B7R ²	15 Mar 30	230	230	-
5.25 year Syndicated Facility B8R ²	15 Mar 28	115	115	-
5.25 year Bilateral Facility B8R ²	15 Mar 28	50	50	-
Total revolving loans		1,761	1,380	381
Total⁴		12,597	12,216	381

(1) The total drawn facilities of \$12,216 million (2022: \$12,186 million) is made up of total drawdown of \$11,662 million (2022: \$11,830 million) and foreign exchange movements of \$554 million (2022: \$356 million) on page 32.

(2) New facilities under the CTD.

12 Borrowings (continued)

(a) Loans and notes (continued)

- (3) In addition to the \$42 million drawn under the Working Capital Facility D, \$37 million of bank guarantees have been issued under the facility (refer to Note 23) and therefore the unutilised funds available under the Working Capital Facility D is \$171 million. Therefore, total undrawn bank facilities excluding bank guarantees is \$344 million.
- (4) The weighted average interest for total drawn debt for the year ended 30 June 2023, including net payments under interest rate derivatives and excluding transaction costs, was 3.54% (2022: 3.45%).

	Maturity	Facility limit \$M	Drawn \$M	Undrawn \$M
30 June 2022				
7 year A\$750M AMTN fixed rate	30 Oct 24	750	750	-
7 year A\$450M AMTN floating rate	30 Oct 24	450	450	-
6.5 year A\$750M AMTN fixed rate	5 Feb 27	750	750	-
5 year A\$220M AMTN floating rate	24 Feb 26	220	220	-
3.5 year A\$250M AMTN floating rate	5 Feb 24	250	250	-
Total AMTN		<u>2,420</u>	<u>2,420</u>	-
5 year US\$500M 144A fixed rate	1 May 23	726	726	-
10.25 year US\$500M 144A fixed rate	1 Aug 28	726	726	-
Total US144A notes		<u>1,452</u>	<u>1,452</u>	-
7.25 year EUR650M EMTN fixed rate	30 Jul 25	987	987	-
10 year EUR525M EMTN fixed rate	7 Oct 31	797	797	-
Total EMTN		<u>1,784</u>	<u>1,784</u>	-
10 year US\$770M USPP fixed rate	1 Oct 27	1,118	1,118	-
12 year US\$430M USPP fixed rate	1 Oct 29	624	624	-
15 year US\$430M USPP fixed rate	1 Oct 32	624	624	-
10 year A\$29M USPP fixed rate	1 Oct 27	29	29	-
12 year A\$103M USPP fixed rate	1 Oct 29	103	103	-
15 year A\$88M USPP fixed rate	1 Oct 32	88	88	-
15 year A\$100M USPP floating rate	1 Oct 32	100	100	-
Total USPP notes		<u>2,686</u>	<u>2,686</u>	-
5.25 year SFA Term Facility B4	1 Dec 23	1,400	1,400	-
7.25 year SFA Term Facility B5	1 Dec 25	574	574	-
7 year ASF Term Facility A1	2 Jul 26	1,170	1,170	-
10 year ASF Term Facility A2	2 Jul 29	250	250	-
Total term loans		<u>3,394</u>	<u>3,394</u>	-
Capex Facility C	1 Jun 24	721	343	378
Working Capital Facility D	1 Jun 24	250	107	143
Total revolving loans		<u>971</u>	<u>450</u>	<u>521</u>
Total		<u>12,707</u>	<u>12,186</u>	<u>521</u>

12 Borrowings (continued)

(b) Interest rate for public debt instrument

	Rate in currency of issue ⁽¹⁾
AMTN	
7 year A\$750M AMTN fixed rate	3.750%
7 year A\$450M AMTN floating rate	BBSW+1.220%
6.5 year A\$750M AMTN fixed rate	1.814%
5 year A\$220M AMTN floating rate	BBSW+1.000%
3.5 year A\$250M AMTN floating rate	BBSW+1.100%
US144A notes	
10.25 year US\$500M 144A fixed rate	4.350%
EMTN	
7.25 year EUR650M EMTN fixed rate	1.250%
10 year EUR525M EMTN fixed rate	0.875%

(1) The Bank Bill Swap Rate (**BBSW**) is a floating short-term benchmark interest rate.

12 Borrowings (continued)

(c) Reconciliation of liabilities arising from financing activities

	1 July 2022	Cash flows	Non-cash changes				30 June 2023
			Fair value adjustments	Foreign exchange movements	Amortisation	Acquisition	
	\$M	\$M	\$M	\$M	\$M	\$M	\$M
A\$ denominated interest bearing loans	3,844	491	-	-	-	-	4,335
A\$ denominated interest bearing notes	2,622	-	5	-	-	-	2,627
US\$ denominated interest bearing notes	3,697	(659)	(153)	55	-	-	2,940
EUR denominated interest bearing notes	1,627	-	(86)	143	-	-	1,684
Transaction costs	(50)	(10)	-	-	20	-	(40)
Lease liabilities	38	(11)	-	-	6	34	67
Total liabilities from financing activities	11,778	(189)	(234)	198	26	34	11,613

	1 July 2021	Cash flows	Non-cash changes				30 June 2022
			Fair value adjustments	Foreign exchange movements	Amortisation	Acquisition	
	\$M	\$M	\$M	\$M	\$M	\$M	\$M
A\$ denominated interest bearing loans	5,014	(1,173)	3	-	-	-	3,844
A\$ denominated interest bearing notes	2,771	-	(149)	-	-	-	2,622
US\$ denominated interest bearing notes	3,774	-	(395)	318	-	-	3,697
EUR denominated interest bearing notes	1,074	845	(202)	(90)	-	-	1,627
Transaction costs	(61)	(7)	-	-	18	-	(50)
Lease liabilities	29	(3)	-	-	3	9	38
Total liabilities from financing activities	12,601	(338)	(743)	228	21	9	11,778

13 Provisions

	Employee benefits \$M	Workers compensation and legal \$M	Other \$M	Total \$M
Balance at 1 July 2022	281	29	55	365
Additional provision	149	8	6	163
Amounts used	(152)	(11)	(7)	(170)
Amounts reversed	(2)	-	(3)	(5)
Unwinding of discount	-	1	2	3
At 30 June 2023	276	27	53	356
Current	273	8	15	296
Non-current	3	19	38	60
At 30 June 2023	276	27	53	356
Balance at 1 July 2021	286	32	62	380
Additional provision	123	7	-	130
Amounts used	(127)	(10)	(6)	(143)
Amounts reversed	(2)	-	(1)	(3)
Amounts transferred	1	-	-	1
At 30 June 2022	281	29	55	365
Current	272	10	19	301
Non-current	9	19	36	64
At 30 June 2022	281	29	55	365

(a) Employee benefits

The provision for employee benefits relates to amounts accruing to employees up to the reporting date in respect of annual leave, bonus, preserved sick leave, superannuation, supplementary superannuation and long service leave. Amounts provided for in relation to long service leave, preserved sick leave and supplementary superannuation are based on actuarial assessments.

Employee benefit amounts expected to be settled within 12 months have been measured at the amounts expected to be paid when the liabilities are settled.

(b) Workers compensation and legal

The Ausgrid Group is a self-insurer for workers compensation and meets all liabilities under the workers compensation legislation in NSW and other states. The provision covers claims incurred but not yet reported and the anticipated fund management fees in respect of the management of those claims.

A bank guarantee is held for security and can be drawn down in the event of a default. Refer to Note 23 for details.

A provision for legal claims is recognised when the Ausgrid Group has a present legal or constructive obligation as a result of past events. The provision reflects management's best estimate of the expenditure required to settle the legal claims at the reporting date.

13 Provisions (continued)

(c) Other

Other provisions mainly consist of provisions for future Polychlorinated Biphenyls (**PCB**) disposal costs and costs relating to decommissioning assets.

(i) Provision for PCB disposal costs

This provision reflects future PCB disposal costs at the end of life of network equipment where there is a legislative obligation.

The provision as at 30 June 2023 was \$17 million (2022: \$17 million) and reflects an estimate of the present value of the expenditure required to settle the obligation at the reporting date, based on current legal requirements and technology. Future disposal costs are reviewed annually and any changes are reflected in the present value of the provision at the end of the reporting period.

The amount of the provision for future disposal costs is capitalised and is depreciated in accordance with the policy set out in Note 1(l). The unwinding of the effect of discounting the provision is recognised as a finance cost.

(ii) Provision for costs relating to decommissioning assets

The provision to cover the expected future costs associated with decommissioning the Ausgrid Group's network assets as at 30 June 2023 was \$35 million (2022: \$33 million). Future costs are reviewed annually and any changes are reflected in the present value of the provision at the end of the reporting period.

The amount of the provision for future asset decommissioning costs is capitalised and is depreciated in accordance with the policy set out in Note 1(l). The unwinding of the effect of discounting the provision is recognised as a finance cost.

14 Other liabilities and contract liabilities

	2023 \$M	2022 \$M
Current		
Deposits	1	1
Deferred revenue	2	5
Total current other liabilities	<u>3</u>	<u>6</u>
 Current contract liabilities		
Street lighting capital contribution	3	2
Deferred street lighting revenue	3	3
Development rights agreement	1	3
Other	2	2
Total current contract liabilities	<u>9</u>	<u>10</u>
 Non-current contract liabilities		
Street lighting capital contribution	49	41
Deferred street lighting revenue	26	26
Development rights agreement	3	-
Total non-current contract liabilities	<u>78</u>	<u>67</u>

During the year, \$6 million revenue relating to street lighting (both street lighting capital contributions and deferred street lighting revenue) was recognised (2022: \$6 million) that was included in the contract liabilities balance on 1 July 2022.

15 Derivatives

	2023 \$M	2022 \$M
Current assets		
CCIRS	-	65
Forward foreign exchange contracts	3	3
Total current derivative financial assets	<u>3</u>	<u>68</u>
 Non-current asset		
CCIRS	249	275
IRS	750	739
Forward foreign exchange contracts	4	5
Total non-current derivative financial assets	<u>1,003</u>	<u>1,019</u>
 Total derivative financial assets	<u>1,006</u>	<u>1,087</u>

15 Derivatives (continued)

	2023 \$M	2022 \$M
Non-current liability		
CCIRS	(204)	(248)
IRS	(128)	(124)
Total non-current derivative financial liabilities	(332)	(372)
Total derivative financial liabilities	(332)	(372)
Net derivative financial assets	674	715

16 Partner capital

	AOP		AAP		PLUS ES		APP	
	Number	\$M	Number	\$M	Number ¹	\$M	Number ¹	\$M
30 June 2023								
Ordinary capital interest	504	832	504	3,538	4,612	92	1,624	28
A class capital interest	496	819	496	3,483	4,538	91	1,598	28
Total contributed equity	1,000	1,651	1,000	7,021	9,150	183	3,222	56

30 June 2022

Ordinary capital interest	504	865	504	3,538	4,612	92	-	-
A class capital interest	496	851	496	3,483	4,538	91	-	-
Total contributed equity	1,000	1,716	1,000	7,021	9,150	183	-	-

(1) The number of interests for PLUS ES and APP is in millions.

(a) Partner capital

Ordinary capital interest

Ordinary capital interests of AOP, AAP, PLUS ES and APP were issued to Blue Op Partner Pty Limited as trustee for Blue Op Partner Trust (**Blue AOP**) and to Blue Asset Partner Pty Limited as trustee for Blue Asset Partner Trust (**Blue AAP**) on 20 October 2016, to Blue PLUS ES Partner Pty Limited as trustee for Blue PLUS ES Partner Trust (**Blue PLUS ES**) on 1 November 2017, and to Blue Aurora Partner Pty Limited as trustee for Blue Aurora Partner Trust (**Blue APP**) on 24 May 2023. Blue AOP, Blue AAP, Blue PLUS ES and Blue APP are controlled by a consortium led by IFM Investors, AustralianSuper and APG. The interests are classified as equity and are fully paid.

A class capital interest

A class capital interest of AOP, AAP, PLUS ES and APP were issued to four separate Electricity Retained Interest Corporation entities (**ERIC Partners**) controlled by the NSW State Government on 20 October 2016 for AOP and AAP, 1 November 2017 for PLUS ES and 24 May 2023 for APP. An A class interest will be automatically converted to an ordinary interest when it is held by an entity other than ERIC Partners. The rights and obligations attaching to A class capital interests and ordinary capital interests are identical except for the attached voting rights. The interests are classified as equity and are fully paid.

16 Partner capital (continued)

(b) Partnership liability

Each Partner is responsible for discharging the liabilities of AOP, AAP, PLUS ES and APP in proportion with their respective Partnership interest and each Partner indemnifies the other Partners from the default of the liabilities.

(c) Distribution

Each Partner is entitled to distributions in proportion with their respective Partnership interests. All distributions are subject to approval by the Partnership Board. In accordance with the Partnership Deed, a quarterly distribution of a minimum of 85% of surplus cash will be distributed to Partners, unless Directors make a unanimous determination to distribute a lesser amount in respect of a particular quarter.

Surplus cash is calculated as the operating cash flows of the Partnership for the quarter; less growth and maintenance capital expenditure for the quarter; less interest and debt repayments for the quarter (including any voluntary prepayments); plus the proceeds from debt drawdowns or refinancing undertaken in the quarter; plus proceeds from the sale of any assets in the quarter.

17 Retained earnings

	AOP \$M	AAP \$M	PLUS ES \$M	APP \$M	Total \$M
Balance at 1 July 2022	62	(64)	14	-	12
Profit for the year	70	181	45	-	296
Distributions paid	-	(100)	-	-	(100)
Balance at 30 June 2023	132	17	59	-	208
 Balance at 1 July 2021	 (94)	 (552)	 (22)	 -	 (668)
Profit for the year	156	488	36	-	680
Balance at 30 June 2022	62	(64)	14	-	12

18 Superannuation - defined benefit plan

The Ausgrid Group participated in the Energy Industries Superannuation Scheme (**EISS**) established by a Trust Deed made under an Act of the NSW Parliament, of which some divisions provide defined benefits. On 12 May 2023, the EISS merged with Construction and Building Unions Superannuation Fund (**Cbus**). As a result, all EISS members transferred to Cbus and all EISS products were closed. All EISS defined benefit members were transferred to the Pool B Subdivision of the Defined Benefits Section of Cbus under a 'successor fund' arrangement, which ensured that the defined benefit members' benefits were carried over to Cbus on an equivalency basis. Cbus' Trustee is United Super Pty Ltd.

As the Ausgrid Group was a participant in the former EISS, it is now a participant in the Pool B Subdivision of the Defined Benefits Section of Cbus (hereafter referred to as **the Fund**). The Ausgrid Group accounts for its proportionate share of the defined benefit obligation, Fund assets, and cost associated with the Fund in the same way as for any other defined benefit plan.

(a) Nature of the benefits provided by the Fund

The Fund provides defined benefits, in which a component of the final benefit is derived from a multiple of member salary and years of membership. Members receive lump sum or pension benefits on retirement, death, disablement and withdrawal.

Disclosures below are prepared in relation to the Fund only.

(b) Risk exposure

There are a number of risks to which the Fund exposes the Ausgrid Group. The more significant risks relating to the defined benefits are:

- Investment risk - The risk that investment returns will be lower than assumed and the Ausgrid Group will need to increase contributions to offset any shortfall.
- Longevity risk - The risk that pensioners live longer than assumed, resulting in pensions being paid for a longer period and thereby requiring additional employer contributions.
- Pension indexation risk - The risk that pensions will increase at a rate greater than assumed, increasing future pensions and thereby requiring additional employer contributions.
- Salary growth risk - The risk that wages or salaries (on which future benefit amounts for active members will be based) will rise more rapidly than assumed, increasing defined benefit amounts and thereby requiring additional employer contributions.
- Legislative risk - The risk that legislative changes could be made which increase the cost of providing the defined benefits.

The Fund assets are invested with independent fund managers and have a diversified asset mix. The Fund has no significant concentration of investment risk or liquidity risk.

(c) Reconciliation of the net defined benefit assets

The following table summarises the components of net benefit expense recognised in profit or loss, actuarial gains and losses recognised in other comprehensive income and funded status and amounts recognised in the statement of financial position.

18 Superannuation - defined benefit plan (continued)

(c) Reconciliation of the net defined benefit assets (continued)

	Present value of obligations \$M	Fair value of Fund assets \$M	Total \$M
At 1 July 2022	(252)	253	1
Current service cost	(2)	-	(2)
Interest (expense)/income	(13)	13	-
Defined benefit superannuation (expense)/income recognised in profit or loss	(15)	13	(2)
Contributions by the Fund participants:			
Employers	-	4	4
Fund participants	(2)	2	-
	(2)	6	4
Remeasurements:			
Return on Fund assets, excluding amounts included in interest income	-	(2)	(2)
Gain from change in financial assumptions	6	-	6
Gain from change in liability experience	2	-	2
Defined benefit superannuation actuarial gain/(loss) recognised in other comprehensive income	8	(2)	6
Benefits paid	19	(19)	-
Tax and expenses paid	1	(1)	-
	20	(20)	-
At 30 June 2023	(241)	250	9

18 Superannuation - defined benefit plan (continued)

(d) Fair value of Fund assets

The fair value of Fund assets, as provided by United Super Pty Ltd (the Trustee of Cbus), reflects the total assets of the Pool B Subdivision of the Defined Benefits Section of Cbus, which comprises the defined benefit assets for all participating employers in the Pool B Subdivision. The value of defined benefit assets attributable to the Ausgrid Group cannot be separately disclosed. Refer to Note 26(f) for details on fair value hierarchy.

Asset category	Total \$M	Quoted price in active markets for identical assets	Significant observable input	Unobservable input
		Level 1 \$M	Level 2 \$M	Level 3 \$M
At 30 June 2023				
Pool B Subdivision of Cbus Defined Benefits	1,170	-	1,170	-
At 30 June 2022				
Energy Investment Fund ¹	1,767	-	1,767	-

(1) Former EISS fund

(e) Significant actuarial assumptions at the reporting date

Expected salary increase rate (excluding promotional increase)	3.00% for 2023/24; and 3.75% pa thereafter (2022: 2.95% for 2022/23; 3.00% for 2023/24; and 4.00% pa thereafter)
Rate of Consumer Price Index (CPI) increase	6.65% for 2023/24; 3.21% for 2024/25; 2.45% for 2025/26; 2.48% for 2026/27; 2.52% for 2027/28 and 2.50% pa thereafter (2022: 4.00% for 2022/23; 2.76% for 2023/24; 2.35% for 2024/25; 2.34% for 2025/26; 2.37% for 2026/27; 2.26% for 2027/28 and 2.50% pa thereafter)
Discount rate	5.61% pa (2022: 5.30% pa)
Pensioner mortality	The pensioner mortality rates used are as per the actuarial investigation of the Fund as at 30 June 2021. The pension mortality rates are based on experience of the Australian public sector

19 Key management personnel compensation

The Ausgrid Group defines key management personnel as those having authority and responsibility for planning, directing and controlling the activities of the Ausgrid Group as well as the Directors of the Ausgrid Group. Key management personnel comprise the Ausgrid Group's Executive Leadership Team and the Non-Executive Directors of AOP, AAP, PLUS ES and APP. Although the Non-Executive Directors are listed below, they do not have management responsibility.

Non-Executive Directors

Dr Helen Nugent AC

Ashley Barker (resigned 23 December 2022)

Belinda Gibson

Gillian Brown (appointed 4 November 2022)

Hans-Martin Aerts

Jason Peasley

Joo Hyung (Jay) Ryu

Michael Byrne

Michael Hanna

Robert Wright (resigned 4 November 2022)

Joshua Crane (appointed 23 December 2022)

Steven MacDonald

Key management personnel remuneration

The following table shows details of the remuneration recognised for key management personnel for the current and previous year, measured in accordance with Australian Accounting Standards.

	2023 \$	2022 \$
Short-term employee benefits	12,565,683	15,666,463
Long-term benefits	415,837	6,044,157
Termination benefits	-	10,981
Post-employment benefits	314,983	273,033
	13,296,503	21,994,634

20 Remuneration of auditors

During the year, the following fees were paid, or payable, for services provided by PricewaterhouseCoopers Australia, the auditor of the Ausgrid Group:

(i) *Audit and other assurance services*

	2023 \$	2022 \$
Audit and review of financial statements	1,080,695	995,000
Other assurance services		
Regulatory audit services	334,930	268,549
Ringfencing compliance audit services	68,000	68,000
Review of debt offering documents	97,000	-
IT controls review	-	91,000
Total remuneration for audit and other assurance services	1,580,625	1,422,549

(ii) *Other non-assurance services*

Tax compliance services	114,500	108,500
Accounting advisory services	-	25,000
Total remuneration for other non-assurance services	114,500	133,500

Total remuneration	1,695,125	1,556,049
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21 Capital expenditure commitments

Commitments for the acquisition of property, plant and equipment and intangible assets not recognised in the consolidated financial statements at the reporting date is as follows:

	2023 \$M	2022 \$M
Within one year	269	283
Later than one year but no later than five years	54	33
	323	316

22 Leases

Lease receivables - leases as lessor

The Ausgrid Group leases out its properties, including premises, land and network assets, under operating lease agreements at market rentals, predominantly on a fixed term basis. The future minimum lease receivables under non-cancellable leases are as follows:

	2023 \$M	2022 \$M
Within one year	8	9
Later than one year but no later than five years	18	18
Later than five years	5	6
	31	33

23 Contingent liabilities and contingent assets

	2023 \$M	2022 \$M
Contingent liabilities		
Guarantees provided to regulatory and statutory authorities	37	40
Guarantees provided to external parties	-	6
	37	46
Contingent assets		
Potential recoveries from workers compensation claims	3	2
	3	2

The guarantees provided to regulatory and statutory authorities relate to bank guarantees in place in relation to the Ausgrid Group's self-insured workers compensation.

24 Group entities

The consolidated financial statements incorporate the assets, liabilities and results of the following controlled entities in accordance with the accounting policies described in Note 1 for which AOP is the parent entity. All entities are incorporated in Australia.

Name of entity

AAP
 Active Stream Pty Limited
 APP
 Ausgrid Finance Pty Limited
 Ausgrid Management Pty Limited
 PLUS ES
 PLUS ES Management 1 Pty Limited
 PLUS ES Management 2 Pty Limited

25 Cash flow information

Reconciliation of profit after income tax to net cash inflow from operating activities:

	2023	2022
	\$M	\$M
Profit for the year	296	680
Add/(less) non-cash items:		
Depreciation and amortisation	633	641
Non-cash capital contributions	(119)	(124)
Unwinding of government grants	(2)	(1)
Amortisation of loan transaction costs	20	18
Hedge ineffectiveness	4	10
Capitalised interest	(5)	(5)
Interest accrual	(4)	(4)
Adjustments to SFA	-	3
Net loss/(gain) on disposal of property, plant and equipment	20	(247)
Unwinding of discount	3	-
Changes in assets and liabilities:		
Trade and other receivables	(1)	2
Contract assets	10	(13)
Prepayments	(1)	2
Inventories	(12)	-
Trade and other payables	(18)	14
Contract liabilities	(1)	(8)
Provisions	(12)	(1)
Other liabilities	(3)	1
Lease liabilities	(5)	-
Net cash inflow from operating activities	803	968

26 Financial risk management

(a) Financial risk management objectives and policies

The Ausgrid Group is involved in activities that expose it to a variety of financial risks including credit risk, currency risk, interest rate risk and liquidity risk. In accordance with Board approved financial risk management policies, financial instruments may be used to hedge the exposure to fluctuations in exchange rates and interest rates. The Board reviews and approves policies for managing each of the key financial risks.

Management of financial risk is carried out by a centralised treasury function which operates under Board approved policies. In addition to the centralised treasury function, external support is acquired from experts in various fields. The Board approved Ausgrid Group Treasury Policy provides clear guidelines in respect of the management of the financial risks of the Ausgrid Group and is designed to reflect the strategic risk management objectives of the Board.

The objective of the Ausgrid Group's financial risk management strategy is to protect the Ausgrid Group's cash flows, profitability and reputation and use reasonable endeavours to maintain a bbb/baa2 baseline credit assessment and not less than bbb-/baa3 (S&P Global Ratings and/or Moody's Investor Services). This includes the need to ensure that sufficient liquidity is available to fund its strategic business plans. Identification and analysis of relevant financial risks and their impact on the achievement of the Ausgrid Group's objectives forms the basis for determining how such risks should be managed. The forecast financial position for the Ausgrid Group is regularly monitored and financial instruments may be used within approved guidelines to hedge exposure to fluctuations in exchange rates and interest rates.

26 Financial risk management (continued)

(b) Credit risk

Credit risk is the risk of sustaining a financial loss as a result of the default by a counterparty to make full and timely payments on transactions which have been executed, after allowing for set-offs which are legally enforceable.

The credit risk on financial assets of the Ausgrid Group which have been recognised on the consolidated statement of financial position is the carrying amount, net of any expected credit losses.

Credit risk arises from investments in cash and cash equivalents with banks, derivative financial instruments and credit exposure to customers and/or suppliers. Credit risk also arises from bank facilities which offer committed lines of credit, overdraft facilities, transaction banking services and financial guarantees, which may not be honoured when relied upon. The Ausgrid Group's credit exposure is predominantly with investment grade rated corporations or government owned entities in the energy industry. Where a counterparty is a non-government owned corporation, its credit worthiness is monitored in accordance with the Ausgrid Group Treasury Policy.

The Ausgrid Group Treasury Policy outlines how credit risk exposure will be measured. All credit and recovery risks associated with trade receivables have been provided for in the financial statements.

The credit risk on trade and other receivables and accrued income from unread meters of the Ausgrid Group that have been recognised in the consolidated statement of financial position, is generally the carrying amount net of any impairment provision.

There is no significant credit risk, whether through exposure to individual customers, specific industry sectors and/or regions.

The loss allowance provision as at 30 June 2023 is determined as follows. The expected credit losses below also incorporate forward looking information:

	Current	Less than 3 months past due	3 to 6 months past due	Later than 6 months past due	Total
2023					
Expected loss rate	0.10%	22.56%	98.88%	26.43%	
Gross carrying amount (\$M)	383	6	8	1	398
Loss allowance provision (\$M)	(1)	(1)	(8)	-	(10)
Net receivables and contract assets	382	5	-	1	388
2022					
Expected loss rate	0.16%	39.73%	30.30%	23.62%	
Gross carrying amount (\$M)	565	8	2	3	578
Loss allowance provision (\$M)	-	(3)	(1)	(1)	(5)
Net receivables and contract assets	565	5	1	2	573

(c) Market risk

(i) Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Ausgrid Group may also be exposed to foreign currency risk in respect of purchases of capital equipment that are denominated in a currency other than A\$.

26 Financial risk management (continued)

(c) Market risk (continued)

(i) Currency risk (continued)

The Ausgrid Group uses forward exchange contracts and CCIRS to hedge its foreign currency risk for all foreign exchange exposures that exceed \$5 million in value.

The Ausgrid Group may issue debt in a foreign currency and uses CCIRS contracts to hedge foreign currency risk arising from the foreign currency debt.

Sensitivity

The Ausgrid Group is primarily exposed to changes in US\$/A\$ and EUR/A\$ exchange rates. The sensitivity of profit or loss and other components of equity to changes in the spot exchange rates arises from US\$ and EUR denominated financial instruments designated in cash flow hedges.

	Impact on post-tax profit		Impact on other components of equity	
	2023	2022	2023	2022
	\$M	\$M	\$M	\$M
US\$/A\$ exchange rate - increase 10% ¹	-	3	(6)	(18)
US\$/A\$ exchange rate - decrease 10% ¹	-	(2)	6	20
EUR/A\$ exchange rate - increase 10% ¹	3	2	(2)	-
EUR/A\$ exchange rate - decrease 10% ¹	(4)	(5)	3	2

(1) Holding all other variables constant

The Ausgrid Group has US\$ and EUR denominated foreign currency borrowings. The effects of the foreign currency related hedging instruments on the Ausgrid Group's financial position and performance are as follows:

Derivative financial instruments - CCIRS (USPP and US144A)

	2023	2022
Carrying amount (\$M)	529	479
Notional amount in US\$ (\$M)	2,692	2,630
	Oct 2027 - Jul 2038	May 2023 - Oct 2032
Maturity	2038	2032
Hedge ratio	1:1	1:1
Change in value of hedged item used to determine hedge effectiveness (\$M)	506	459
Change in value of derivative used to determine hedge effectiveness (\$M)	505	463
Weighted average hedged exchange rate for the year	0.76	0.78

Derivative financial instruments - CCIRS (EMTN)

Carrying amount (\$M)	43	(94)
Notional amount in EUR (\$M)	1,175	1,175
	Jul 2025 - Oct 2031	Jul 2025 - Oct 2031
Maturity	2031	2031
Hedge ratio	1:1	1:1
Change in value of hedged item used to determine hedge effectiveness (\$M)	36	(105)
Change in value of derivative used to determine hedge effectiveness (\$M)	38	(108)
Weighted average hedged exchange rate for the year	0.63	0.62
Balances remaining in the cash flow hedge reserve for hedge relationships terminated due to novation	-	(1)

26 Financial risk management (continued)

(c) Market risk (continued)

(ii) Cash flow and fair value interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Ausgrid Group's main interest rate risk arises from long-term borrowings with variable rates, which expose the Ausgrid Group to cash flow interest rate risk.

In accordance with Board approved policies, the Ausgrid Group ensures that its debt portfolio is managed within a risk framework including weighted average debt maturity and debt maturity in any 12 month period. As at the end of the reporting period, the Ausgrid Group has derivative financial instruments in place (IRS and CCIRS) which have been valued using valuation techniques with market observable inputs.

Instruments used by the Ausgrid Group

IRS are used to hedge interest cost and manage the variable rate exposure of total debt. Interest rates are fixed by putting in place IRS contracts which exchange floating rate obligations into fixed rate obligations. The interest cost on 97.6% (2022: 98.5%) of total debt outstanding is fixed.

As at the end of the reporting period, the Ausgrid Group had the following variable rate borrowings and IRS contracts outstanding:

	Weighted average interest rate %	Balance \$M	% of total loans
2023			
Bank overdrafts, bank loans and note issuances ¹	5.08	11,662	100.0%
IRS (notional principal amount) ²	2.14	11,385	97.6%
Net exposure to cash flow interest rate risk	4.40 - 5.57	<u>277</u>	2.4%

(1) Includes fixed rate note issuance swapped into floating rate A\$ obligation

(2) Excludes forward starting swaps commencing post 30 June 2023

2022

Bank overdrafts, bank loans and note issuances	1.66	11,830	100.0%
IRS (notional principal amount)	2.14	11,650	98.5%
Net exposure to cash flow interest rate risk	0.93 - 2.10	<u>180</u>	1.5%

26 Financial risk management (continued)

(c) Market risk (continued)

(iii) Cash flow and fair value interest rate risk (continued)

The interest rate profile for the Ausgrid Group's interest bearing financial instruments (excluding lease liabilities) at the reporting date was:

	2023		2022	
	Notional in A\$ \$M	Notional swapped to fixed A\$ via CCIRS/IRS \$M	Notional in A\$ \$M	Notional swapped to fixed A\$ via CCIRS/IRS \$M
A\$ denominated fixed rate liability	1,720	1,720	1,720	1,720
US\$ denominated fixed rate liability	2,705	2,705	3,364	3,364
EUR denominated fixed rate liability	1,882	1,882	1,882	1,882
A\$ denominated floating rate liability	5,355	5,078	4,864	4,684
	11,662	11,385	11,830	11,650

The proportion of net debt exposed to floating rates is 2.4% (2022: 1.5%)

The Ausgrid Group accounts for all its fixed rate financial assets and liabilities at amortised cost. The Ausgrid Group has variable rate financial liabilities at the reporting date. The Ausgrid Group's borrowings are 97.6% hedged (2022: 98.5%). A change in interest rates by one percentage point at the reporting date would have an impact on the Ausgrid Group's profit or loss or equity as discussed below.

Sensitivity

Profit or loss is sensitive to higher/lower interest income from cash and cash equivalents as a result of changes in interest rates. Other components of equity are sensitive to an increase/(decrease) in the fair value of the cash flow hedges of borrowings.

	Impact on post-tax profit		Impact on other components of equity	
	2023 \$M	2022 \$M	2023 \$M	2022 \$M
Interest rates - increase by 1% ¹	6	2	363	393
Interest rates - decrease by 1% ¹	(3)	(5)	(387)	(418)

(1) Holding all other variables constant

26 Financial risk management (continued)

(c) Market risk (continued)

(ii) Cash flow and fair value interest rate risk (continued)

The effects of the interest rate related hedging instruments on the Ausgrid Group financial position and performance are as follows:

Derivative financial instruments - IRS¹

	2023	2022
Carrying amount (\$M)	628	622
Notional amount (\$M)	13,565	13,560
	Jul 2023 - Jul	Jul 2022 - Jul
Maturity	2033	2032
Hedge ratio	1:1	1:1
Change in value of hedged item used to determine hedge effectiveness (\$M)	648	648
Change in value of derivative used to determine hedge effectiveness (\$M)	648	649
Weighted average hedged rate for the year (%)	2.21	2.22
Balances remaining in the cash flow hedge reserve for hedge relationships terminated due to novation	(20)	(27)

(1) Designated as fair value hedges and cash flow hedges

Derivative financial instrument - CCIRS

Carrying amount (\$M)	(529)	(293)
Notional amount (\$M)	5,987	5,602
	Jul 2025 - Jul	May 2023 - Oct
Maturity	2038	2032
Hedge ratio	1:1	1:1
Change in value of hedged item used to determine hedge effectiveness (\$M)	(527)	(255)
Change in value of derivative used to determine hedge effectiveness (\$M)	(529)	(293)
Weighted average hedged rate for the year (%)	3.16	2.92

(d) Capital risk management

The Ausgrid Group's objectives are to maintain an appropriate capital structure to enable an appropriate return on equity and efficient investment decisions to be made on a commercial basis.

The Ausgrid Group maintains an appropriate capital structure in consideration of the following criteria:

- Maintain a bbb/baa2 baseline credit assessment and not less than bbb-/baa3 in accordance with the Ausgrid Group Treasury Policy.
- Provision of an appropriate return to shareholders without compromising the principles or objectives of the Ausgrid Group Treasury Policy.
- Ability to meet key debt service criteria, based on industry benchmarks.
- Capacity to finance the approved capital expenditure program through internally generated cash flows and debt, with consideration of the current phase of the investment cycle.
- Provision of sufficient flexibility for relevant contingencies.

Key financial covenants include a debt to RAB ratio of less than 90% and a cash flow coverage ratio of greater than 1.2 times interest expense. These have been complied with during the year.

26 Financial risk management (continued)

(e) Liquidity risk

Liquidity risk is the risk of difficulty in ensuring the availability of sufficient funds to meet obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

The Ausgrid Group Treasury Policy provides an appropriate framework for the management of the Ausgrid Group's short, medium and long-term funding and liquidity management requirements.

The Ausgrid Group's liquidity risks are managed with the availability of readily accessible standby facilities and other funding arrangements placing surplus funds on deposit.

(i) Maturities of financial liabilities

The table below categorises the Ausgrid Group's financial liabilities into relevant maturity groupings based on their contractual maturities for:

- all non-derivative financial liabilities; and
- net and gross settled derivative financial instruments for which the contractual maturities are essential for an understanding of the timing of the cash flows.

The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant. For the derivatives, the cash flows have been estimated using forward interest rates applicable at the end of the reporting period.

26 Financial risk management (continued)

(e) Liquidity risk (continued)

(i) Maturities of financial liabilities (continued)

Contractual maturities of financial liabilities	Less than 6 months \$M	6 - 12 months \$M	Between 1 and 2 years \$M	Between 2 and 5 years \$M	Over 5 years \$M	Total contractual cash flows \$M	Carrying amount \$M
2023							
Non-derivatives							
Trade payables	327	-	-	-	-	327	327
Loans and notes	2,125	435	1,551	5,722	4,438	14,271	11,546
Lease liabilities	8	8	7	20	243	286	67
Total non-derivatives	2,460	443	1,558	5,742	4,681	14,884	11,940
Derivatives							
IRS	19	25	44	55	3	146	128
CCIRS	48	63	101	72	15	299	204
Total derivatives	67	88	145	127	18	445	332
	2,527	531	1,703	5,869	4,699	15,329	12,272
2022							
Non-derivatives							
Trade payables	338	-	-	-	-	338	338
Loans and notes	342	916	1,765	5,331	5,343	13,697	11,740
Lease liabilities	4	4	7	11	128	154	38
Total non-derivatives	684	920	1,772	5,342	5,471	14,189	12,116
Derivatives							
IRS	(1)	13	37	80	10	139	124
CCIRS	4	44	80	113	24	265	248
Total derivatives	3	57	117	193	34	404	372
	687	977	1,889	5,535	5,505	14,593	12,488

26 Financial risk management (continued)

(f) Recognised fair value measurements

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

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

The following table presents the Ausgrid Group's assets and liabilities measured and recognised at fair value at the reporting date.

	Notes	Level 1 \$M	Level 2 \$M	Level 3 \$M	Total \$M
2023					
Recurring fair value measurements					
Derivatives	15	-	674	-	674
Total		-	674	-	674
Non-recurring fair value measurements					
Assets classified as held for sale	8	-	-	1	1
Total		-	-	1	1
2022					
Recurring fair value measurements					
Derivatives	15	-	715	-	715
Total		-	715	-	715
Non-recurring fair value measurements					
Assets classified as held for sale	8	-	-	5	5
Total		-	-	5	5

The carrying amounts of financial instruments which are not measured at fair value in the statement of financial position approximate their fair values.

(g) Recurring fair value measurements

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2.

The fair values of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using maximum observable market input data, which include prices from observable current market transactions and dealer quotes for similar instruments.

26 Financial risk management (continued)

(h) Non-recurring fair value measurements

Non-current assets classified as held for sale during the reporting period are measured at the lower of their carrying amount and FVLCOB and are included in Level 3.

Assets held for sale comprises land and buildings transferred from property, plant and equipment. The valuation techniques and significant input used in the calculation have been discussed under Note 1(n).

(i) Fair value versus carrying amount

The carrying amounts and fair values of financial assets and liabilities at the reporting date are:

		2023		2022	
	Notes	Carrying amount \$M	Fair value \$M	Carrying amount \$M	Fair value \$M
Financial assets carried at amortised cost					
Cash and cash equivalents		248	248	432	432
Trade and other receivables	7	108	108	283	283
Contract assets	7	280	280	290	290
Total financial assets		636	636	1,005	1,005
Financial liabilities carried at amortised cost					
Loans and notes	12(a)	11,546	11,464	11,740	11,580
Lease liabilities	12	67	67	38	38
Trade and other payables	11	327	327	338	338
Deposits	14	1	1	1	1
Total financial liabilities		11,941	11,859	12,117	11,957

27 Events occurring after the reporting period

On 27 July 2023, proceeds from the USPP were used to fully repay SFA Facility B4 and partially repay Capex Facility C. Refer to Note 12 for details.

Other than the above mentioned matter, no other matter or circumstance has occurred subsequent to the end of the reporting period that has significantly affected, or may significantly affect, the operations of the Ausgrid Group, the results of those operations or the state of affairs of the Ausgrid Group in subsequent financial years.

In the Directors' opinion:

- (a) the consolidated financial statements and notes, as set out on pages 2 to 58 are in accordance with the Partnership Deeds, and:
 - (i) comply with Accounting Standards as described in Note 1 to the consolidated financial statements and other mandatory professional reporting requirements;
 - (ii) give a true and fair view of the Ausgrid Group's financial position as at 30 June 2023 and of its performance for the financial year ended on that date, and in accordance with the accounting policies described in Note 1 to the consolidated financial statements; and
- (b) there are reasonable grounds to believe that the Ausgrid Group will be able to pay its debts as and when they become due and payable.

Note 1(a)(i) confirms that the consolidated financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

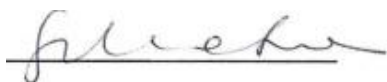
The Directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer consistent with the listed entity requirement under section 295A of the *Corporations Act 2001*.

This declaration is made in accordance with a resolution of Directors.



Dr Helen Nugent AC 22/08/2023 4:23 PM
Director

22 August 2023



Gillian Brown 22/08/2023 4:55 PM
Director

22 August 2023



Independent auditor's report

To the partners of the Ausgrid Group

Our opinion

In our opinion the accompanying financial report gives a true and fair view of the financial position of the Ausgrid Group as at 30 June 2023 and of its financial performance and its cash flows for the year then ended in accordance with the accounting policies described in Note 1.

The Ausgrid Group (the Group) comprises Ausgrid Operator Partnership (AOP), Ausgrid Asset Partnership (AAP), Aurora Property Partnership (APP) and PLUS ES Partnership (PLUS ES) and the respective entities that they controlled at year end or from time to time during the financial year.

What we have audited

The Group financial report comprises:

- the consolidated statement of financial position as at 30 June 2023
- the consolidated statement of changes in equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- the consolidated statement of profit or loss and other comprehensive income for the year then ended
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information
- the directors' declaration.

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

Independence

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

PricewaterhouseCoopers, ABN 52 780 433 757
One International Towers Sydney, Watermans Quay, Barangaroo, GPO BOX 2650, SYDNEY NSW 2001
T: +61 2 8266 0000, F: +61 2 8266 9999
Level 11, 1PSQ, 169 Macquarie Street, Parramatta NSW 2150, PO Box 1155 Parramatta NSW 2124
T: +61 2 9659 2476, F: +61 2 8266 9999

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Our audit approach

An audit is designed to provide reasonable assurance about whether the financial report is free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial report as a whole, taking into account the geographic and management structure of the Group, its accounting processes and controls and the industry in which it operates.



Materiality	Audit scope	Key audit matter
- For the purpose of our audit we used overall materiality of \$34 million, which represents approximately 2.5% of the Group earnings before interest, tax, depreciation, and amortisation (EBITDA). The EBITDA is adjusted to exclude other income earned outside of the ordinary course of business for the Group, such as gains on sales of assets. - We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole. - We chose EBITDA because, in our view, it is the benchmark against which the performance of the Group is most commonly measured. - We utilised a 2.5% threshold based on our professional judgement, noting it is within the range of commonly acceptable profit related thresholds.	- Our audit focused on where the Group made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events. - The Group has operations across Sydney, the Central Coast and the Hunter region within New South Wales, with the accounting functions led from the Group's corporate head office in Sydney and Wallsend in Newcastle. - The Ausgrid Group is a stapled structure comprised of AOP, AAP, PLUS ES and APP. For the purpose of preparing these consolidated financial statements, AOP is identified as the deemed parent. - We conducted an audit of the financial information of the Group which consists of AOP, AAP, PLUS ES, and APP.	- Amongst other relevant topics, we communicated the following key audit matter to the Audit Committee: - Borrowings and associated derivatives - This has been further described in the <i>Key audit matter</i> section of our report.

Key audit matter

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. The key audit matter was addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter. Further, any commentary on the outcomes of a particular audit procedure is made in that context.

Key audit matter	How our audit addressed the key audit matter
Borrowings and associated derivatives (Refer to note 12 'Borrowings' and Note 15 'Derivatives') The Group had \$11,546m of borrowings at 30 June 2023. The accounting for the Group's borrowings was considered a key audit matter due to: 1. the borrowings being the largest liability in the consolidated statement of financial position. 2. the financial significance of the two refinancing transactions (described in note 12) in the current year to borrowings and borrowing cost balances. 3. the derivatives established upon refinancing were considered to be significant due to the large notional values, composition of cross currency and interest rate swaps and the long time to maturity.	We performed the following procedures, amongst others over borrowings and associated derivatives: • Obtained confirmations directly from the Group's banks and private lenders to confirm the outstanding balance and key terms of borrowings and derivatives at balance date. • Recalculated the foreign currency-denominated borrowings conversion to AUD at balance date. • Read the most up-to-date agreements between Ausgrid Finance Pty Limited and its financiers to develop an understanding of any relevant changes to key terms of borrowings. • Assessed the accounting treatment of borrowing costs arising from new arrangements and borrowing costs related to renewed facilities. • Developed an understanding of the relevant covenants, performed a recalculation of the covenants, and considered the covenant headroom available. • We assessed whether the Group's classification of borrowings as current or non-current was consistent with the requirements of Australian Accounting Standards. • Inspected relevant bank statements to agree the fund flows with the drawdown and repayment movements of the borrowings during the year. • For a sample of swap contracts, we agreed the details recorded in the Group's Treasury Management system to key terms in the contracts, such as payment terms, interest rates, and start and end dates. • Together with PwC financial instrument experts, for a sample of derivatives, we assessed the Group's valuation and compared the inputs to external evidence including credit spreads and interest rate curves. • Assessed a sample of the hedge accounting calculations and the hedge accounting journals for the interest rate swaps, cross currency interest rate swaps, and foreign exchange forwards with respect to the requirements of Australian Accounting Standards. • Evaluated whether the disclosures were consistent with the requirements of Australian Accounting Standards.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report for the year ended 30 June 2023, 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 accordingly we do not express any form of assurance conclusion thereon through our opinion on the financial report.

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 on the other information that we obtained prior to the date of this auditor's report, 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.

Other matter - basis of accounting and restriction on distribution and use

We draw attention to Note 1 in the financial report, which describes the basis of accounting. The financial report has been prepared by the directors to meet the information needs of the partners of AOP, AAP, PLUS ES and APP as required under the Partnership Deeds dated 20 October 2016 (AOP and AAP), 1 November 2017 (PLUS ES), and 27 April 2023 (APP). As a result, the financial report may not be suitable for another purpose. Our report is intended solely for the partners of the Ausgrid Group.

Responsibilities of the directors for the financial report

The directors are responsible for the preparation of the financial report that gives a true and fair view in accordance with the accounting policies described in Note 1, and for such internal control as the directors determine is necessary to enable the preparation of the financial report that 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 have 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 the financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at:



https://www.auasb.gov.au/admin/file/content102/c3/ar1_2020.pdf. This description forms part of our auditor's report.

PricewaterhouseCoopers

PricewaterhouseCoopers

A handwritten signature in black ink, appearing to read 'Craig Thomason'.

Craig Thomason
Partner

Sydney
22 August 2023

Glossary

AAP	Ausgrid Asset Partnership
AASB	Australian Accounting Standards Board
AASB 8	AASB 8 Operating Segments
AASB 9	AASB 9 Financial Instruments
AASB 13	AASB 13 Fair Value Measurement
ACS	Alternative Control Services
AER	Australian Energy Regulator
AMTN	Australian Medium Term Note
ANS	Ancillary Network Services
AOP	Ausgrid Operator Partnership
APG	APG Asset Management
APP	Aurora Property Partnership
ASF	Asian Syndicated Facility
ASIC	Australian Securities and Investments Commission
ATO	Australian Taxation Office
A\$	Australian Dollars
Ausgrid Group	AOP (parent entity), AAP, PLUS ES, APP and their respective controlled entities
BBSW	Bank Bill Swap Rate
Blue AAP	Blue Asset Partner Trust
Blue AOP	Blue Op Partner Trust
Blue APP	BLUE Aurora Partner Trust
Blue PLUS ES	Blue PLUS ES Partner Trust
Cbus	Construction and Building Unions Superannuation Fund
CCF	Climate Change Fund
CCIRS	Cross Currency Interest Rate Swaps
CGU	Cash-generating Unit
CODM	Chief Operating Decision Makers as defined by AASB 8 Operating Segments
CPI	Consumer Price Index
CTD	Common Terms Deed
DNSP	Distribution Network Service Provider

Glossary (continued)

DUOS	Distribution Use of System
EISS	Energy Industries Superannuation Scheme
EMTN	Euro Medium Term Note
ERIC Partners	Electricity Retained Interest Corporation vehicles
EUR	Euro
FVLCOD	Fair Value Less Costs of Disposal
GST	Goods and Services Tax
IASB	International Accounting Standards Board
IBOR	Interbank Offered Rate
IFRS	International Financial Reporting Standards
IRS	Interest Rate Swaps
IT	Information Technology
LIBOR	London Interbank Offered Rate
MAR	Maximum Allowable Revenue
NEL	National Electricity Law
NEM	National Electricity Market
NER	National Electricity Rules
NSP	Network Service Provider
NSW	New South Wales
NUOS	Network Use of System
PCB	Polychlorinated Biphenyls
PLUS ES	PLUS ES Partnership
RAB	Regulated Asset Base
ROU	Right of Use
SaaS	Software-as-a-Service
S&P	Standard and Poor's
SCS	Standard Control Services
SOFR	Secured Overnight Financing Rate
SFA	Syndicated Facility Agreement
the Fund	Pool B Subdivision of the Defined Benefits Section of Cbus. It provides defined benefits and is referred to as 'the Fund'
TNSP	Transmission Network Service Provider

Glossary (continued)

TUOS	Transmission Use of System
US\$	United States Dollars
USPP	US Private Placement
VIU	Value in Use