

ASX Announcement



12 May 2020

Results for Announcement to the Market AusNet Services Full Year 2020 Results

Enclosed is an announcement made by AusNet Services which is provided for the information of AusNet Services Holdings Pty Ltd noteholders.

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Company Secretary

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ASX Announcement



12 May 2020

Results for Announcement to the Market AusNet Services Full Year 2020 Results

The following documents are attached:

1. ASX Appendix 4E – Year ended 31 March 2020
2. AusNet Services Ltd 2020 Annual Report

Paul Lynch
Company Secretary

This announcement was authorised for release by the Board of AusNet Services Ltd.

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AusNet Services Ltd

ABN: 45 603 317 559

Appendix 4E

Year ended 31 March 2020



Results for announcement to the market for the year ended 31 March 2020

	31 March 2020	31 March 2019	% change	Up / down
Revenue from ordinary activities (\$M)	1,977.6	1,861.5	6.2%	Up
Net profit from ordinary activities after tax attributable to shareholders (\$M)	290.7	253.9	14.5%	Up
Net profit for the year attributable to shareholders (\$M)	290.7	253.9	14.5%	Up
Net tangible assets per share (cents)	66 cents	75 cents		

Dividends for the year ended 31 March 2020

	Final FY2020 Cents per share	Interim FY2020 Cents per share	Total FY2020 Cents per share	Final FY2019 Cents per share	Interim FY2019 Cents per share	Total FY2019 Cents per share
Franked	2.55	2.55	5.10	2.19	1.94	4.13
Unfranked	<u>2.55</u>	<u>2.55</u>	<u>5.10</u>	<u>2.67</u>	<u>2.92</u>	<u>5.59</u>
Total	5.10	5.10	10.20	4.86	4.86	9.72
Record date	21 May 2020	19 Nov 2019		22 May 2019	20 Nov 2018	
Payment date	25 June 2020	19 Dec 2019		27 June 2019	20 Dec 2018	

Refer to the Directors' Report within the attached Annual Report for explanation of revenues, net profit after tax, and dividends.

Dividend Reinvestment Plan

The AusNet Services Ltd DRP is in operation for the FY2020 final dividend. Eligible shareholders participating in the DRP for the FY2020 final dividend will be issued with AusNet Services shares at the average trading price (2% discount applies). The average trading price will be the average of the volume weighted average price of shares in AusNet Services Ltd sold in ordinary market transactions on the ASX during the 10 trading days from 25 May 2020 to 5 June 2020 (inclusive).

The deadline for the receipt of elections for participation in the DRP for the FY2020 final dividend is 5.00pm (Australian Eastern Daylight Time) on 22 May 2020.

Participation is subject to the DRP Rules - available at www.ausnetservices.com.au (> Investor Centre > Shares and Investors > Dividend Reinvestment Plan).



Annual Report 2020



About Us

We are a diversified Australian energy infrastructure business with over \$10.8 billion of electricity and gas network and connection assets. These assets deliver energy safely and reliably to around 1.5 million customers across Victoria.

Our network and connection assets are designed, built, maintained and operated by our 1,700 employees across our regulated networks and our commercial energy services business, Mondo.

AusNet Services is focused on ensuring all our customers can rely on our networks to deliver energy, while we work to adapt and evolve the networks to support the shift to more renewable generation and the spectrum of customer needs.

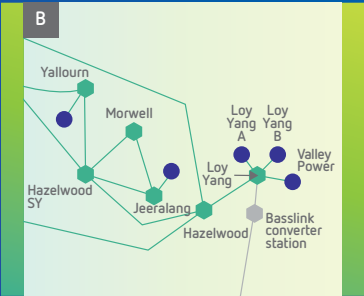
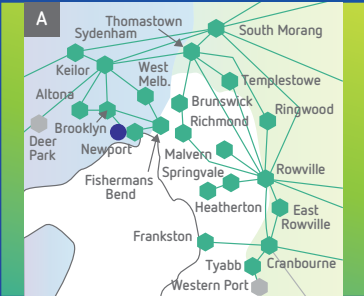
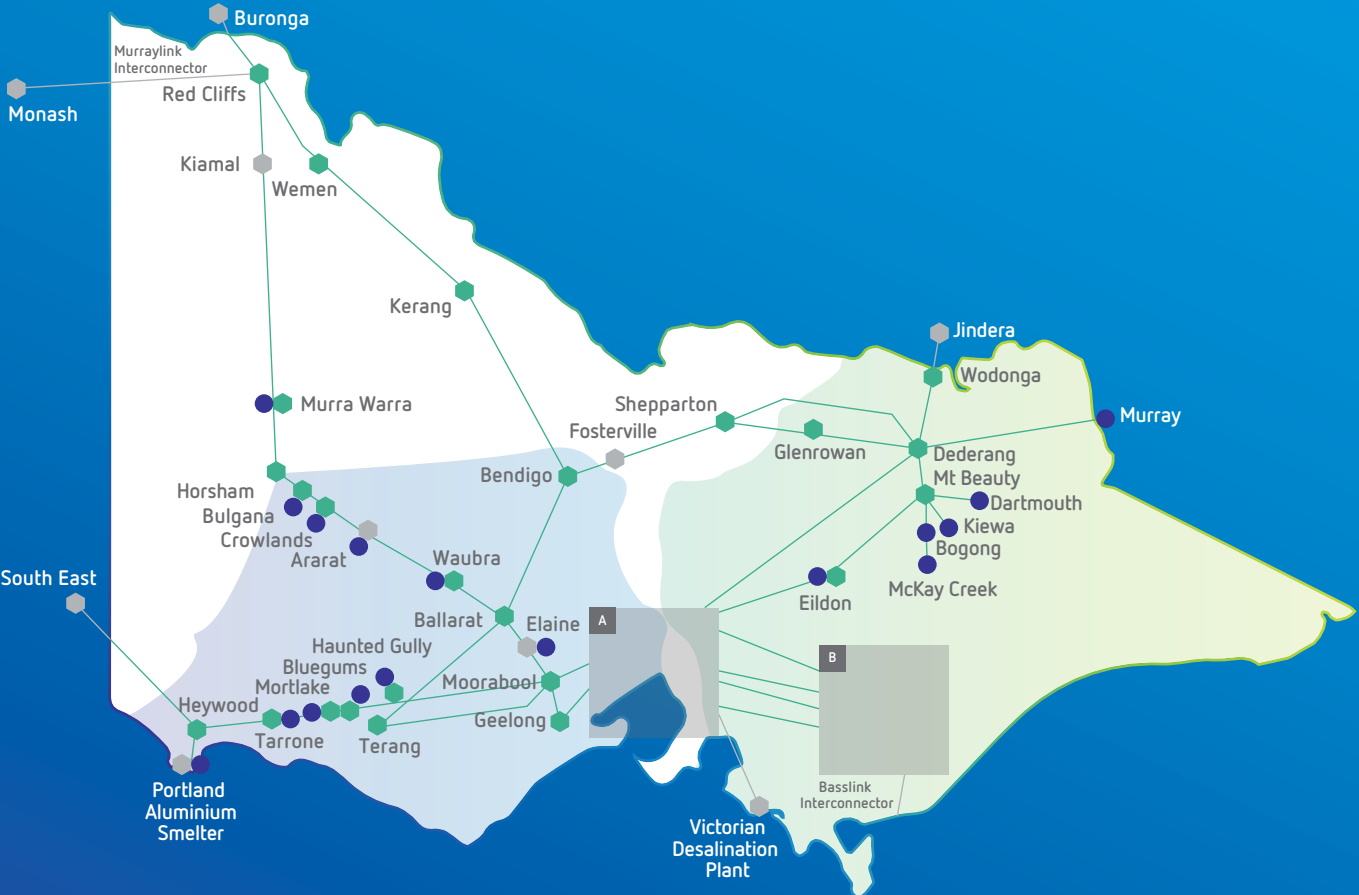
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Our Corporate Governance Statement, Infrastructure Entity Statement and Tax Transparency Report are available on our website: www.ausnetservices.com.au/Investor-Centre/Company-reports

Location of our electricity and gas networks



Legend

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

Our electricity and gas networks

Electricity Transmission

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

Electricity Distribution

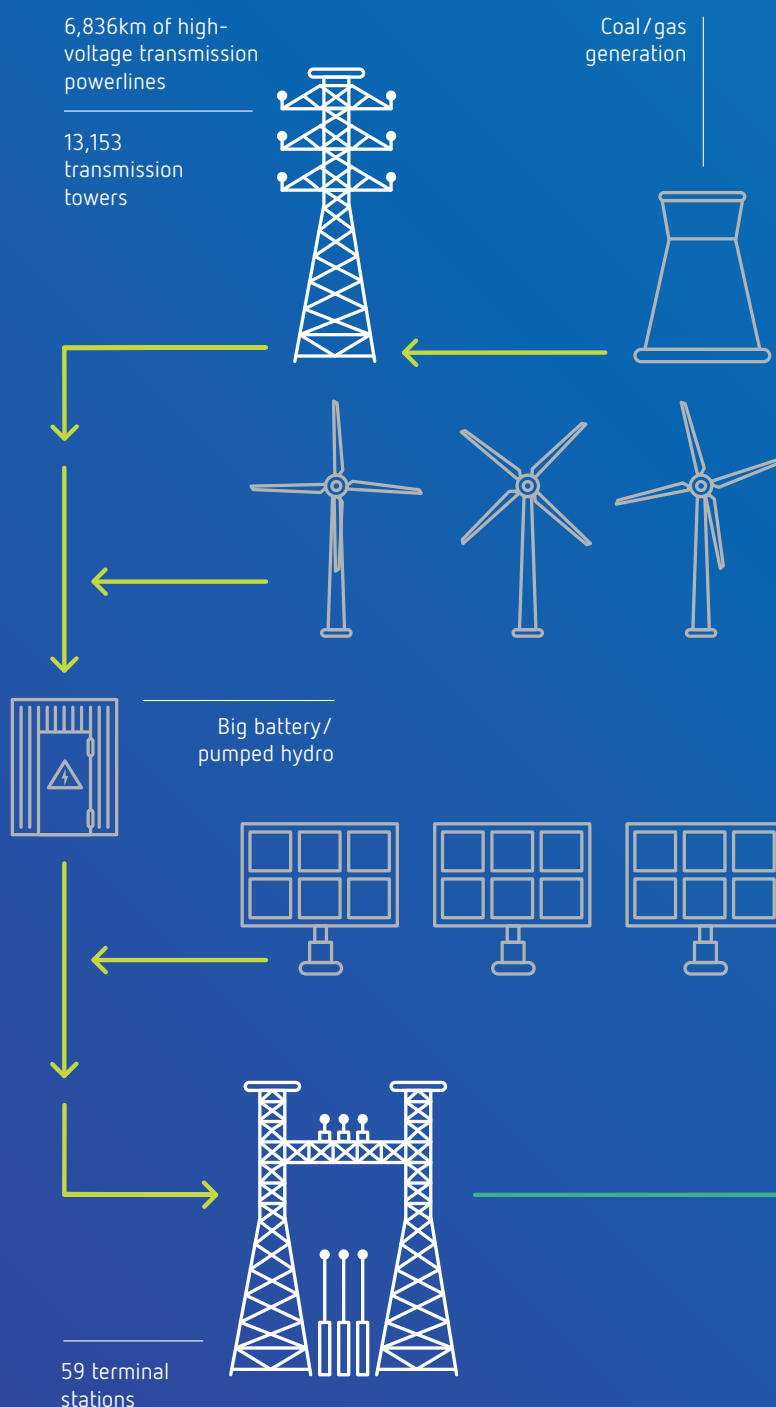
Our electricity distribution network feeds lower-voltage electricity to customers across all of eastern and north-eastern Victoria and in Melbourne's north and east.

Gas Distribution

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

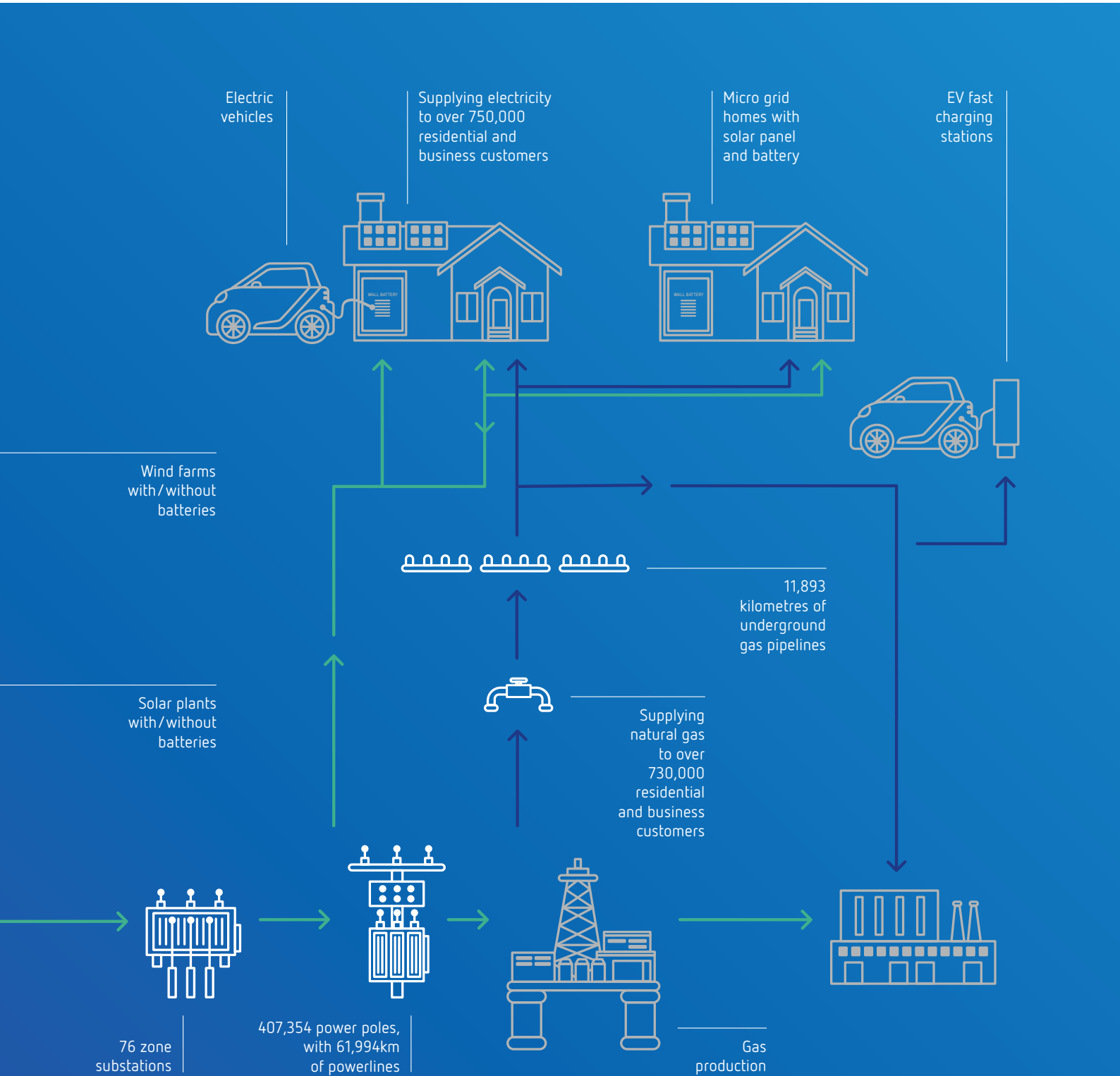
Mondo

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



Legend

Electricity transmission Electricity distribution Gas distribution Non AusNet Services



2019/20 Energy Sector Operating Environment

Given our role in the energy supply chain, AusNet Services is accustomed to delivering services within a challenging operating environment.

In recent years policy and political uncertainty, climate change, bushfires, changes to the location and characteristics of energy demand and supply, and increasing interest by customers and communities have featured strongly. Now, the health and economic impacts of the COVID-19 pandemic are further challenging the business, our customers and society more broadly.

AusNet Services' experience in operating through extreme events means the business is responding and adapting to the immediate challenges. At the same time, we are managing and progressing the business' response to the ongoing transformation of our industry.

We have managed the business and invested to deliver positive outcomes for customers, shareholders, employees and communities. We have maintained a strong financial standing while also investing nearly \$1 billion of capital expenditure in both FY2019 and FY2020 upgrading our networks, diversifying our asset base into unregulated assets, and improving reliability and safety for our customers.

Energy policy uncertainty and political confusion have continued throughout this year. Whilst we have seen indications of a consensus emerging on the need for new transmission development broadly, there remains a lack of agreement. For regulated businesses this adds complexity in executing our strategy.

For most of last year there was a strong community, political and media focus on the reliability of the electricity network and the adequacy of supply, particularly here in Victoria. Whilst improved from previous years,

there remains significant confusion on many aspects of this debate including the role of renewable energy in the electricity network and the causes of large-scale transmission outages.

The Victorian bushfires from late December 2019 through to February 2020 caused extensive damage to the network. Many customers in the Gippsland and Upper Murray regions were without power for several weeks and restoration was made more difficult by ongoing fire activity and access issues. Our operational objective was to reconnect customers as quickly as possible with safety as the number one priority. In the longer term, we are looking at opportunities to install more resilient local microgrids in remote bushfire prone areas.

Transmission reliability issues were brought further into focus by the damage to electricity transmission towers caused by an extreme weather event in western Victoria in January 2020. Six transmission towers on the main lines between Moorabool and Heywood were brought down with a seventh tower damaged by extreme high winds. We erected temporary transmission towers as quickly and safely as possible, working with the Australian Energy Market Operator, our delivery partners and interstate transmission counterparts Transgrid, Powerlink and Electranet to minimise the impact on customers.

The COVID-19 pandemic will likely have an enduring impact on the operating environment, the economy and our customers. Our immediate focus is to support customers and ensure we can continue to provide essential electricity and gas network services. We are addressing the longer-term impact on our strategy and priorities.

Together the five pillars of our Energising Futures strategy are focused on positive outcomes for our stakeholders:

- > **Cost efficiency** – improve efficiency and reduce costs
- > **Customer centricity** – ensure positive customer outcomes and experience while addressing broader stakeholder considerations
- > **Digital utility** – invest in digital technology to improve efficiency and customer experience
- > **Future-ready capabilities and culture** – ensure we have the right culture and capabilities for a high-performing sustainable future
- > **Growth** – create long-term value for shareholders by substantial investment in the energy transition

AusNet Services is not complacent about the scale of the current challenges of COVID-19 and the impacts they could have on our organisation, both in the short term and long term. Our entire organisation is focused on adapting our strategy to the circumstances. Work in our customer centricity pillar has focused on providing bill relief for impacted households and small businesses, minimising outages and working with electricity retailers to support those in hardship.

We have deferred several initiatives to ensure the organisation's focus is maintained on our response and recovery efforts. We are responding to the financial impacts by managing our cost base, while also ensuring we maintain a strong financial position to pursue investment obligations as the energy system continues to evolve.



Cost efficiency

- > Improve efficiency and reduce costs



Customer centricity

- > Ensure positive customer outcomes and experience



Digital utility

- > Invest in digital technology to improve efficiency and customer experience



Future-ready capabilities and culture

- > Ensure we have the right culture and capabilities for a high-performing sustainable future



Growth

- > Create long-term value for shareholders

2020 Highlights

SECOND LOWEST
RECORDABLE INJURY
FREQUENCY RATE

3.99*

ELECTRICITY CUSTOMER
SATISFACTION INCREASED BY

9.5%

GAS UP

11%

HIGHEST-EVER FEMALE
EMPLOYMENT LEVEL

27.4%

DIVIDENDS UP

5%

(50% FRANKED)

REGULATED
AND CONTRACTED ASSET
BASE UP

5%

NET PROFIT
AFTER TAX UP

15%

* Working with delivery partners to achieve a substantial improvement.

Five-year financial summary

	2016	2017	2018	2019	2020
Revenue (\$M)	1,919.0	1,881.5	1,909.8	1,861.5	1,977.6
EBITDA (\$M)	1,142.5	1,073.3	1,142.9	1,134.2	1,196.6
EBIT (\$M)	750.2	647.4	700.5	677.8	732.1
Profit for the year (\$M)	489.3	255.1	291.4	253.9	290.7
Total assets (\$M)	11,676.0	11,756.5	12,517.3	12,815.8	14,284.8
Total borrowings (\$M)	6,897.7	6,665.3	7,565.1	7,946.4	9,280.7
Total equity (\$M)	3,557.8	3,698.4	3,556.0	3,289.1	3,005.6
Net debt to asset base (%)	67.2	67.9	66.7	67.1	67.4
Net gearing (%)	64	63	66	70	71
Interest cover (times)	3.0	3.2	3.6	3.3	3.3
Dividends per share (cents)	8.53	8.80*	9.25	9.72	10.20
Earnings per share (cents)	13.95	7.15	8.08	7.01	7.88
Capital expenditure (\$M)	822.7	839.6	750.2	969.8	989.1
Operating cash flows (\$M)	710.0	742.8	886.4	813.7	720.6

* Excludes 1 cent per share special dividend.

Chairman's message



In this period of significant challenges for our company, our industry and our communities, and all of our stakeholders, we as a Board pay tribute to the people of AusNet Services for the way they have responded to the challenges and continue to do so. Foremost is a focus on the safety and health of our workers, customers and suppliers. This is central to AusNet Services' culture.

On page 4, we have set out a synopsis of the current energy sector operating environment, which is distinguished by rapid change in the industry structure and impacted by drought, devastating bushfires and extreme weather events. Now the COVID-19 pandemic is having a dramatic effect on the way the community can interact and on the economic outlook.

Times are tough. We have taken initiatives to assist customers who are under pressure as a result of the COVID-19 impact. Many of our staff are working remotely, connecting via video and other remote technology. We are paying close attention to costs and financial management. We are also paying close attention to funding and capital structure, recognising that our 'A' range credit rating in international financial markets is valuable as the Australian and global economies face potential damage, the severity and duration of which are uncertain. We must ensure we can meet the investment obligations, and opportunities, which we know already lie ahead.

In the financial year ended 31 March 2020, AusNet Services delivered sound performance for our shareholders and, we believe, for customers and our wider range of stakeholders. Simultaneously, we pursued our strategy to anticipate and respond to energy industry transformation.

While the current environment necessitates adaptation and flexibility in our strategy execution, it does not remove the opportunity to lead in the transition to renewables, new technologies and increasing customer choices. We have a clear focus on customers, a strong emphasis on efficiency, and significant investment opportunities. In all of this, we work effectively with governments and regulators.

Our approach to sustainability also takes account of the shifting energy landscape and is defined by our commitment to operating an economically, environmentally and socially responsible business. Our role in the energy supply chain means that we are actively involved in the ongoing national energy debate, working with communities on innovative energy projects and investing resources to align energy networks for the future.

Board and Governance

We are pleased to have welcomed Tony Narvaez as Managing Director in November 2019, succeeding Nino Ficca who retired after 14 years leading the company. There has been an effective transition of leadership, and I would like to thank Nino for his outstanding contribution to both AusNet Services and the wider energy industry.

AusNet Services' Annual General Meeting will be held on 16 July 2020, and may be held as a hybrid or virtual meeting with online facilities to comply with any COVID-19 restrictions. Shareholders will be notified separately of details of the business of the meeting.

Peter Mason AM
Chairman

Managing Director's report



As the Chairman has noted, external events including the COVID-19 pandemic along with extreme weather events have presented significant challenges for our company, stakeholders, suppliers and the communities we serve.

For many of the Victorian communities in which we operate, bushfires have had devastating impacts. AusNet Services played its part in the immediate response and restoration, and we continue our support to those communities in their ongoing recovery efforts.

We thank our customers, emergency services and our employees for their resilience and resolve in the face of such challenging circumstances. Our role is to ensure we maintain resilient networks and essential services, to keep the power flowing to homes and businesses and to ensure our employees are safe and supported. We also engage and support customers (particularly the vulnerable and those facing financial hardship), communities and industry partners.

During this past year our business has continued to grow, and we have made good progress against our Energising Futures strategy. The determination and resilience the business has shown, along with the ability to adjust more immediate strategic levers, is what deserves greater mention.

Safety

Since joining the company, I have observed a strong safety culture. I am very pleased to lead an organisation which makes safety our number one priority.

While there has been a 13 per cent increase in the Recordable Injury Frequency Rate to 3.99 per cent, this is our second-lowest RIFR on record. The trend over the last five years remains positive and down around 40 per cent. We are never complacent about our safety performance

and we will work with our delivery partners to keep the focus on meeting our objective of zero injuries.

Business Performance

We are pleased to have been able to increase dividends to shareholders by 5 per cent in line with guidance (franked to 50 per cent for the year). Earnings before interest, tax, depreciation and amortisation (EBITDA) increased 5.5 per cent in FY2020 as a result of higher electricity distribution revenues, particularly incentive revenues. This positive EBITDA performance was achieved despite incurring \$15 million of bushfire-related additional expenditure.

Capital expenditure was in line with the previous year, with AusNet Services once again spending close to \$1 billion on our network, including over \$150 million on unregulated infrastructure. The majority of the unregulated infrastructure spend connected two large wind farms (Stockyard Hill and Dundonnell) to the transmission network.

Strategy

Our Energising Futures strategy has directed our efforts over the past year, supported by a disciplined approach to implementing and embedding cost efficiency initiatives.

The focus on our customers is resonating strongly within the business. In an Australian-first trial, we established a Customer Forum to engage directly with our electricity distribution customers. Under the trial, AusNet Services has agreed parts of its proposed services and expenditure for the period 2022 to 2026 directly with the Customer Forum. We have gained many insights from the Customer Forum process, which we are applying across our business.

Growth remains a key focus of our strategy. The transition to renewables is opening opportunities across our regulated networks, as well as for our commercial energy services business, Mondo. We are pleased that Mondo was selected to deliver

the Western Victoria Transmission Network Project, with completion of the project dependent on initial stage activities and approvals. This significant investment involves the largest augmentation of the Victorian Transmission network since the early 1980s and will facilitate significant additional renewable connections onto the network.

We also anticipate growth opportunities for our networks resulting from the recent advice from regulators on the future development of the National Energy Market and the coordination of generation and transmission investment.

As the Chairman has mentioned, during these challenging times it is essential to pay attention to costs and disciplined financial and capital management, to ensure we are well placed to take advantage of opportunities ahead.

Outlook

Since joining the business, I have worked closely with my fellow directors, executives and colleagues to assess and refine our strategic focus as we adapt to an evolving landscape.

We will continue our focus on prudent financial management, achieving profitable and sustainable growth for our business, and transforming our business to improve efficiency and deliver great outcomes for our customers.

I am confident that we are well placed to achieve this and will play an active part in Australia's energy future.



Tony Narvaez
Managing Director

Sustainability



The Ballarat Energy Storage System is owned by Mondo and was built in partnership with a consortium of businesses and supported by state and federal governments.

Our focus on the sustainability of our business continues to evolve, to support the successful execution of our strategy to empower communities and their energy future.

The external environment, driven by the transition to a lower carbon future and related public debate, continues to present both risks and opportunities. Recent bushfires and extreme storm events that impact our assets have also required careful consideration of our asset management, asset maintenance and outage response processes. These events have brought the climate debate into even sharper focus for our investors, regulators, employees and the communities in which we operate.

The impact of the COVID-19 pandemic on our operating environment, the economy and our customers will be significant. In response, we have prioritised guiding principles and activities to support customers and we are ensuring business continuity to continue to deliver the essential services we provide. We do so with long-term sustainability sharply in focus.

As we navigate this more challenging operating environment, we have continued to progress activities and initiatives across the business targeted on the major sustainability themes we identified last year:

- > **Safety** – we are committed to providing a safe and reliable energy supply for our customers and ensuring a safe workplace for our people
- > **Customer** – the customer is central to our purpose and our role as an essential service provider means not just providing

a high standard of customer service, but also to support and empower their energy needs and choices

- > **Responsible Business** – we respect and embed key principles on diversity, environmental protection, labour practices, and human rights through both our operations and those of our suppliers
- > **Climate Change** – our response to climate change involves anticipating and managing the transition to renewable energy sources, minimising emissions and enhancing the resilience of our networks to manage climate change.

Our sustainability themes are aligned to three United Nations Sustainable Development Goals (SDG) that are relevant to our business and operations: Affordable and Clean Energy, Sustainable Cities and Communities, and Climate Action. A summary of our progress and achievements against each of these sustainability themes is shown below. Further details are contained in the Safety, Customer, People and Networks sections of this Annual Report.

Governance

The Board of AusNet Services is responsible for reviewing and approving the corporate governance principles and policies which ultimately support and ensure our businesses operate in a sustainable manner. It delegates the operational responsibilities to management and sets the parameters for management to operate within, including the Code of Conduct, Delegation of Authority Manual and the Risk Appetite Statement.

The Board then provides oversight of management's performance through regular monitoring and reporting, including via the

Audit and Risk Management Committee (ARMC) and the Remuneration Committee. A key objective of this oversight is to ensure the long-term sustainability of the AusNet Services' businesses.

Our Corporate Governance Statement, which is available on our website, provides more details about the principles, structures and strategies

that we apply in managing our business sustainably. In addition, further details regarding our risk management practices are contained in the Material Risks and Uncertainties section of the Directors' Report.



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

Sustainability themes	Achievements
Safety 	Recordable Injury Frequency Rate 3.99 per cent* (while an increase of 13 per cent on last year, this is our second-lowest RIFR on record). > Firestart risk units reduced, as determined by the AER. > New bushfire safety technology implemented at nine zone substations. > Launched refreshed Safety Strategy 2020-2025.
Customer 	Customer Satisfaction scores improved by 9.5 per cent for electricity and 11 per cent for gas. Over 18,000 completed solar installations in CY 2019, representing a 57 per cent increase on CY 2018. Special measures to support customers facing hardship.
Responsible Business 	Female participation has increased from 23.4 per cent to 27.4 per cent. Women in senior management increased from 31.1 per cent to 38.6 per cent. Women in engineering roles increased from 14.6 per cent to 23 per cent.
Climate Change 	Emissions reduced by a total 4 per cent across the business, driven by reductions in transmission line losses and lower fugitive gas emissions. A total of 1360 MW of renewable energy connections. Clean Energy Council awards for Innovation and Community Engagement.

* Working with delivery partners to achieve a substantial improvement.

Safety



Executives, members of our Regulated Energy Services and Operations and Services teams and Downer management at a Bushfire Mitigation site visit in Wonthaggi and Leongatha to oversee preparedness at the start of the bushfire season.

Safety is our number one priority. Our approach to safety evolves to reflect the dynamic environment in which we operate, including the current implications of COVID-19.



We are committed to providing a safe and reliable energy supply for our customers and ensuring a safe workplace for our people.

Safety outcomes

While there has been a 13 per cent increase in the Recordable Injury Frequency Rate to 3.99, this is our second-lowest RIFR on record. The trend over the last five years remains positive and down around 40 per cent. We are never complacent about our safety performance and we will work with our delivery partners to keep the focus on meeting our objective of zero injuries.

Energising Safety

As our strategy and culture evolve, so does our approach to safety. Building on our missionZERO vision and strategy that has delivered strong safety improvements in recent years, we have introduced a refreshed 2020–2025 corporate safety strategy. Aligned to our Energising Futures strategy, this refreshed safety strategy retains the four components of missionZero:

- > Safety leadership
- > Safe behaviour
- > Safe work environment
- > Safety systems and measurement.



RECORDABLE INJURY
FREQUENCY RATE

3.99

New and existing initiatives will drive the achievement of missionZero goals within each of the four components.

We launched an Energising Safety engagement program to build understanding and commitment to the refreshed safety strategy amongst employees and delivery partners. Branded 'It's in our Hands', the aim is to increase personal and team accountability, supported by safety behaviours and initiatives.



Stop for Safety

Our Stop for Safety program has continued to be an important employee engagement event, providing our people with an opportunity to collaborate on a defined topic relevant to our current safety strategy.

Over 80 Stop for Safety sessions were held across the business, attended by employees and delivery partners. Aligned to the 'Energising Safety - It's in our Hands' strategy, people were encouraged to explore different safety approaches and identify the fundamentals to keep their colleagues safe. The outputs of the program have been incorporated into future planning and continuous improvement.

Engaging our Delivery Partners

Our delivery partners are crucial in helping us to meet our missionZero goals. This means we select and work with partners that share our strong safety culture and any outsourced activities are undertaken based on partners' compliance with occupational health and safety requirements.

We work collaboratively with our partners' to share knowledge and learnings, identify areas for continuous improvement and to reiterate our health and safety expectations and deliverables.

We have continued to develop effective engagement activities, including a Delivery Partner Forum attended by key internal stakeholders and external partners as part of the launch of the 'Energising Safety - It's in our Hands' strategy. The forum facilitated discussions on our expectations and how we work collaboratively to achieve further safety improvements.

Community Safety

We are installing leading-edge technology across our electricity network to reduce the risk of powerline-related bushfires. The technology, known as Rapid Earth Fault Current Limiter or REFCL, is being installed in selected hazardous bushfire risk areas.

This initiative is mandated by the Victorian Government and is part of a broader Powerline Bushfire Safety Program aimed at improving safety across Victoria's power network.

To date, we have successfully implemented this safety equipment at nine zone substations in some of the most bushfire-prone areas of our network. We have

achieved 23 compliance points against the Tranche 1 compliance points target of 30.

Extensions of time for two zone substations have been granted to allow for additional capital works to address some technical challenges which have impacted the achievement of required performance criteria. However, these REFCL networks are still operational and are providing enhanced protection to reduce the risk of power-line-related bushfires.

Tranche 2 is predominately in urban areas, with a number of high-voltage customers connecting to these zone substations. While we continue to work with these customers, there is a risk of delay as a result of these customers requiring connection modifications, particularly in light of COVID-19 impacts affecting these customers. As a result, it is expected that a number of these zone substations will require extensions of time to meet the compliance period (1 May 2021).

Customers



Jose Mampallil from the Energy Connections team and his family enjoy the benefits of solar.

We are improving the customer experience based on customer research, user testing and changing our culture.



The customer is central to our purpose. Our role as an essential service provider means not just providing a high standard of customer service, but also empowering customer energy needs and choices.

Customer Strategy

Customer centricity is a key pillar of our Energising Futures strategy. By ensuring our services meet our customers' needs, we are striving to increase customer satisfaction.

Customer insights are directing our efforts. Since 2018, we have measured customer satisfaction across key services for our electricity and gas distribution networks. We are gaining a clearer understanding of what is important to our customers, and we have established a Customer Experience Program that addresses these areas.

The Customer Forum, established as part of our electricity distribution price-setting process, has also helped us to increase our understanding of what matters to our customers. The Forum has captured extensive feedback from communities and individual customers on how our services can be improved. For example, we have proposed to the Australian Energy Regulator a new Customer Service Incentive Scheme to reward (or penalise) us for delivering against agreed customer outcomes. Customer engagement will also be a key input into the upcoming transmission pricing reset process for 2023 to 2027.



ELECTRICITY CUSTOMER SATISFACTION

+9.5%



GAS CUSTOMER SATISFACTION

+11%

We have seen a significant improvement in Customer Satisfaction (CSAT) scores during the past year. Although we started from a relatively low base, we have caught up to some of our benchmark peers and made a 9.5 per cent and 11 per cent improvement in electricity and gas CSAT scores, respectively.

Customer Experience

The mission for our regulated networks is to improve our customers' lives by enabling our people and our partners to deliver the best experiences. We have delivered measurable outcomes for those services that our customers value:

- > **Distributed energy.** We delivered a solar tool which automated 94 per cent of our solar approvals and provided efficiency savings.
- > **Electricity new connections.** Work has commenced on deploying a new connections portal to improve customer engagement and experience. The portal will also support developers and large customers with multiple connections.
- > **Gas new connections.** Process improvements and increased visibility for retailers on connections status, faster connection times and corresponding increase in customer satisfaction.
- > **Transmission network.** Early work has been completed to improve large generator connections to the transmission network.
- > **Planned outages.** We completed customer experience research that will form the basis of solution design. In addition, we have significantly reduced the number of planned outages on our network in order to support customers and their changing energy needs during the current COVID-19 restrictions.

COVID-19 – supporting our customers through hardship

Along with other Australian energy network businesses, we introduced measures to ease the burden on gas and electricity customers in hardship as a result of COVID-19. These measures included:

- > deferring or rebating electricity and gas network charges for customers impacted by hardship as a result of COVID-19
- > for small businesses that have suspended trading, electricity and gas network charges will not be applied from 1 April to end June 2020, where average consumption is 75 per cent below the same period in 2019
- > continuing to prioritise the safety of customers who require life support equipment.

Culture

Our people are a key driver of customer satisfaction. If they feel empowered, have the right tools and it is easy for them to deliver for our customers, then customer satisfaction will increase. The percentage of our people who believed we were customer-centric increased from 56 per cent to 65 per cent.

Improvements in our culture have focused on providing employees with a solid understanding of customer needs and expectations so that they can meet them. Practical initiatives to share customer insights across the business have included

presentations delivered across all business divisions to communicate customer insights, with monthly updates and quarterly briefings. Customer metrics have been embedded into employees' performance measures, balancing our network metrics. We have also introduced a dedicated customer relationship management resource to provide a link into the business for our large customers, communities and retailers.

Customer engagement

Effective customer communication supports the delivery of an improved customer experience. We have reviewed customer communication across the business and listened to our customers about their expectations and experiences of dealing with us. As a result, we have introduced communication principles and process improvements to:

- > increase the accessibility, frequency and timeliness of information across social media and online, as well as traditional channels.
- > tailor information and messages based on key customer information needs and to reflect the full diversity of our customers and their backgrounds.
- > use consistent, simple language that our customers understand in an approachable tone.
- > ensure communication reflects our customer research, both formal and informal.
- > test our communications for readability and usability with a broad range of real customers.

People

CONNECTED AND
ALIGNED EMPLOYEES*
+8%

**Our people are a key asset.
A talented and diverse workforce
is essential for our long-term
sustainability as a leading,
modern energy company.**

Culture and Engagement

Energised people at the heart of our business in a culture where we can all thrive are essential to realising our vision of Energising Futures for our customers, partners and communities.

A recent Culture and Engagement Survey recorded a positive engagement score of 70 per cent across AusNet Services. This score represents an overall

improvement of 4 percentage points on the previous year's result, together with improvements in all areas of our culture. Further improvement opportunities will continue to be pursued over the coming year. Overall, our employees told us that they feel more unified as a team, more trusted and respected and have a greater sense of alignment to the company and its direction. As with the previous year, survey participants highlighted our focus on safety as a key strength.

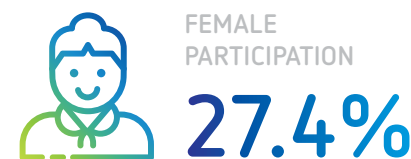
There was a 12 percentage point higher participation rate compared to an equivalent survey conducted in the previous year, with two thirds of our employees taking the time to share their thoughts on how we work together.

These results reflect the work we have done over the last 12 months across three focus areas, where we believed we could have the greatest impact in adapting to the changing nature of our industry:

- > We want to ensure our employees are **connected and aligned** to shared goals and ways of working. We introduced an Energised Leader Program to build leadership capability through coaching and 360 feedback.
- > To help our employees to be **risk intelligent** in how we anticipate, raise and manage risk, issues and conflict, we extended our Speak Up campaign to help strengthen our culture by building



Hackathon event – L–R back: Claire Davies | Alex Lam | Folker Schaumann | Mahdi Maleki | Julia Lam | Darcey Alexander. L–R front: Chris Cole | Anshubi Karolia | Marijana Jurgec | Jamie Arnott.



transparency, encouraging conversations and raising awareness about how we can support each other better.

- > To facilitate an **adaptable** culture where employees are quick to flex to changing circumstances and change is easy to implement, we introduced a new way of working collaboratively to solve problems called the Adaptive Approach. Our annual hackathon event brought together cross-functional teams to collaborate on creating innovative and workable solutions to real business challenges.

Diversity and Inclusion



We recognise the value that a diverse workforce and inclusive culture brings to the way we work and how we interact with our customers and the communities in which we operate.

We have made good progress against key metrics contained in our Diversity and Inclusion Strategy:

- > Female participation rates across the organisation have increased from 23.4 per cent to 27.4 per cent.
- > Women in senior management increased from 31.1 per cent to 38.6 per cent.
- > Women in engineering roles increased from 14.6 per cent to 23 per cent.
- > Women filled 60 per cent of graduate positions.
- > The proportion of part-time employees has increased from 5.03 per cent to 6.25 per cent.

- > Employee engagement improved year-on-year in all but one of our diversity and inclusion target areas, where it remained steady.

We have undertaken actions during the past year to close all identified gender pay gaps.

We continue to evolve our culture and build a more inclusive, connected workplace. Our Inclusion initiatives responded to employee feedback in our 2019 Culture and Engagement Survey:

- > Celebration days – engaging our employees on key dates that acknowledge a broad cross-section of the communities we live and work in.
- > Public holiday substitution – we value and recognise that our employees want to take time off on the holidays that reflect their cultural and religious beliefs and traditions.
- > Paid Parental Leave enhancements – extending primary carer's leave to all eligible employees irrespective of gender and ensuring superannuation is paid on any periods of unpaid parental leave for the first 52 weeks.
- > A program (Captain's Table) to create opportunities for employees across the company to make new connections and get to know a member of the Executive Leadership Team.

Building Capability

Work has continued to further embed and improve the capabilities that are critical enablers of AusNet Services' Energising Futures Strategy, to ensure we have the right capabilities for sustainable high performance and the ability to adapt to the future. Twelve priority capabilities were

identified for focus over the past year, with a year-end assessment reflecting improvement across all areas.

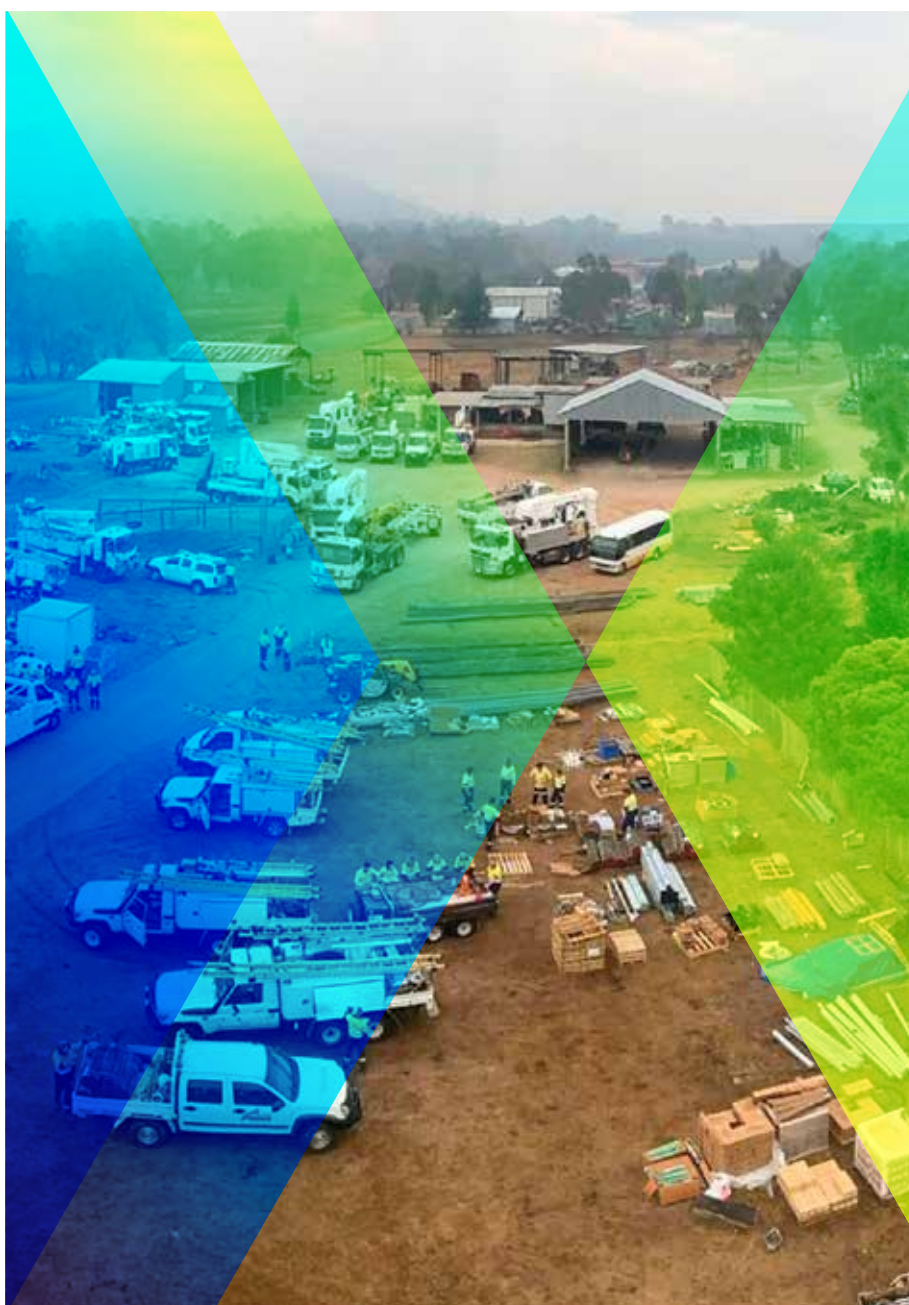
Investing in our Education and Skills Talent Pipeline

We launched a new Women in Power Scholarship Program, partnering with Sacred Heart Secondary College in Geelong and Deakin University. The program promotes early intervention and STEAM pathways for students by supporting scholarship recipients from the start of VCE to the end of their Bachelors' degree. Three Women in Power Scholarships have been awarded: one to a year 11 student and two to year 12 students. The scholarship will cover the costs of Sacred Heart Geelong tuition fees for two years and, if the recipients gain a place at Deakin studying an approved STEAM discipline, for the duration of their undergraduate degree.

AusNet Services has continued its partnership with Deakin University, with the sponsorship of a female undergraduate student for a Bachelor of Electrical and Electronics Engineering. The partnership, established in 2015 to encourage female undergraduates to study power engineering, has resulted in two of the scholarship participants being recruited into this year's graduate engineering intake.

* Year-on-year improvement on percentage points.

Community



The construction staging ground in Corryong north-east Victoria, used for storing the materials and vehicles required for restoration of fire damage in Corryong and the surrounding area.

**We play an active role in the communities in which we operate.
We respond at times of need.
We partner with communities to deliver their energy aspirations.**

Victorian Bushfire Response

The bushfires during the Summer of 2019/20 devastated communities across Victoria and beyond. In AusNet Services' network, the East Gippsland and Alpine regions were severely impacted, with 7,500 customers without electricity supply. Our field employees worked tirelessly alongside emergency services in recovery efforts, clearing debris from easements, removing and replacing damaged electricity assets, and restoring supply as quickly and safely as possible. This included the provision of emergency generators to affected communities. Many of our employees also volunteered with the emergency services' response teams associated with the bushfires.

We made financial support available to impacted customers by fast tracking compensation payments under the Victorian Guaranteed Service Level (GSL) scheme, waiving network standing charges for all customers who were without power for more than seven consecutive days and waiving fees and charges that would normally be applied to standard reconnections.

A Workplace Giving Appeal, established to support impacted communities, raised a total of \$231,186, comprising \$65,593 in employee contributions, which were matched by the company in addition to an initial \$100,000 pledge from AusNet Services.

AusNet Services continues to play an active role in recovery and rebuilding efforts.



COMMUNITY ORGANISATIONS
SUPPORTED

42



Ellie and John Lawrence thanking Tim Vandenhoff from Downer for the restoration efforts.

Ellie and John Lawrence

Ellie and John Lawrence were among many of the AusNet Services customers affected by the devastating bushfires in eastern Victoria. Located on a rural property in East Gippsland, the Lawrence family were one of the last customers to be reconnected following the fires. In an extremely kind gesture, Ellie and John took the time to write to us to thank our teams for their restoration efforts, including the provision of generators, and to provide useful insights into their experience. Our Customer team subsequently met with Ellie and John to follow up on their feedback, helping us to understand how AusNet Services can improve its response to future events.

Supporting communities

Our Community Cornerstone program supports the community organisations that are important to our employees. This year we made financial donations to 42 community organisations where our employees volunteer more than 20 hours of their own time.

Our employees have also supported the Salvation Army's Project 614 Lighthouse Café in Melbourne, which provides free meals to support people from all walks of life, especially those living on the margins of society. Our teams have been volunteering their time, preparing and serving meals and giving back to those who are less fortunate. We have also engaged with the Eat Up campaign, making sandwiches for students who will otherwise go without. Eat Up provides students with lunch every single day and requires assistance from organisations like ours to continue their amazing work.

In the coming year, we will launch a refreshed Community Social Responsibility (CSR) program to reflect our employee's desire to volunteer and 'give back', aligned to our corporate values and the expectations of the communities in which we operate.

Engaging with communities

Our annual Summer Safety campaigns were our most comprehensive campaigns to date, designed to engage with our customers, communities and key stakeholders around Summer preparedness, new bushfire technology and what to do in the event of power outages. The reach and impact of the campaigns have increased

engagement with AusNet Services via social media, with an increase of 20 per cent of followers for AusNet Services on Facebook since October 2019 when we launched the campaigns. Customer traffic to our website increased by 92 per cent year on year, with over 15,000 additional visitors to our website during the campaigns.

Our customers are also directly contributing to the smooth functioning of the network through demand management. We continued our GoodGrid Program, which rewarded households and small to medium sized businesses for reducing their energy consumption on the hottest days, when demand for electricity peaks. Over 1,000 participants reduced consumption by a total of 8.55MWh. Our GoodGrid Critical Peak Demand (CPD) Program was available to large business customers who consume more than 160 MWh per year, allowing them to benefit from reduced tariffs by limiting energy use on designated Critical Peak Demand days. Proactive outreach to eligible customers resulted in greater participation in this year's Program, with an average daily demand reduction for one peak day of 60-80 MW (the equivalent of ~40,000 houses' consumption during peak network load, over 4 hours), compared with 40-55 MW for one peak day in the previous year.



Networks



Tristan White from Downer works to prepare the network for summer.

Our networks are evolving to anticipate and enable our customers' choices, make their energy more affordable and improve their experience with us.

We work to ensure that our regulated networks are resilient and are designed to respond to physical and environmental challenges and evolving customer expectations.

Electricity Transmission

We continue to evolve our transmission network to support the record growth in renewable energy. During the year, we connected 1,360 MW of new renewable generation.

We continue to upgrade the transmission network and improve its resilience during periods of peak demand. Key projects include the rebuilds of both the Richmond and West Melbourne Terminal Stations, to further strengthen supply to the Melbourne CBD, and the completion of the North West Communications Loop replacement to support renewable generation.

In early 2020 an extreme weather event resulted in the felling of six 500kV transmission towers near Colac in west Victoria with a seventh tower being damaged. Thanks to our delivery partners and interstate transmission counterparts Transgrid, Powerlink and Electranet we worked to construct temporary towers to restore the transmission lines as quickly as possible, while prioritising safety.



RENEWABLE
GENERATION CONNECTED

1360MW

Electricity Distribution

Customer numbers increased by 2.3 per cent, reflecting growth in northern and south-eastern suburban corridors. There was a slight decline, however, in the volume of electricity delivered through the network, reflecting the trends of energy efficiency and increasing solar penetration. We continued to invest in the network, with an increase in capital expenditure of almost 9 per cent.

While weather conditions, including several major storms and bushfires in late December 2019, resulted in more unplanned outages during calendar 2019, our customers experienced fewer supply interruptions due to faults. We continue our focus on improving reliability for our customers and providing them with timely and effective communication.

Networks of the Future

As traditional energy models change, regulators and policy makers are reforming the planning, investment, charging and access elements of the transmission network. We continue to play an active role in industry reforms and are carefully monitoring developments to determine what they mean for future growth of transmission networks and services. AusNet Services supports development of the national Integrated System Plan and Victorian Transmission Network augmentation plans.

We are exploring digital capabilities to build the customer-focused networks of the future, including:

- > New 3D laser technology to improve asset safety and performance. The new technology has the potential to support emerging digital approaches for vegetation assessment, defect identification, surveying, design, engineering, network planning, operations and community engagement.
- > Intelligent automation technologies for advanced network access planning. The digital solution uses machine learning combined with an expert system that manages the rules and processes used to plan around 22,000 network changes annually. The solution has the potential to support the increasing demands and complexity of network access planning and customer notification, while reducing cost and risk, through digitising and retaining expert knowledge.
- > Smart aerial photography technology in the transmission network to capture over 6,000 km of the network producing over 10 million high-quality images that have been processed using advanced analytic techniques to automatically identify conductor defects.



Climate Change – our response to climate change involves anticipating and managing the transition to renewable energy sources, minimising emissions and enhancing the resilience of our networks to manage climate change.

Networks continued



Working with other Australian gas distribution companies to promote natural gas appliances as part of the TV series 'The Block' Left to right: Joanne Soysa and Helina Lilley.

Gas Distribution

Our gas distribution network has continued to expand, with 199km of new gas pipelines and three per cent customer growth.

Our pipeline replacement program upgraded 94km of the network to high pressure, further improving reliability and safety for customers. Our unaccounted-for gas performance is estimated to finish in a favourable position overall against benchmarks resulting in forecast savings for the 2019 calendar year.

We have prioritised customer experience with improvements to the new connections process resulting in a 28 per cent improvement in satisfaction among those customers since January 2019. Overall, gas customer satisfaction has improved by 11 per cent over the same period.

We launched our first joint industry marketing campaign, working with other Australian gas distribution companies to promote natural gas appliances as part of the TV series 'The Block'. The campaign provided the opportunity to talk about the benefits of natural gas to about 15,000 members of the public at an event staged at the set of the TV series.

As hydrogen builds momentum as an emerging fuel source, we are working with regulators on the National Hydrogen Strategy. We have also participated in the inaugural Clean Energy Council advisory panel and continued to provide industry expertise through the Future Fuels Cooperative Research Centre and as a founding member of the Australian Hydrogen Centre.

	2016-17	2017-18	2018-19
Total emissions (t CO₂-e)			
AusNet Services (Transmission) Pty Ltd	1,332,476	969,527	906,205
AusNet Services Holdings Pty Ltd*	712,814	699,803	696,751
Total emissions	2,045,290	1,669,330	1,602,956

Full data is available from the Clean Energy Regulator.

* Includes both our electricity distribution and gas distribution businesses.

Climate Change – our networks' response

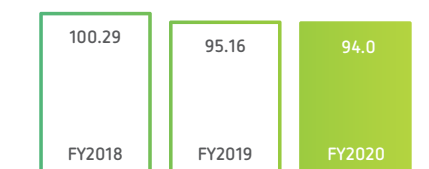
Our response to climate change involves anticipating and managing the transition to renewable energy sources, minimising emissions and enhancing the resilience of our networks to manage climate change. We are actively supporting the transition to renewable energy and decarbonisation, facilitating both large- and small-scale renewable generation. We are also working with customers and communities on innovative projects such as mini grids and demand management programs.

Our total emissions for the last three years to 30 June, as reported under the *National Greenhouse and Energy Reporting Act 2007*, are set out in the table above.

There has been an overall reduction in emissions of approximately 4 per cent, with the Transmission business contributing to the bulk of this reduction. Our Transmission business reported a drop in transmission line losses, with these losses declining a further 6.7 per cent. The most significant factors contributing to this additional decrease include the ongoing effect of the closure of Hazelwood which has fundamentally changed the energy flow patterns within the system and leading to additional interstate transfers, and the introduction of additional renewable energy sources. Our Gas business also contributed to the overall reduction in emissions primarily through the continuation of their program for the replacement of mains pipes.



Total yearly gas pipe replacement (Km)



Responsible Business



We are taking steps to identify and address risk of modern slavery practices in our operations and supply chain.

Our Supplier Code of Conduct outlines the minimum standards expected from our suppliers in the areas of business practices and ethics, labour practices and human rights, diversity, legal and regulatory obligations, health and safety, environmental regulations and protection, privacy and cyber security, compliance with the Code and reporting.

Mondo



Mondo is partnering with Deakin University on its micro grid and integrated education platform, progressing the region's renewable energy goals.

Mondo is delivering strong, diversified growth by playing a leading role in Australia's energy transition.



Climate Change – our response to climate change involves anticipating and managing the transition to renewable energy sources.

Powering resilient communities

Mondo is pioneering community mini grids and regional energy hubs that enable homes and businesses to generate, manage, store and share energy.

Mondo's energy hub projects are developed in collaboration with shire councils, local businesses, community groups and government agencies. These pioneering initiatives have far-reaching benefits for a region's economy, local employment, the community, and the environment. To date Mondo has launched community energy projects in several towns.

Mondo has continued its support for the community of Yackandandah in their journey towards becoming 100 per cent renewable. Recently they marked a major milestone with the launch of the community-owned power retailer, Indigo Power. Mondo is providing expertise to Indigo Power, as well as incorporating Indigo Power's data into the Mondo Ubi Portal. The Ubi portal enables Indigo Power customers to see the combined energy usage for their community, enabling towns to track progress towards their renewable energy targets.

Infrastructure

Mondo is continuing to grow through building, owning and operating large-scale renewable energy infrastructure, working with strategic partners to deliver long-term stable returns. In the last 12 months, Mondo has progressed and completed the following grid-scale projects:

- > Murra Warra wind farm terminal station
- > Dundonnell wind farm terminal station and 38 kms of transmission line
- > Stockyard Hill wind farm terminal station and 80 kms of transmission line

This growth is underpinned by a strong record of community engagement and partnership, delivering tangible community outcomes. Supported by the Dundonnell Wind Farm developer Tilt Renewables, Mondo has developed a mini grid in close consultation with the local community, providing them with the opportunity to generate, manage and store their own energy. The completion of the wind farm and mini grid will improve electricity supply, affordability and sustainability for households and businesses locally, and across Victoria.

In late 2019, Mondo was selected by AEMO to deliver the western Victoria Transmission Network Project.

This major project is of national significance and will involve Mondo building, owning and operating a terminal station in north Ballarat and approximately 190kms of transmission line. The transmission line will stretch from Bulgana to north Ballarat terminal stations and from Sydenham to north Ballarat terminal stations. The work will be delivered in stages, with the final component expected to be in operation by 2025. Completion of the project is dependent on initial stage activities and approvals, with AEMO retaining the right not to proceed and reimburse AusNet Services for costs incurred.

This project will unlock renewable energy resources in western Victoria, helping to deliver affordable, clean energy to all Victorians. It is one project in a strong and diversified pipeline of growth opportunities to support Mondo's target to grow its contracted asset base to \$1.5 billion by 2024.

Powering the education sector

In the Barwon region of south-west Victoria, Mondo and Deakin University have engaged community groups, including Geelong Sustainability, 100 per cent Clean Bellarine and the Surf Coast Energy Group, to explore how the region can transition to 100 per cent renewable energy. Deakin University is leading the way in the area by constructing a smart energy micro grid and integrated education platform.

Located near Deakin University, Christian College Geelong has recently joined with Mondo trialling a Solar Power Purchase Agreement, and is installing a solar system at their Senior Campus in Waurin Ponds. This arrangement means the school receives the solar system for no upfront cost but immediately starts saving on their energy bills.

The system includes Mondo's Ubi technology, a smart energy monitoring and management device that provides energy data and insights and will form part of a sustainability education unit for students.

Mondo has commenced a partnership with Hive, an Australian company that provides specialised clean energy solutions for the education sector. Mondo and Hive have joined forces to create a solar solution for schools that provides clean, affordable energy with an additional focus on improving student comfort and educational outcomes.

CONTRACTED ASSET
BASE UP 19% TO
\$845M

Mondo has also worked with Wodonga TAFE to install a 600kW solar system featuring over 1,500 panels supplying approximately 30 per cent of the campus's daily power.



Mondo and Totally Renewable Yackandandah win the 2019 Clean Energy Council Community Engagement Award – From left to right: Rachel Watson (Chair of CEC and CEO Pacific Hydro | Matt Charles Jones (Mondo) | Nino Ficca (Former Managing Director of AusNet Services) | Cathy McGowan (Former Independent Federal MP for Indi) | Chad Hymas (Mondo Executive General Manager) | Kane Thornton (CEC Chief Executive).

Award-winning community engagement

In July 2019 Mondo was awarded the Clean Energy Council national award for community engagement for its community energy projects with the local community in Yackandandah and other projects in the broader Hume region.

The award acknowledged Mondo's work with community energy group Totally Renewable Yackandandah to develop a mini grid project in the small Victorian town of Yackandandah that would enable it to get 100 per cent of its electricity from renewable sources by 2022. The mini grid has now generated more than 2 GWh of locally produced renewable energy, saving the community more than \$300,000 in energy costs and over 2,000 metric tonnes of carbon emissions.

Our Executive Leadership Team

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



TONY NARVAEZ

*Managing Director
(appointed 1 November 2019)*

ROLE

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

Refer to Page 41 for Mr Narvaez's experience and expertise.



MARK ELLUL

*Chief Financial Officer
(appointed 9 December 2019)*

QUALIFICATIONS

- > Bachelor of Commerce, Melbourne University
- > Chartered Accountant

ROLE

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

EXPERIENCE AND EXPERTISE

Mr Ellul has been with AusNet Services since 2010, in various senior finance roles, including Corporate Accounting Manager and most recently as General Manager of Finance for AusNet Services' regulated business.

Mr Ellul was appointed Chief Financial Officer on 9 December 2019 and has been acting Chief Financial Officer since 20 September 2019.

Prior to joining AusNet Services, Mr Ellul held senior corporate accounting and audit and assurance roles at Telstra and KPMG. Mr Ellul is a member of Chartered Accountants Australia and New Zealand ("CAANZ") and a former member of the CAANZ Victorian Corporate Advisory Panel.



PRUE CRAWFORD-FLETT

*Executive General Manager,
Operations and Services*

QUALIFICATIONS

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

ROLE

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

EXPERIENCE AND EXPERTISE

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



JON D'SYLVA

Executive General Manager Strategy and Transformation (appointed 15 April 2020)

QUALIFICATIONS

- > Masters of Applied Finance – FINSIA
- > Chartered Accountant
- > Bachelor of Taxation, University of NSW

ROLE

Mr D'Sylva is responsible for managing the development and implementation of AusNet Services' corporate strategy, business planning and transformation.

EXPERIENCE AND EXPERTISE

Mr D'Sylva has diverse executive leadership experience in the utilities sector, including strategy, company-wide transformation, business development and growth.

Prior to joining AusNet Services, Mr D'Sylva held senior executive roles including General Manager, Strategy and Insights at Endeavour Energy, and prior executive roles at United Energy and Multinet Gas and Synergy.



CHAD HYMAS

Executive General Manager, Mondo

QUALIFICATIONS

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

ROLE

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

EXPERIENCE AND EXPERTISE

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



GERALDINE LESLIE

Executive General Manager, People, Safety and Corporate Affairs

QUALIFICATIONS

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

ROLE

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

EXPERIENCE AND EXPERTISE

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

Our Executive Leadership Team continued



ALISTAIR PARKER

Executive General Manager, Regulated Energy Services

QUALIFICATIONS

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

ROLE

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

EXPERIENCE AND EXPERTISE

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



MARIO TIEPPO

Executive General Manager, Technology (retired 24 April 2020)

QUALIFICATIONS

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

ROLE

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

EXPERIENCE AND EXPERTISE

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



KENT BARNES

Acting Executive General Manager, Governance

QUALIFICATIONS

- > Certified Information Systems Auditor (CISA)

ROLE

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

EXPERIENCE AND EXPERTISE

Mr Barnes was appointed the Acting Executive General Manager, Governance in October 2019. He has extensive experience in the energy industry in governance, audit, information technology and financial accounting. Prior to joining AusNet Services, Mr Barnes previously worked as an IT Operations Manager for TXU Australia. He is a member of the Institute of Internal Auditors Australia.

Financial report

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Directors' report

Operating and financial review

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

This report should be read in conjunction with pages 1 to 28 of the Annual Report. Together, these reports contain the elements of the Directors' report required for listed companies by the Corporations Act and ASIC regulatory guides.

AusNet Services owns and operates three Victorian regulated energy network businesses, and one unregulated business. Our regulated businesses include the state's primary high-voltage electricity transmission network, the electricity distribution network in eastern Victoria and the gas distribution network in western Victoria. All are regulated by the Australian Energy Regulator (AER). Our unregulated business, Mondo, provides contracted infrastructure asset services and specialised technology solutions to utilities businesses primarily based in Australia.

SAFETY PERFORMANCE

Across the consolidated entity, the key measure of our safety performance – the Recordable Injury Frequency Rate (RIFR) – deteriorated by 13 per cent in FY2020 compared to the previous year.

	FY2020	FY2019	Movement	%
Recordable Injury Frequency Rate (RIFR)	3.99	3.53	0.46	13.0

We note that in FY2019 the RIFR was a record low, and we maintained our focus on critical safety risk areas across FY2020. We also note that a significant portion of our operations staff transitioned to Downer and Zinfra during FY2020, when these delivery partners took over the maintenance of our electricity distribution network and electricity transmission network, respectively, under commercial contracts. We are taking measures in collaboration with these delivery partners in FY2021 to achieve a substantial improvement in the RIFR rate.

FINANCIAL PERFORMANCE

Our overall financial performance improved in FY2020, with increases in all key measures except cash flow from operations, which was impacted by several non-recurring items.

	FY2020	FY2019	Movement	%
Revenue (\$M)	1,977.6	1,861.5	116.1	6.2
EBITDA (\$M)	1,196.6	1,134.2	62.4	5.5
Net profit after tax (\$M)	290.7	253.9	36.8	14.5
Cash flow from operations (\$M)	720.6	813.7	(93.1)	(11.4)
Dividends per share (cents)	10.20	9.72	0.48	4.9
Return on equity (ROE)	9.2%	7.3%	1.9%	26.0

The improvement was particularly pleasing as it was achieved despite a range of challenges in the external operating environment, including extreme bushfire and weather events and ongoing uncertainties and changes in the energy landscape. While the improved results were primarily driven by higher regulated revenues and customer contributions, there were also business driven initiatives that enhance financial performance on an enduring basis:

- > Operational changes made to further increase our operating efficiency and deliver better outcomes for our customers. These changes included entering into new contractual arrangements with key suppliers, as well as using technology to improve efficiencies of both operational and support processes.
- > Completion of several growth initiatives including the construction of three connection projects for renewable generators, which have supported income growth.

A range of unusual or non-recurring events also affected the financial result for FY2020. These include:

- > On the revenue side, the recognition of gifted assets received in prior periods but not previously recognised increased our customer contributions revenue by \$19.1 million.
- > On the cost side, bushfire events in December and January added \$15.4 million to our response and recovery operational costs, and the implementation of our efficiency and transformation programs resulted in an additional \$6.4 million in one-off costs compared to the previous year.

Other unusual events affected both revenue and expenses equally (or broadly equally):

- > We received approval from the AER to pass through a \$34.2 million increase in transmission easement tax in our regulated prices.
- > We sold \$12.8 million of inventory items to Downer at their book value, as part of the transfer of our electricity distribution infrastructure maintenance functions.
- > We incurred \$14.8 million higher Transmission Use of System (TuoS) costs which we will recover through future regulated prices.
- > We adopted a new accounting standard for leases, which reduced our revenues by \$6.8 million and our operating expenses by \$8.3 million, with no material impact on net profit.

After adjusting for these items, our regulated businesses delivered a \$17.5 million reduction in operating expenses, primarily due to the continued cost efficiency focus. This reduction, together with higher incentive revenues, regulated price increases, higher gifted assets, and growth in our unregulated infrastructure business enabled us to improve our net profit after tax by 14.5 per cent.

Cash flow from operations fell by 11.4 per cent to \$720.6 million. This was primarily due to non-recurring cash payments, including \$35.8 million for tax paid related to prior years, and \$11.4 million to Downer as part of the transfer of electricity distribution works program. In addition, the bushfire response and higher TuoS expenditure impacted cash flows.

Despite the decline in cash flow from operations, our performance on this measure was still strong enough to support the payment of dividends that were within our targeted dividend parameters and 5 per cent higher than last year.

Looking forward, the COVID-19 pandemic that emerged at the end of FY2020 will have an impact on our financial performance in FY2021. Our immediate focus is to support our customers and ensure we can continue to provide essential electricity and gas network services. We will also look to manage these financial impacts by implementing a range of proactive measures, including cost management initiatives and reprioritisation of capital expenditure plans as necessary. However, we note that it is extremely difficult to predict future consequences arising from COVID-19.

The financial performance of each of our individual businesses for the financial year ended 31 March 2020 is discussed below:

ELECTRICITY DISTRIBUTION

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

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

Revenues increased by \$70.9 million, comprising:

- > \$40.2 million from regulated price increases (including recovery of higher TuoS costs incurred in FY2019 and FY2020) and \$6.2 million from higher incentive revenues;
- > \$21.0 million due to increased customer contributions and gifted assets associated with higher housing developments, public lighting and recoverable works, including a prior year catch up; and
- > \$12.8 million due to the sale of inventory to Downer (at book value).

Operating expenses rose by \$22.5 million (excluding the \$12.8 million materials cost associated with the inventory sale). This increase was driven by:

- > \$15.4 million in bushfire recovery costs; and
- > \$14.8 million in higher TuoS costs (which will be recovered in future regulated revenues).

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

FUTURE REVENUE IMPACTS

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

- > Across CY2020 and CY2021, our regulated revenue will be reduced by \$12.7 million, to account for our cumulative over-recovery (at 31 March 2020) of volume charges above those assumed in our pricing structures.

Directors' report

Operating and financial review (continued)

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

ELECTRICITY TRANSMISSION

The electricity transmission business financial performance improved in FY2020, as a result of higher revenues from customer-initiated projects such as the West Gate Tunnel relocation project. Operating expenditure also improved due to a combination of cost efficiency and changes in accounting for lease expense.

	FY2020	FY2019	Movement	%
Revenue (\$M)	670.9	618.2	52.7	8.5
EBITDA (\$M)	421.2	390.4	30.8	7.9
Capital expenditure (\$M)	228.1	211.1	17.0	8.1

Revenues increased by \$52.7 million, comprising:

- > \$34.2 million from the pass-through of easement tax costs (pass-through revenue has no impact on EBITDA); and
- > \$11.9 million in additional excluded project revenue (revenue from customer-initiated construction that is not included in our regulated asset base), mostly from the West Gate Tunnel project.

When easement tax costs are excluded, operating expenditure decreased by \$12.3 million. \$3.0 million of the decrease is attributed to reduced lease expenditure (which moved to depreciation and interest following implementation of the new lease accounting standard), and the remainder to cost efficiency initiatives.

Easement tax reflects \$170.6 million or 68 per cent of total transmission operating expenses. As indicated above, these costs are passed through in our regulated prices, so have no impact on the business's financial performance.

Capital expenditure increased by \$17.0 million. Of this increase, \$9.8 million was from customer-initiated projects (primarily in relation to the West Gate Tunnel project), and \$7.1 million was from the completion of the North-West Communications Loop. We expected lower replacement expenditure following completion of the Richmond Terminal Station rebuild in FY2019. However, this decrease was offset by \$10.1 million of additional expenditure in replacing storm-damaged transmission towers in western Victoria. This work is still in progress.

GAS DISTRIBUTION

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

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

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

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

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

MONDO

Mondo provides contracted infrastructure asset services and specialised technology solutions to enable energy data and asset intelligence services. The contracted infrastructure business unit owns and operates a portfolio of assets that fall outside the regulated asset base. It makes investments through directly negotiated agreements, under which Mondo typically receives fixed fee revenue over the contract period in exchange for the infrastructure and operational services we provide.

Most of the movement in the performance measures shown on the table below stems from our adoption of the new lease accounting standard during FY2020, which changed the accounting treatment of many of Mondo's infrastructure assets. In particular:

- > Dedicated customer connection assets that were accounted for as property, plant and equipment in FY2019 are now accounted for as a finance lease. Revenue from these assets is now split between revenue, finance income and principal repayment. As a result, FY2020 revenue is not directly comparable to FY2019.
- > Key performance metrics have changed from EBITDA and EBITDA margin to EBITDA after lease income (EBITDAaL) and EBITDAaL margin. FY2019 lease interest income represents the income under the desalination plant connection agreement, which has historically been (and continues to be) accounted for as a financial asset.

	FY2020	FY2019	Movement	%
Revenue (\$M)	156.3	172.1	(15.8)	(9.2)
EBITDA (\$M)	52.3	62.8	(10.5)	(16.7)
Lease interest income (\$M)	24.7	11.7	13.0	111.1
EBITDA after lease income (EBITDAaL) (\$M)	77.0	74.5	2.5	3.4
EBITDAaL margin (%)	42.5	40.5	2.0	4.9
Capital expenditure (\$M)	154.6	190.9	(36.3)	(19.0)

Revenues and lease interest income combined decreased by \$2.8 million. The completion of infrastructure assets and early works contracts during FY2019 and FY2020 generated an additional \$18.6 million, but this increase was more than offset by a \$21.4 million decrease in revenue associated with our exit from low-margin field services contracts and our completion of non-recurring asset intelligence projects in FY2019.

Operating expenses decreased by \$5.3 million. This was driven by a \$9.3 million decrease in costs associated with lower revenues, which was partly offset by \$4.0 million increase in infrastructure costs (including early works provisions for market opportunities yet to materialise) and operating costs on the larger constructed portfolio.

Corporate cost allocations increased by \$2.0 million compared to FY2019, and this increase reduced the underlying growth in Mondo EBITDAaL from 6.0 per cent to 3.4 per cent.

Capital expenditure for FY2020 predominantly relates to the transmission connections for Murra Warra, Stockyard Hill and Dundonnell wind farms, which we completed during the year. FY2019 capital expenditure included costs related to these wind farms, as well as four smaller wind farm connections that we largely completed in the second half of that year.

Directors' report

Material risks and uncertainties

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

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

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

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

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

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

controls are adequate and effective in managing the risk to the target risk rating.

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

Further details can be found in our Corporate Governance Statement, which is available on our website.

We are cognisant of the following principal risks which may materially impact the execution and achievement of our business strategy and financial prospects.

COVID-19 PANDEMIC

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

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

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

- > **We might not be able to supply energy safely and reliably** – this is caused by employee availability (which includes delivery partners) and supply chain issues. This risk is mitigated by critical staff having backups in place and the ability of many of our employees to work remotely. The supply chain disruption risk

is largely mitigated by maintaining an appropriate level of critical spares and having numerous sources of supply available. However, COVID-19 also creates uncertainty in both the generation and use of energy, which may require our networks to be operated in an unprecedented manner. Refer to 'Network risks' section for further detail.

- > **We might not be able to make a safe environment for our employees, delivery partners, customers and communities** – AusNet Services is prioritising work to minimise community disruption, implementing new social distancing measures in all sites and is working with many of our suppliers to ensure they are still operating as suppliers into a critical infrastructure company. This adds to the risk of compliance with our network licence obligations as well as meeting new obligations such as REFCL compliance. Refer to 'Industry and regulatory risks' section for further detail.
- > **We could suffer financial loss (caused by demand drop, non-payment by customers, government intervention or other) that we cannot offset and that has an impact on our credit rating and financial settings** – AusNet Services is largely not exposed to demand risk due to the electricity distribution and electricity transmission businesses having a revenue cap, and in the case of electricity distribution any volume under recovery is trued-up in future periods. AusNet Services' income primarily comes from AEMO (for electricity transmission), retailers and generators (for electricity and gas distribution) and wind farm operators and other utilities (for Mondo). Retailer revenue risk is mitigated by the AER's Retailer of Last Resort (ROLR) arrangements, which is designed to protect customers from failing retailers. AusNet Services is working proactively with customers to manage customer payments. In addition, appropriate bank and other guarantees are in place under the contracts with Mondo's infrastructure customers to provide security over revenues for periods ranging from 1 to 2 years. It should be noted however that these are unprecedented times and that new legislation, regulations or stakeholder expectation, along with the size of the impact on our customers and the economy, may override these regulatory protections.
- > **We might experience changes to future growth of asset base** – the medium- to longer-term economic impact of COVID-19 and the government responses in Australia is uncertain. Estimates are changing quickly as the situation unfolds and there are divergent views, however many economists expect Australia to enter a recession for the first time since 1991. An economic downturn is likely to affect demand for electricity transmission and distribution and gas distribution and that may change network investment and growth plans, including both regulated and unregulated assets and for both new capacity, upgrades and maintenance of the existing

asset base. The pipeline of growth projects available for AusNet Services to invest in may be affected by the economics and policy response to COVID-19.

- > **We might be unable to obtain adequate funding for our expenditures, and/or the price for that funding is significantly higher than what is assumed by the AER** – AusNet Services has significant levels of gearing due to the capital-intensive nature of the business. AusNet Services maintains a strong investment-grade credit rating and has mitigated financing risk by the early refinancing of maturing debt. Refer to 'Funding and market risks' section for further detail.

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

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

INDUSTRY AND REGULATORY RISKS

INDUSTRY DEVELOPMENTS

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

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

- > In November 2019, the AER commenced a review into the Electricity Transmission Ring-fencing Guidelines, which were developed in 2002. It will determine whether the guidelines remain fit-for-purpose, or whether the emergence of new services provided by some transmission networks (e.g. battery storage), mean the guidelines warrant an update to ensure that no anti-competitive practices such as cross-subsidisation and discrimination emerge. This review has been delayed by COVID-19.

Directors' report

Material risks and uncertainties (continued)

> In November 2019, the COAG Energy Council released a consultation package for a National Laws Enforcement and Penalties Framework. The framework potentially strengthens the AER's enforcement regime, including extending and increasing civil penalty provisions and enhancing the AER's information gathering powers.

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

During FY2020, the Energy Security Board (ESB) released advice on how to implement the Australian Energy Market Operator's (AEMO) Integrated System Plan (ISP), while the Australian Energy Market Commission (AEMC) released the final report on its review of the coordination of generation and transmission investment. Together, these reports outline a considerable pipeline of work to reform the planning, investment, charging, congestion and access elements of

the transmission network. These and other proposed reforms have the potential to introduce new risks and opportunities to our transmission business.

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

RAPID EARTH FAULT CURRENT LIMITER (REFCL) PROGRAM

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

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

	Tranche 1	Tranche 2	Tranche 3
Compliance period	1 May 2019 to 30 April 2021	1 May 2021 to 30 April 2023	1 May 2023 onwards
Zone substations	8	10	4
Minimum number of points* required by the Act	30	23 (53 total)	10 (63 total)
Direct spend approved by the AER (\$M)	95	137	94
Zone substations commissioned	8	1	-

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

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

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

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

Tranche 2 is predominately in urban areas, with a number of high-voltage customers connecting to these zone substations. While we continue to work with these customers, there is a risk of delay as a result of these customers requiring connection modifications, particularly in light of COVID-19 impacts affecting these customers. As a result, it is expected that a number of these zone substations will require extensions of time to meet the compliance period (1 May 2021). In the event that ESV does not agree to this request, ESV or the Minister could decide to file legal proceedings and the Court could impose pecuniary penalties on AusNet Services. ESV has sole discretion over whether any postponement is granted, and for how long.

PRICE DETERMINATIONS

The energy industry in Australia is highly regulated. The regulated component of our revenues (approximately 86 per cent of total revenues for the year ended 31 March 2020) is subject to periodic pricing resets by the AER, where revenue or prices will be determined for each of the networks for the specified regulatory period. AusNet Services has no ability or flexibility to charge more for regulated services than is provided for under the relevant AER determination (for electricity transmission and distribution), or the approved access arrangement (in respect of gas distribution), without regulatory approval. Regulatory control periods are generally five years. The upcoming regulatory reset dates for our electricity distribution network, electricity transmission network and gas distribution network are 1 July 2021, 1 April 2022 and 1 July 2023 respectively.

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

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

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

TRANSITION TO METERING COMPETITION IN VICTORIA

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

NETWORK RISKS

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

Directors' report

Material risks and uncertainties (continued)

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

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

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

The changing generation mix in Victoria and the location of generators in the future may impact the configuration of the electricity transmission network and increases the risk of redundant assets in the event of significant network configuration changes. We continue to work closely with all stakeholders associated with the planning and development of generating capacity to manage such risk. Furthermore, the COVID-19 pandemic and the restrictions on business and community activities has resulted in changes in consumption patterns. There is a risk that these changes could impact the reliability of the electricity distribution network.

FUNDING AND MARKET RISKS

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

level of discounting is dependent upon growth capital funding requirements at a point in time.

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

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

CLIMATE CHANGE AND SUSTAINABILITY RISKS

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

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

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

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

be developed in FY2021 including formalising potential impacts on asset lives and embedding scenarios into impairment calculations.

Physical risks include the impacts of changing environmental conditions (both short- and longer-term) on our network assets and the potential damage to assets and interruptions to supply from severe weather events such as storms, bushfires or floods. We have continued our network resilience program to strengthen critical parts of the network and enhance contingency planning.

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

BUSHFIRE RISKS

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

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

AusNet Services has liability insurance which specifically provides cover for bushfire liability. AusNet Services reviews its insurance cover annually and seeks cover commensurate with the scale and size of its operations, the risks assessed to be associated with its operations and with industry standards and practice. Recent events have seen some insurers withdraw from the market and premiums rise. This will likely continue to occur for future renewals, thereby increasing the risk of not being able to source commensurate cover. There are regulatory mechanisms in place under which, in certain circumstances, we may apply to the AER for a pass through of any reasonable and prudent residual costs that may ultimately be incurred in relation to bushfires above our liability insurance. This mechanism has yet to be tested in practice.

INFORMATION AND COMMUNICATION TECHNOLOGY RISKS

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

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

AEMC rule changes commence on 1 July 2021, which change the settlement period for the electricity spot price from 30 minutes to five-minutes. In April 2020, the AEMC released a statement titled 'Progress update on COVID-19', which included a delaying of commencement of five-minute settlement to 1 July 2022. This rule requires additional investment in metering and IT systems, with increased data collection and management requirements. Similar to metering contestability, the application of the AEMC rule is subject to approval from the Victorian Government.

To mitigate these risks, we have established a centralised architecture, delivery and governance capability to ensure technology needs are designed and built to meet requirements with appropriate governance applied.

TAXATION RISKS

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

Directors' report

Balance sheet and capital management

Total equity of the Group was \$3,005.6 million as at 31 March 2020, a decrease of \$283.5 million compared to the previous financial year, primarily attributed to the hedge reserve movement for the year.

Our current liabilities exceed current assets by \$476.3 million at 31 March 2020. We have prepared the financial report on a going concern basis, which contemplates the continuity of normal trading operations. The Group is, and is expected to continue, trading profitably, generating positive operating cash flows and successfully refinancing maturing debt. In making this assessment consideration has been given to potential impacts of COVID-19 on the Group's operations and forecast cash flows based on best estimates and a range of reasonably possible scenarios, noting that the rapidly evolving nature of COVID-19 makes it inherently difficult to forecast outcomes with certainty. This situation will be actively monitored. In addition, at 31 March 2020, the Group has available a total of \$652.0 million of undrawn but committed bank debt facilities and \$405.0 million of cash and short-term investments with a further \$500 million of facilities put in place on 7 May 2020.

Non-current assets increased by \$1,340.8 million compared to prior year, due to \$776.1 million increase in non-current derivatives, resulting from the large depreciation in the Australian dollar, which increases the carrying value of debt and increases the derivative asset and \$315.5 million growth in property, plant and equipment driven by \$989.1 million of capital expenditure invested into the asset base offset by the depreciation of our assets.

Non-current liabilities increased by \$1,787.0 million due primarily to a net increase in long-term debt of \$1,358.8 million, which reflects current year bond raisings of \$1,156 million, revaluation to spot rate (offset in derivative asset increase as hedged) of \$566.6 million less amounts reclassified to current borrowings of \$811.8 million. Derivative liabilities also increased materially as a result of falling interest rates, which is reflected in the hedge reserve movement.

CAPITAL MANAGEMENT

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

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

We review our capital structure and dividend policy regularly and do so in the context of our ability to continue as a going concern over the long term, to invest in opportunities that grow the business and enhance shareholder value. Also, AusNet Services is actively considering additional capital management initiatives to further support our significant growth pipeline and credit profile, which may include a pro-rata entitlement offer of ordinary shares (within existing shareholder approved parameters), the issuance of hybrid capital securities, additional debt and/or other funding initiatives in the near to medium term.

DEBT RAISING

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

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

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

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

Directors' report

Our Board of Directors

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



PETER MASON AM

*Independent Chairman
(appointed March 2016)*

QUALIFICATIONS

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

EXPERIENCE AND EXPERTISE

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

Mr Mason is currently a Senior Advisor to UBS, a Director of The Centre for Independent Studies and Chairman of the UBS Australia Foundation.

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

OTHER CURRENT LISTED COMPANY DIRECTORSHIPS

- > None

FORMER LISTED COMPANY DIRECTORSHIPS IN LAST THREE YEARS

- > Director Singapore Telecommunications Ltd (2010–2019) (SGX-ST listed company)

SPECIAL RESPONSIBILITIES

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



TONY NARVAEZ

*Managing Director
(appointed 1 November 2019)*

QUALIFICATIONS

- > Bachelor of Commerce and Economics, Murdoch University
- > Diploma of Financial Services (Energy Trading)
- > General Management Programme, Harvard Business School, USA

EXPERIENCE AND EXPERTISE

Mr Narvaez commenced at AusNet Services as Managing Director on 1 November 2019. Mr Narvaez has extensive experience in the energy sector, including prior roles as CEO of Endeavour Energy and CEO of United Energy and Multinet Gas.

Mr Narvaez has also held senior executive roles at General Electric, ATCO Group and Verve Energy, spanning strategy, business development, commercial, operations, major projects and joint ventures in Australia and internationally.

OTHER CURRENT LISTED COMPANY DIRECTORSHIPS

- > None

FORMER LISTED COMPANY DIRECTORSHIPS IN LAST THREE YEARS

- > None

SPECIAL RESPONSIBILITIES

- > Managing Director



ALAN CHAN HENG LOON

*Non-executive Director
(appointed May 2018)*

QUALIFICATIONS

- > Diplome d'Ingenieur, Ecole Nationale de L'Aviation Civile France
- > Master of Business Administration (with Distinction) (INSEAD)

EXPERIENCE AND EXPERTISE

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

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

Mr Chan has also served as Chairman of the Urban Redevelopment Authority (Singapore) and was Chairman of the Corporate Governance Council that reviewed the Singapore Code of Corporate Governance in 2012.

Mr Chan is currently Chairman of the Land Transport Authority (Singapore), a member of the Singapore-China Foundation and a member of the Public Service Commission (Singapore). He is also Deputy Chairman of Pavilion Energy Group of companies.

He is a President's Scholar and was conferred the Public Administration Medal (Gold and Silver) and Meritorious Service Medal for his contributions to public service.

OTHER CURRENT LISTED COMPANY DIRECTORSHIPS

- > None

FORMER LISTED COMPANY DIRECTORSHIPS IN LAST THREE YEARS

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

SPECIAL RESPONSIBILITIES

- > Member of the Remuneration Committee and the Nomination Committee

Directors' report

Our Board of Directors (continued)



RALPH CRAVEN

Non-executive Director (appointed January 2014)

QUALIFICATIONS

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

EXPERIENCE AND EXPERTISE

Dr Craven has broad experience across the energy sector including electricity, gas and mining. He has worked in electricity transmission and generation businesses at senior executive level and been responsible for the delivery of major infrastructure projects and oversight of large-scale business operations at a national level. Dr Craven has been a full-time Non-executive Director since 2007 and served on many boards in the public and private sector.

Dr Craven is currently a Non-executive Director and Chairman of Genex Power Ltd, a listed renewables energy company focused on the integration of renewables including pumped storage into the National Energy Market. He is also a Non-executive Director of Senex Energy Ltd and Multicom Resources Ltd.

Dr Craven is the former Chairman of Stanwell Corporation Limited, the largest electricity generation company in Queensland. His other prior directorships include being Non-executive Director and Chairman of Invion Limited, Ergon Energy Corporation Limited, Tully Sugar Limited and Non-executive Deputy Chairman of Arrow Energy Limited. He has also been a Non-executive Director of Windlab Limited and Mitchell Services Limited.

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

OTHER CURRENT LISTED COMPANY DIRECTORSHIPS

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

FORMER LISTED COMPANY DIRECTORSHIPS IN LAST THREE YEARS

- > None

SPECIAL RESPONSIBILITIES

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



SALLY FARRIER

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

QUALIFICATIONS

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

EXPERIENCE AND EXPERTISE

Ms Farrier is a professional Non-executive Director with over 15 years' experience serving as a director on private, public and government boards. For much of her career, Ms Farrier has worked in and alongside the water, electricity, gas, transport and infrastructure sectors, and as part of government, regulatory institutions and commercial businesses. She has specialist skills in public policy, regulation and strategy and in significant reform and restructuring programs.

Further to her non-executive director career, she continues to be engaged in an expert capacity including in relation to energy and water management at Australian federal and state levels. She is a member of the Melbourne Energy Institute Advisory Board. She recently chaired the first independent review of the Water for the Environment Special Account in relation to the Murray–Darling Basin and has served as a National Water Commissioner, and a member of numerous planning and regulatory bodies. She has a keen interest in innovation and technology. She has been involved in start-up and seed funding since 2002, including as a member of the founding team of Patientrack, and through Scale Investors.

Ms Farrier's prior directorships include Kidney Health Australia, Meridian Energy Limited, Manidis Roberts Pty Limited, Hydro Tasmania and Western Power.

OTHER CURRENT LISTED COMPANY DIRECTORSHIPS

- > None

FORMER LISTED COMPANY DIRECTORSHIPS IN LAST THREE YEARS

- > None

SPECIAL RESPONSIBILITIES

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



LI LEQUAN

Non-executive Director (appointed October 2018)

QUALIFICATIONS

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

EXPERIENCE AND EXPERTISE

Mr Li is Senior Executive Vice President of State Grid International Development Corporation Limited (SGID). He also serves as a Non-executive Director of Redes Energéticas Nacionais (REN), SGPS, S.A. in Portugal, a member of Corporate Governance Committee of REN Board, and a member of Nominations and Appraisals committee of REN board. He was previously a Director of ElectraNet Pty Ltd.

As an engineer, Mr Li began his career with the China Electricity Council in 1988 accumulating rich expertise in the atmospheric environmental impacts of thermal power plants and technical means to control atmospheric pollution in thermal power plants. Mr Li then held senior roles at China Electric Power Technology Import and Export Corporation including as Project Manager, Head of Second Business Department, and Chief Economist.

Since 2009, Mr Li has worked at SGID and has overseen the mergers and acquisitions of overseas power transmission and distribution assets. From July 2015 to December 2019, his responsibilities were extended to include the management of the company's legal affairs, as General Counsel of SGID. Over last 12 years, he has led his team to complete successful investments in 12 overseas power transmission and distribution assets with total investment exceeding USD 20 billion. Mr Li has extensive expertise and experience in asset valuation, due diligence, risk management and control and negotiation of transaction documents of overseas assets mergers and acquisitions.

OTHER CURRENT LISTED COMPANY DIRECTORSHIPS

- > Redes Energéticas Nacionais, SGPS, S.A. (since 2018) (Euronext Lisbon listed company)

FORMER LISTED COMPANY DIRECTORSHIPS IN LAST THREE YEARS

- > None

SPECIAL RESPONSIBILITIES

- > Member of the Remuneration Committee and the Nomination Committee



ROBERT MILLINER

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

QUALIFICATIONS

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

EXPERIENCE AND EXPERTISE

Mr Milliner has extensive experience in the legal and corporate sectors and during his time in legal practice specialised in commercial law in major energy sector reforms, mergers and acquisitions, privatisation and infrastructure transactions. More recently he has specialised in public-private policy engagement with major multi-lateral fora particularly in relation to financial system regulation, infrastructure, energy and climate change and digitalisation as well as international stakeholder relations. Mr Milliner is Chairman of the Australian Payments Council, a Director of the Global Infrastructure Hub Ltd and a member of the APEC Business Advisory Council. He is also a Senior Director of the B20 Saudi Arabia, Senior Adviser at UBS and Senior Adviser to the International Chamber of Commerce Secretary General.

From 2004 to 2011 he was Chief Executive Partner of law firm Mallesons Stephen Jaques (now King & Wood Mallesons) and retired from Mallesons in January 2012 after 28 years as a partner. In 2013 and 2014 he was the B20 Australia Sherpa and coordinated the international business community's recommendations to the 2014 G20.

OTHER CURRENT LISTED COMPANY DIRECTORSHIPS

- > None

FORMER LISTED COMPANY DIRECTORSHIPS IN LAST THREE YEARS

- > None

SPECIAL RESPONSIBILITIES

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



NORA SCHEINKESTEL

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

QUALIFICATIONS

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

EXPERIENCE AND EXPERTISE

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

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

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

OTHER CURRENT LISTED COMPANY DIRECTORSHIPS

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

FORMER LISTED COMPANY DIRECTORSHIPS IN LAST THREE YEARS

- > OceanaGold Corporation (2018 to 2019)
- > Stockland Corporation Limited (2015 to 2018)

SPECIAL RESPONSIBILITIES

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



TAN CHEE MENG

Non-executive Director (appointed May 2016)

QUALIFICATIONS

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

EXPERIENCE AND EXPERTISE

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

Mr Tan sits on the board of Singapore Urban Redevelopment Authority and is also a member of the Audit and Risk Committee. Mr Tan served as a Director of Singapore Power Limited from 2005 to 2019.

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

OTHER CURRENT LISTED COMPANY DIRECTORSHIPS

- > None

FORMER LISTED COMPANY DIRECTORSHIPS IN LAST THREE YEARS

- > None

SPECIAL RESPONSIBILITIES

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

FORMER DIRECTORS

Nino Ficca (retired 31 October 2019)

Directors' report

Statutory disclosures

MEETINGS OF DIRECTORS

We are committed to achieving a high standard of corporate governance. A key role of the Board is to represent and serve the interests of shareholders by overseeing and appraising the strategies, policies and performance of the company. To effectively do this, the following standing committees were in place during FY2020:

> **Audit and Risk Management Committee (ARMC)** – oversees the adequacy and effectiveness of AusNet Services' audit program, risk management processes and internal control systems, including the monitoring of material business risks (financial and non-financial) and corporate compliance;

> **Nomination Committee** – reviews and makes recommendations to the Board in relation to the appointment of new Directors, review of Board and Board committee membership and performance, Board and CEO succession planning and the appointment of senior managers; and

> **Remuneration Committee** – reviews and advises the Board on matters relating to the remuneration of Directors, and the remuneration and performance of senior executives.

The number of meetings of the Board of Directors and of each standing Board committee of AusNet Services Ltd held during the year ended 31 March 2020, and the number of meetings attended by each Director, are set out in the following table:

	Board of AusNet Services Ltd		Audit and Risk Management Committee		Nomination Committee		Remuneration Committee	
	A	B	A	B	A	B	A	B
Peter Mason (Chair)	9	9	6	-	2	2	5	-
Nino Ficca (MD) ¹	5	6	3	-	1	-	2	-
Tony Narvaez (MD) ²	3	3	3	-	1	-	3	-
Alan Chan Heng Loon	8	9	2	-	2	2	5	5
Ralph Craven	8	9	5	6	1	2	-	-
Sally Farrier	8	9	6	6	2	2	5	5
Li Lequan	7	9	2	-	2	2	5	5
Robert Milliner	9	9	6	6	2	2	5	5
Nora Scheinkestel	8	9	6	6	2	2	-	-
Tan Chee Meng	8	9	6	6	2	2	-	-

¹ Mr Ficca retired as a Director effective 31 October 2019.

² Mr Narvaez was appointed as a Director effective 1 November 2019.

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

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

Paul Lynch

Company Secretary

Mr Lynch joined AusNet Services in January 2017 as Assistant Company Secretary and was appointed as a Company Secretary on 18 July 2019. Before joining AusNet Services, Mr Lynch worked in various legal and company secretarial roles, including as Company Secretary of OZ Minerals Limited. Mr Lynch has over 10 years experience working in the ASX listed environment and his qualifications include a Bachelor of Laws, Bachelor of Commerce and a Graduate Diploma of Applied Corporate Governance. Mr Lynch is a practising lawyer, an Associate Member of the Governance Institute and a member of the Australian Institute of Company Directors.

INDEMNIFICATION AND INSURANCE OF OFFICERS AND AUDITORS

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

The constitution also provides for AusNet Services Ltd, to the extent permitted by law, to purchase and maintain insurance, or pay or agree to pay a premium for insurance, for each Officer against any liability

(as defined in the constitution) incurred by the Officer as an officer of the company or of a related body corporate.

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

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

During the financial year, we paid a premium to insure the Directors and Company Secretaries of the Australian-based subsidiaries and the Executive General Managers of AusNet Services. The Directors have not included details of the nature of the liabilities covered or the amount of the premium paid in respect of the insurance policy, as (in accordance with normal commercial practice) such disclosure is prohibited under the terms of the policy.

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

NON-AUDIT SERVICES

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

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

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

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

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act is set out on page 136.

ENVIRONMENTAL REGULATION AND CLIMATE CHANGE

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

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

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

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

ROUNDING OF AMOUNTS

AusNet Services is a company of a kind referred to in Instrument 2016/201, issued by the Australian Securities and Investments Commission, relating to the 'rounding off' of amounts in the Directors' report. Amounts in the Directors' report have been rounded off in accordance with that Instrument to the nearest hundred thousand dollars unless otherwise stated.

DIVIDENDS

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

	Final FY2019		Interim FY2020	
	Cents per share	Total dividend \$M	Cents per share	Total dividend \$M
Unfranked ordinary dividend	2.67	97.5	2.55	94.1
Franked ordinary dividend	2.19	80.0	2.55	94.1
Total dividends	4.86	177.5	5.10	188.2

Directors' report

Statutory disclosures (continued)

DIVIDEND REINVESTMENT PLAN (DRP)

In relation to the final FY2019 dividend paid, \$65.0 million was utilised in the allotment of new shares issued under the DRP, representing a take-up rate of approximately 37 per cent. In relation to the interim FY2020 dividend paid on 19 December 2019, \$62.2 million was utilised in the allotment of new shares issued under the DRP, representing a take-up rate of approximately 33 per cent.

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

DIVIDENDS

Since the end of the financial year, the Directors have approved a final dividend for FY2020 of \$190.1 million (5.10 cents per share) to be paid on 25 June 2020. The final dividend will be 50 per cent franked.

NEW FINANCING FACILITIES

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

COVID-19 PANDEMIC

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

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

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

Directors' report – Remuneration report (Audited)

Dear Shareholder,

On behalf of the Board I am pleased to introduce our FY2020 Remuneration report, for which we seek your support at our Annual General Meeting (AGM) on 16 July 2020.

I have highlighted a number of matters, covered in detail in the report, around executive changes, remuneration outcomes and Non-executive Director fees. Given our 31 March year-end, I have also summarised how the Board incorporated COVID-19 impacts and uncertainty into remuneration outcomes for FY2020.

In relation to FY2021, I wanted to share the Board's philosophy and approach to making decisions around remuneration arrangements and performance setting in the current environment, acknowledging the importance of risk management and effective governance.

CHANGES TO KEY MANAGEMENT PERSONNEL (KMP) AND EXECUTIVE REMUNERATION ARRANGEMENTS IN FY2020

As noted earlier in the Annual Report, Mr Tony Narvaez was appointed as Managing Director on 1 November 2019 following Mr Nino Ficca's retirement on 31 October 2019. Mr Mark Ellul was promoted to the role of Chief Financial Officer in December 2019.

KMP remuneration arrangements were reviewed early in FY2020 resulting in a number of changes:

- > increases of up to 10 per cent to the remuneration of selected KMP
- > increased variable remuneration components of Mr Chad Hymas and Mr Alistair Parker, aligned with their respective roles in delivering AusNet Services' strategy
- > amended terms of KMP incentive programs to broaden and strengthen clawback provisions
- > introduced a conduct, capability and culture moderator to the performance and reward framework to reinforce that achieving good results is not just about 'what' is achieved but equally, 'how' they are achieved.

During the year, the Board also refreshed its Remuneration Principles to take account of contemporary business needs, stakeholder expectations and to support robust and effective governance. These Principles focus on fit-for-purpose remuneration arrangements that support the business strategy, are simple, utilise business metrics and reported outcomes, and are stable over time.

FY2020 KMP REMUNERATION OUTCOMES

Overall, lower aggregate remuneration was paid in FY2020 on a statutory basis than the prior year due to changes in KMP and lower short-term incentive (STI) KPI outcomes.

In assessing FY2020 incentive outcomes, the Board considered the financial performance, the drivers of that performance, factors affecting business sustainability and success, particularly given the impact of COVID-19, and the overall financial position. As a result, the Board used discretion to reduce assessed STI and long-term incentive (LTI) performance outcomes to remove the effect of some unbudgeted

revenues, but did not consider additional changes were appropriate or required in the context of COVID-19. In relation to the discretionary adjustment, while the Board's preference, past practice and policy is to base outcomes on statutory performance, it considered the decrease better reflected the principle of better aligning executive remuneration with shareholder outcomes, and driving sustainable business performance. Specific details of STI and LTI Plan performance and vesting are shown in this report.

CHANGES TO NON-EXECUTIVE DIRECTOR REMUNERATION ARRANGEMENTS IN FY2020

During FY2020, the Board reviewed fees payable to Non-executive Directors taking into account market benchmarks, the scope of Committee responsibilities, and the importance of the Board continuing to attract appropriately skilled and experienced Directors, noting that Director and committee fees were last adjusted in July 2015. As a result, Board Chair and Director fees were increased. In addition, Remuneration Committee Chair and member fees were aligned to the fees payable to the Audit and Risk Management Committee members.

GENDER PAY REVIEW

The Board set an objective for FY2020 to identify and close identified gender pay differentials as part of its commitment to ensuring a diverse and inclusive workforce within AusNet Services. Pleasingly this objective was achieved in early FY2020 and will be subject to ongoing monitoring and review by management and the Remuneration Committee.

FOCUS FOR FY2021

The Board's deliberations on FY2021 remuneration arrangements occur in parallel with business planning, with initial proposals considered late in CY2019. Since that time, the Remuneration Committee and Board has considered the effectiveness of the past remuneration structures and performance indicators, the business strategy and in recent months the overlay of COVID-19. While the approach will continue to evolve, in general the Board considers the remuneration principles and framework are robust and support the effective performance scrutiny and governance during FY2020 and when determining FY2021 remuneration outcomes.

The Board remains committed to actively engaging with stakeholders to seek their feedback and understand their perspectives on our remuneration arrangements and developments in the remuneration environment.

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

Regards



Sally Farrier
Remuneration Committee Chairman

Introduction and contents

This report sets out the executive remuneration outcomes for FY2020.

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

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

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1. Key Management Personnel

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

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

Name	Position	Date appointed as KMP
Non-executive Directors		
Peter Mason	Non-executive Chairman (Appointed as Chairman 11 May 2016)	March 2016
Alan Chan Heng Loon	Non-executive Director	May 2018
Ralph Craven	Non-executive Director	January 2014
Sally Farrier	Non-executive Director	January 2014
Li Lequan	Non-executive Director	October 2018
Robert Milliner	Non-executive Director	July 2015
Nora Scheinkestel	Non-executive Director	November 2016
Tan Chee Meng	Non-executive Director	May 2016
Executive KMP		
Nino Ficca	Managing Director	Ceased as KMP 31 October 2019
Tony Narvaez	Managing Director	1 November 2019
Mark Ellul ¹	Chief Financial Officer	21 September 2019
Chad Hymas	Executive General Manager, Mondo	April 2013
Adam Newman	Executive General Manager and Chief Financial Officer	Ceased as KMP 20 September 2019
Alistair Parker	Executive General Manager, Regulated Energy Services	April 2013
Mario Tieppo ²	Executive General Manager, Technology	September 2013

¹ Mr Ellul was appointed to the role of Acting Chief Financial Officer effective 21 September 2019. He was appointed Chief Financial Officer on a permanent basis effective 9 December 2019. All disclosures in this report specific to Mr Ellul are effective from 21 September 2019.

² Mr Mario Tieppo ceased to be a KMP from 24 April 2020 as a result of his retirement in the role of Executive General Manager Technology.

2. Approach to executive remuneration

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

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

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

Directors' report – Remuneration report (Audited)

2. Approach to executive remuneration (continued)

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

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

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

3. At risk and incentive components

The following table summarises the relative size of the short-term incentive and long-term incentive reward components for the Managing Director and other Executive KMP and the key performance measures applicable for the performance period ending FY2020. It also summarises the incentive award delivery mechanism, Board discretion and clawback features of the plans.

Incentive opportunity	Short-term incentive (at risk)			Long-term incentive (at risk)	
	Threshold	Target	Maximum	Threshold	Maximum
Short- and long-term incentive opportunities are expressed as a percentage of FAR					
Managing Director Mr Ficca (up to 31 Oct 19)	37.5%	75%	112.5%	21%	120%
Managing Director Mr Narvaez (from 1 Nov 19)	30%	60%	90%	18%	100%
Executive General Manager Mondo					
Mr Hymas	30%	60%	90%	9%	50%
Other Executive KMP	20%	40%	60%	9%	50%
Performance measures	> STI scorecard KPIs include selected financial and non-financial measures. > Three financial measures – EBITDA, Return on Equity (ROE) and Company Opex (ex Mondo) focus on ability to grow revenues, control costs and effectively manage working capital. > Non-financial measures drive the importance of safety and individual contribution to strategic initiatives. > STI outcome is subject to gateway performance criteria relating to cash flow from operations and safety performance and a conduct, capability and culture moderator.				
Delivery mechanism	> For the MD and EGM Mondo, two-thirds of the STI award is paid as cash and one-third is delivered as a share right (with a two-year deferral period). > The number of share rights is determined by calculating the volume weighted average price (VWAP) of AusNet Services Ltd (AST) share price over a five-day trading period commencing on the date AusNet Services releases its Financial Results. > STI awards for the remaining Executive KMP are paid as cash.				
Board discretion and clawback	> The Board assesses performance against short- and long-term criteria and has discretion to determine award outcomes at the end of the respective performance periods. > The Board may determine that any awards be clawed back or cancelled in response to a broad range of events or circumstances in the event an unfair benefit has or will be obtained. This could be as a result of, but not limited to, fraud, dishonesty, gross misconduct or breach of obligations.				

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3. At risk and incentive components (continued)

REMUNERATION MIX – AT A GLANCE

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

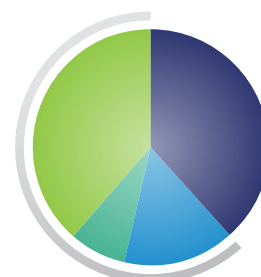
MANAGING DIRECTOR – MR FICCA
(UP TO 31 OCTOBER 2019)

Fixed pay	33.9%
STI cash	16.9%
STI deferred	8.5%
LTI	40.7%
At risk	66.1%



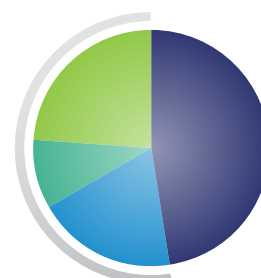
MANAGING DIRECTOR – MR NARVAEZ
(FROM 1 NOVEMBER 2019)

Fixed pay	38.5%
STI cash	15.3%
STI deferred	7.7%
LTI	38.5%
At risk	61.5%



EGM MONDO – MR HYMAS

Fixed pay	47.6%
STI cash	19.1%
STI deferred	9.5%
LTI	23.8%
At risk	52.4%



OTHER KMP

Fixed pay	52.6%
STI cash	21.1%
LTI	26.3%
At risk	47.4%



4. FY2020 performance and remuneration summary

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

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

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

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

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

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

Financial performance	FY16 ¹	FY17 ²	FY18	FY19	FY20
Net profit after tax (NPAT) (\$m) ¹	489	255	291	254	291
EBITDA (\$m)	1,143	1,073	1,143	1,134	1,196
Return on equity (%)	14.0	7.0	8.0	7.3	9.2
Total shareholder return (TSR) Percentile Ranking – relative performance	71.4	68.6	64.2	63.9	67.8
Earnings per share (EPS) (%) 3-year compound annual growth rate (CAGR)	17.8	3.4	130.4	(21.0)	3.3
Return on invested capital (ROIC) (%) 3-year average	4.82	4.89	5.67	4.70	4.82
Share price at 31 March (\$)	1.490	1.685	1.675	1.755	1.710
Dividends (cents per share) ²	8.53	9.80	9.25	9.72	10.2
STI % ³	127.1	107.6	N/A	N/A	N/A
STI vested as % of target – former MD ⁴	115.7	96.8	110.0	105.0	82.0
STI vested as % of target – new MD ⁵	-	-	-	-	100.0
LTI vested as % of target – former MD ⁶	104.9	70.6	85.9	54.3	65.6
LTI vested as % of target – other Executive KMP	120.3	76.1	85.9	54.3	65.6

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

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

3 Corporate STI Scorecard outcome from FY2016 to FY2017, individual scorecard from FY2018.

4 FY2020 Board assessed STI Scorecard outcome and applied on a pro rata basis for former Managing Director Mr Ficca.

5 New Managing Director Mr Narvaez received an at target (100 per cent) pro rata outcome as an undertaking given by the Board on his appointment.

6 Board assessed LTI outcome applicable to former Managing Director Mr Ficca on a pro rata basis. Mr Narvaez was not eligible for FY2018-20 LTI vested awards as grants to these awards were made prior to his commencement.

Directors' report – Remuneration report (Audited)

4. FY2020 performance and remuneration summary (continued)

SUMMARY – KEY REMUNERATION OUTCOMES FOR FY2020:

Executive fixed remuneration	During FY2020 the Board appointed a new MD, Mr Narvaez. In addition, Mr Ellul was appointed as CFO in December 2019 following the resignation of Mr Newman. Mr Narvaez's and Mr Ellul's fixed annual remuneration levels were set after considering external market information, their respective roles and accountabilities and their respective experience and capabilities. Some changes were made to other executive roles and responsibilities to support strategic and business performance initiatives. As a result, adjustments were made to Mr Hymas and Mr Parker's fixed annual remuneration effective 1 April 2019.
Assessment of short- and long-term incentive outcomes	In general, the Board's policy is not to adjust statutory financial performance against targets when assessing remuneration outcomes. However, the Board considers it is prudent and appropriate to apply discretion when assessing outcomes affected by unforeseen events and known but unquantifiable events. For FY2020, the Board has exercised its discretion to moderate down both short- and long-term assessed outcomes as a result of outperformance generated from higher levels of unbudgeted revenues outside Management's control.
FY2020 Short Term Incentive Plan outcomes	Former MD Mr Ficca's STI outcome was 82.0 per cent of target which compares to 105.0 per cent of target for FY2019. The outcome was applied on a pro rata basis for the period of employment up to his retirement on 31 October 2019 resulting in an award of \$466,908. The new Managing Director Mr Narvaez's contractual arrangements include an STI award equivalent to a pro rata payment of the target award being \$287,500 for FY2020. Other Executive KMP STI scorecard outcomes varied between 82.0 per cent and 98.0 per cent of target which compares to between 93.0 per cent and 109.0 per cent for FY2019. Further details of the FY2020 STI plan and outcomes can be found in Section 5.
Vesting of 2017 Long Term Incentive Plan awards (FY2018 – FY2020 performance period)	The LTI awards granted in 2017, (applicable for the FY2018 – FY2020 performance period), were tested against performance criteria, resulting in a moderated vesting outcome of 65.6 per cent. The statutory assessed outcome was moderated down 8 per cent to reflect \$19 million for revenue that the Board determined was uncontrollable and resulted in the EPS KPI not achieving threshold. The LTI vesting outcome reflects: > relative total shareholder return ranking of 67.8 percentile, > return on invested capital of 4.82 per cent, and > compound annual earnings per share growth (EPS CAGR) of 3.30 per cent. Further details of the LTI plan and LTI vesting can be found in Section 5.
Managing Director 2019 Long Term Incentive Plan grant (FY2020 – FY2022 performance period)	As approved by shareholders at the July 2019 AGM, the former and new Managing Director's 2019 LTI grants were on a pro rata basis reflecting their respective periods of employment during FY2020. Mr Ficca's grant was based on a maximum grant value of 120 per cent of fixed remuneration. Mr Narvaez's grant was based on a maximum vesting opportunity of 100 per cent of fixed remuneration. The 2019 LTI grant will be tested and assessed for vesting at the conclusion of the FY2020 – FY2022 three-year performance period.
Non-executive Director fees	During FY2020, the Board reviewed fees payable to Non-executive Directors taking into account market benchmarks, the scope of Committee responsibilities and the importance of the Board continuing to attract appropriately skilled and experienced Directors noting the Director and committee fees were last adjusted in July 2015. As a result, Board Chair and Director fees were increased. In addition, Remuneration Committee Chair and member fees were aligned to the fees payable to the Audit and Risk Management Committee members. Further details of these fee increases are outlined in Section 7 of this report. Total remuneration paid to Non-executive's Directors for FY2020 was \$1.899 million, which represents 84.4 per cent of the fee cap of \$2.25 million.

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

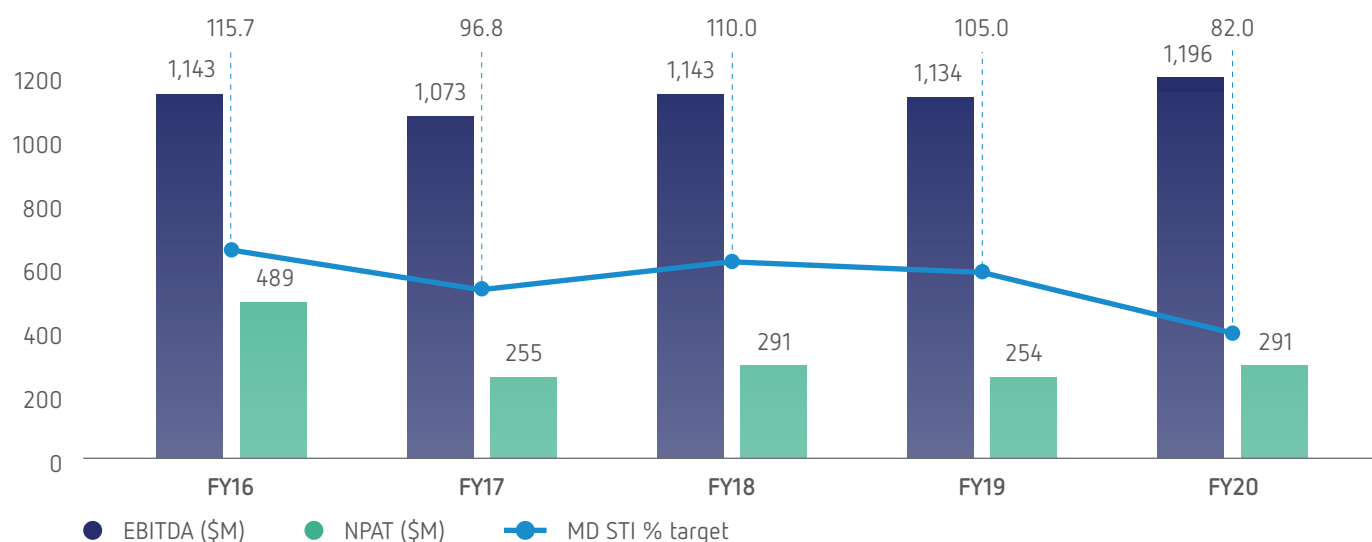
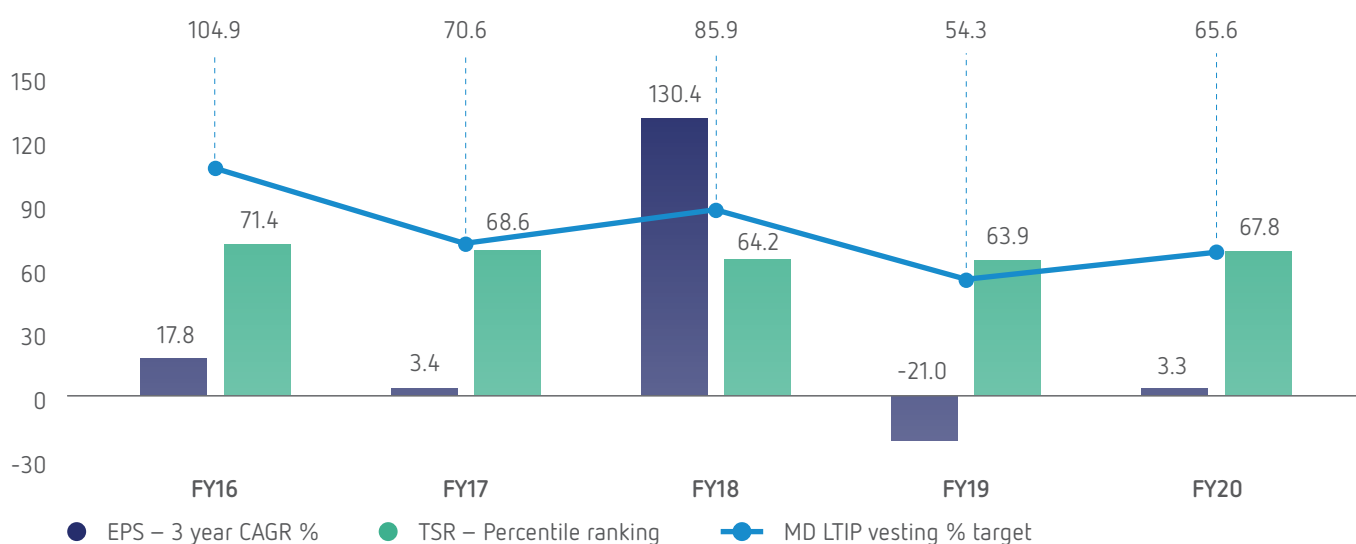


CHART 2: MD OVERALL LTI OUTCOME % OF MAXIMUM TO EPS AND TSR PERCENTILE RANKING

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



Directors' report – Remuneration report (Audited)

4. FY2020 performance and remuneration summary (continued)

FY2020 ACTUAL REMUNERATION PAID TO EXECUTIVE KMP (UNAUDITED)

The table below sets out the actual remuneration paid to current and former Executive KMP over the past two reporting years. This includes annual fixed remuneration, STI cash paid, the value of deferred STI rights in respect to the Managing Director and EGM Mondo, and the value of the 2017 LTI awards that vested in FY2020.

Executive KMP received fixed remuneration increases during FY2020 ranging from zero to 10 per cent.

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

Executive KMP	FY	Fixed annual remuneration ¹	Short-term incentive paid ²	STI deferred (2 years) ³	LTI vested ⁴	One-off payment & relocation allowance paid	One-off payment deferred (2 years)	Total
Nino Ficca ⁵	2020	759,200	345,293	155,636	858,881			2,119,010
	2019	1,300,000	682,500	341,250	660,009			2,983,759
Tony Narvaez ⁶	2020	479,200	191,667	95,833	-	400,000	450,000	1,616,700
Mark Ellul ⁷	2020	242,541	80,483		47,153			370,177
Chad Hymas	2020	486,000	184,680	92,340	143,823			906,843
	2019	450,000	196,200		100,422			746,622
Adam Newman ⁸	2020	338,236	-		-			338,236
	2019	692,835	257,735		205,749			1,156,319
Alistair Parker	2020	550,000	180,400		159,804			890,204
	2019	500,000	190,000		124,423			814,423
Mario Tieppo	2020	450,000	158,400		135,948			744,348
	2019	450,000	178,200		126,317			754,517

1 Fixed annual remuneration includes cash salary and fees, annual leave taken and superannuation.

2 Represents amounts vested in current year, to be paid in May 2020. Mr Ficca's amount also includes an amount of \$34,021 being the dividend equivalent payment relating to the 2017 STI deferred share rights that vested in July 2019.

3 STI deferred value relates to FY2020 performance year deferred into share rights for a period of two years.

4 LTI vesting is calculated based on the number of 2017 performance rights vested multiplied by the share price at 31 March 2020 being \$1.71.

5 Amounts for Mr Ficca are based on actual earnings applicable for his period of employment up to 31 October 2019.

6 Amounts for Mr Narvaez are based on actual earnings applicable for his period of employment commencing 1 November 2019. One-off payment and relocation allowance paid as cash. One-off deferred payment granted as deferred share rights.

7 Amounts for Mr Ellul are on actual earnings from 21 September 2019. Mr Ellul's LTI vested value represents vested share rights granted to him in 2017 whilst employed in his previous role.

8 Amounts for Mr Newman are based on actual earnings applicable for his period of employment up to 20 September 2019.

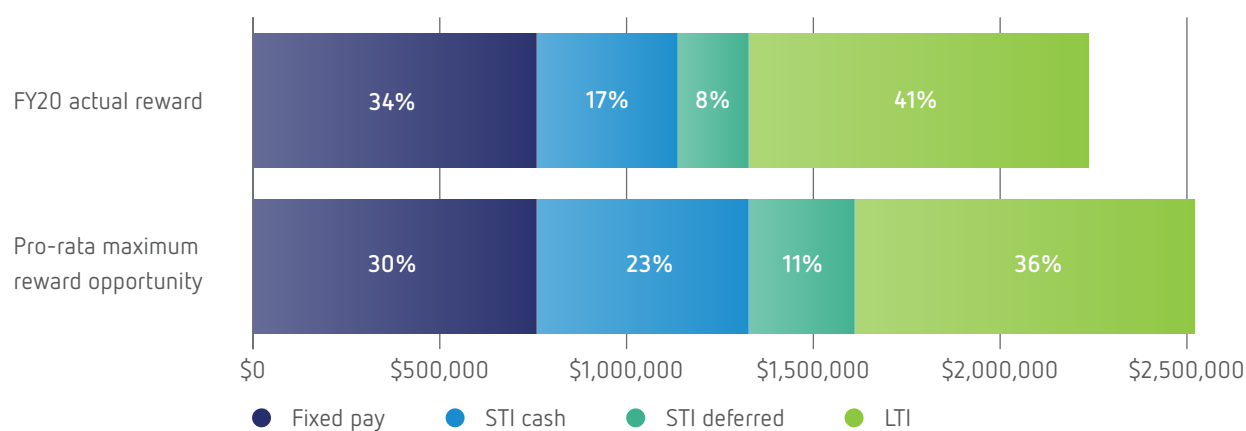
Statutory accounting disclosures of remuneration which are shown in Section 9 of this report differ from the actual pay received due to the accounting treatment of leave provisions and unvested LTI awards.

The following table illustrates the Managing Director's actual STI, LTI and total remuneration outcomes for FY2020 compared to maximum remuneration opportunity. Note that Mr Narvaez' table excludes one-off sign-on and relocation amounts received in FY2020. Mr Narvaez was not eligible to receive an award under the 2017 LTI grant.

MANAGING DIRECTOR – MR FICCA

FY2020 ACTUALS VS MAXIMUM REWARD OPPORTUNITY

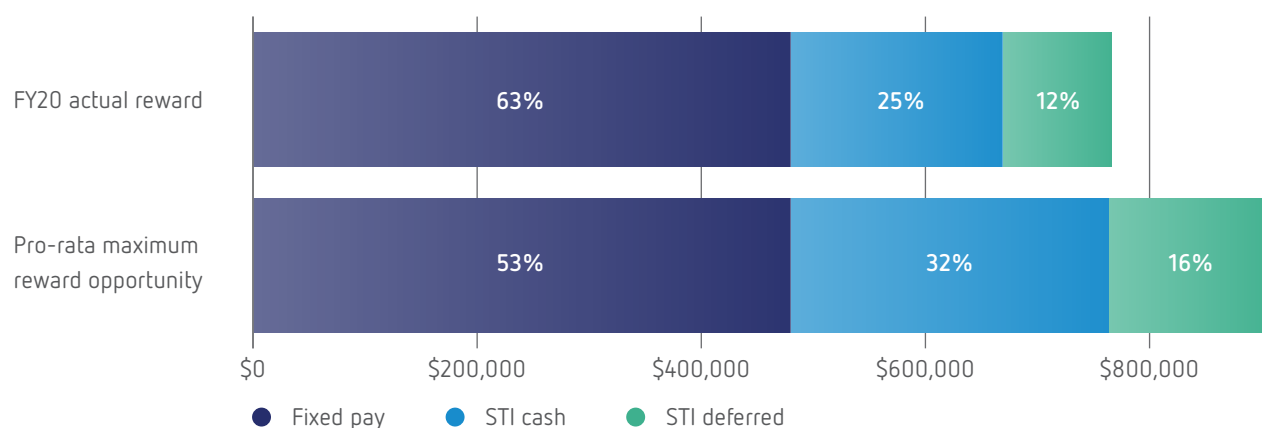
82.6% of pro-rata maximum reward opportunity



MANAGING DIRECTOR – MR NARVAEZ

FY2020 ACTUALS VS MAXIMUM REWARD OPPORTUNITY

84.2% of pro-rata maximum reward opportunity



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5. FY2020 Incentive Plans – Detailed Outcomes

FY2020 SHORT-TERM INCENTIVE PLAN

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

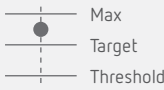
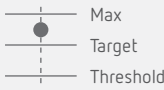
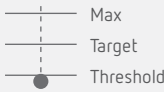
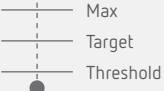
Board discretion	The Board has discretion over all elements of the STI plan including (but not limited to) the setting of KPI performance targets and ranges, selection of KPIs weightings, and any assessed performance outcomes.						
STI opportunity	STI opportunity is expressed as a percentage of the participant’s FAR at-target performance as per design detailed in Section 3.						
STI performance gateways and moderator	STI payments are subject to two gateways: > Cash flow from operational performance provides the company with the ability to pay shareholder dividends in accordance with AusNet Services’ dividend guidance targets for the relevant year. > In the event of a fatality, the Board retains complete discretion to adjust any STI award for the Managing Director, other Executive KMP or other employees. The Board considers the link between delivering on business performance and driving the right culture, behaviours and capability is critical to the delivery of sustainable business performance. As such, all STI award outcomes are subject to a conduct, capability and culture moderator, which can result in a reduction of STI award outcomes as the Board may deem appropriate.						
STI performance measures and weightings	Financial				Non-financial		
MD and Executive KMP (ex EGM Mondo)	EBITDA	Return on equity	Company Opex (ex Mondo)	HSEQ Index	KPIs aligned to strategic priorities		
	30%	20%	10%	5%	35%		
EGM Mondo	Financial				Non-financial		
	EBITDA	Return on equity	Company Opex (ex Mondo)	Mondo Growth	HSEQ Index	KPIs aligned to strategic priorities	
	20%	10%	5%	35%	5%	25%	

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

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

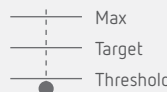
For the executive team, KPIs reflecting a cascade of strategic priorities as appropriate for each role were applied.

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

Managing Director FY2020 STI scorecard					
Design aspect					
Eligibility & performance gates	The Board assessed the financial and safety performance gateways, which are preconditions for any STI payment and determined that FY2020 performance met gateway criteria.				
Assessment of KPIs	The Board reviewed the former Managing Director, Mr Ficca's FY2020 STI scorecard performance, including performance in relation to conduct, capability and culture moderator, progress on strategic measures and contribution during the leadership transition. The resulting outcome of 82.0 per cent of target performance was applied on a pro rata basis. The new Managing Director Mr Narvaez's contractual arrangements include an STI award of at least \$287,500 for FY2020, representing a pro rata at-target award.				
	Measure	Strategy, performance and reward alignment	Weighting	FY2020 vesting outcome	Outcome commentary
Financial	EBITDA	EBITDA is considered the most relevant financial performance measure in the utilities industry as it represents a proxy for cash generation, which influences dividend growth and is aligned with shareholder outcomes.	30%		EBITDA of \$1,196m achieved for the year was moderated down by \$19m for revenue that the Board determined was uncontrollable. The above-target performance is reflective of both revenue outperformance and cost control relative to the target set.
	Return on equity	Return on equity is an important measure in demonstrating relative financial performance and aligns with shareholder outcomes.	20%		Return on equity (after adjusting for revenue item) of 8.8 per cent was above target as a result of the above-target EBITDA offset by higher interest and depreciation.
	Company operating expenditure (excluding Mondo)	Constraining operating expenditure for the regulated business is critical to our benchmarking outcomes and considered a key lever in improving financial performance.	10%		Company operating expenditure (excluding Mondo) of \$372.1m was below threshold performance. The higher costs include expenditure incurred in relation to bushfire response and transformational initiatives that were not self-funding within the financial year. Notwithstanding the legitimacy of these costs, the Board's preference and policy is to assess outcomes based on reported results.
Safety	HSEQ Index	This index blends key lead and lag indicators focused on the ongoing improvement of our safety performance and culture.	5%		The HSEQ Index score of 60 was below threshold performance. Strong improvements in lead safety indicators were offset by declines in performance of our lag measures.

Directors' report – Remuneration report (Audited)

5. FY2020 Incentive Plans – Detailed Outcomes (continued)

Design aspect		Managing Director FY2020 STI scorecard			
	Measure	Strategy, performance and reward alignment	Weighting	FY2020 vesting outcome	Outcome commentary
Strategic	Unregulated growth	Our long-term target of unregulated infrastructure asset base resulted in a target being set for growth in the FY2020 year that would continue the trajectory towards that growth target.	10%		Contracts executed were below anticipated levels for FY2020. However, significant milestones have been achieved towards the overall long-term target including the awarding of the Western Victorian Transmission Network Project.
	Transmission planning	AusNet Services is supporting arrangements around the planning of the Victorian Transmission Network to provide reliability and security for customers over the long-term.	10%		Ongoing progress has been made throughout FY2020 towards co-ordinated transmission planning.
	Bushfire mitigation strategy	Ensures stakeholder outcomes through strategic and operational management and mitigation of bushfire risks.	5%		Partial progress towards achieving longer-term certainty of legislative and regulatory implications.
	Capability, culture and engagement	Aligned culture, capability and engaged people are critical to the delivery of our strategy.	10%		Four percentage point uplift on prior year employee engagement results together with year-on-year improvement in a range of key organisational capabilities.
Delivery mechanism	Two-thirds of the Managing Director's STI award is paid in cash with one-third deferred into share rights held over a two-year period. The number of share rights is determined by dividing one-third of the Managing Directors FY2020 STI award by the allocation price. The allocation price is determined by calculating the volume weighted average price (VWAP) of AusNet Services Ltd (AST) share price over a five-day trading period commencing on the date AusNet Services releases its FY2020 Financial Results, unless otherwise determined by the Board. The Board intends to seek shareholder approval for the granting of the Managing Director's FY2020 Deferred STI Rights.				
Deferred share rights	The Deferred STI share rights are not subject to any additional performance testing. The share rights are subject to forfeiture in the event of resignation or termination for cause. Shares are held in trust on behalf of the Managing Director throughout the two-year deferral period and will be transferred to the Managing Director at the conclusion of the two-year deferral period. Whilst the Managing Director does not have a right to receive dividends during the two-year deferral period, a cash-based Dividend Equivalent Payment will be made at the conclusion of the deferral period. This payment will be based on the equivalent value of dividends that would have been ordinarily received during the deferral period if the shares were held directly and is not adjusted for franking credits.				
Executive KMP outcomes					
Executive KMP STI outcomes	Executive KMP STI scorecards included the same assessed financial and safety weightings as for the Managing Director (except for EGM of Mondo, which has a higher financial weighting as shown at the start of Section 5) with individual strategic KPIs determined for each role. In addition, each Executive KMP's performance is assessed in accordance with the conduct, capability and culture performance moderator. The range of FY2020 STI outcomes for Executive KMP was between 82.0 per cent of target and 98.0 per cent of target STI opportunity, or 54.7 per cent to 65.3 per cent of maximum STI opportunity.				
Delivery mechanism	All Executive KMP awards are paid in cash except for EGM Mondo, Mr Hymas, who has two-thirds of his STI award paid in cash with one-third deferred into share rights held over a two-year period under the same terms and conditions as set out for the Managing Director above.				

LONG -TERM INCENTIVE PLAN 2019 GRANT

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

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

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5. FY2020 Incentive Plans – Detailed Outcomes (continued)

2017 LTI GRANT – PERFORMANCE ASSESSMENT AND OUTCOMES

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

Design aspect	Commentary		
Performance period	The 2017 LTI grant is for the three-year performance period commencing 1 April 2017 and ending on 31 March 2020 (FY2018 to FY2020).		
Opportunity	The LTI award is calculated as a percentage of the participant's FAR as at the grant date. The number of performance rights issued is the percentage of FAR divided by the volume-weighted average price (VWAP) over the five-trading day period commencing on the date AusNet Services released its FY2017 results. The 2017 LTI grant price was therefore \$1.7549. Former Managing Director Mr Ficca – 120 per cent of FAR (at grant date) at maximum performance. Mr Ficca's grant was made shortly after shareholders voted and elected to approve his grant at our AGM held in July 2017. As a result of Mr Ficca's retirement on 31 October 2019, Mr Ficca's 2017 grant was adjusted on a pro-rata basis to reflect his actual period of employment over the three-year performance period. New Managing Director Mr Narvaez was not eligible as grants to these awards were made prior to his commencement. Other Executive KMP – 50 per cent of FAR (at grant date) at maximum performance with the exception of Mr Ellul for whom the 2017 grant was based on the role he previously occupied. These grants were made to all other participants including Executive KMP in May 2017.		
Performance measures	Total shareholder return (TSR)	Earnings per share (EPS)	Return on invested capital (ROIC)
Weighting, targets and vesting scales	Weighting 50%	Weighting 25%	Weighting 25%
Threshold performance	Threshold performance	Threshold performance	Threshold performance
50th percentile – 35 per cent vesting	2.5 per cent CAGR – 0 per cent vesting	4.35 per cent – 50 per cent vesting	
Maximum performance	Maximum performance	Maximum performance	Maximum performance
75th percentile – 100 per cent vesting	5.0 per cent CAGR – 100 per cent vesting	4.55 per cent – 100 per cent vesting	
The vesting outcome for each of the above KPIs occurs on a linear basis between the threshold and maximum performance targets.			

2017 LTI grant – performance outcomes

Assessed KPIs and outcome	The Board assessed the performance of the LTI awards granted in 2017, over the FY2018 – FY2020 performance period. The performance criteria tested were relative total shareholder return, earnings per share growth and return on invested capital. The Board used its discretion to reduce the vesting 65.6 per cent of maximum (100 per cent) opportunity as set out below. The statutory assessed outcome was moderated down 8 per cent to reflect \$19 million for revenue that the Board determined was uncontrollable and resulted in the EPS KPI not achieving threshold.				
Performance measures	Measure	Strategy, performance and reward alignment	Weighting	FY2020 outcome	Performance outcome
	TSR	TSR measures returns generated from the investments made against performance of comparator group. For the 2017 grant the comparator group was the ASX 200 (changed to ASX100 from the 2018 grant).	50%	 Max Threshold	67.8 percentile ranking
	EPS (CAGR)	EPS provides tangible measure of shareholder value creation.	25%	 Max Threshold	3.30 per cent (moderated nil vesting)
	ROIC	ROIC measures returns generated from investments in operations.	25%	 Max Threshold	4.82 per cent

6. Executive KMP remuneration

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

Managing Director – Mr Ficca – 1 April 2019 to 31 October 2019	
Term of agreement	Permanent, subject to six months' notice of termination by either party.
Fixed annual remuneration (FAR)	Fixed annual remuneration includes base salary and superannuation. As at 31 October 2019, Mr Ficca's FAR was \$1,300,000.
Short-term incentive (at risk)	Annual short-term incentive of 75 per cent of FAR for on-target performance. STI awards are delivered as two-thirds in cash payment and one-third in deferred rights, with a two-year deferral period. Unless otherwise determined by the Board, STI awards are forfeited if terminated for cause or resignation prior to vesting date.
Long-term incentive (at risk)	Long-term incentive of 120 per cent of FAR for maximum performance. Treatment of LTI awards are stated in the LTI plan rules and the specific terms of grant. In general, unless otherwise determined by the Board, LTI awards lapse upon resignation or termination for cause and for termination without cause will remain on foot on a pro-rata basis, to be tested against the relevant performance conditions at the vesting date. Annual invitation to participate with three-year performance period and no retesting of performance measures in subsequent years. Clawback provisions apply in plan rules.
Termination benefits	Termination benefits calculated at three weeks' pay for every year of service paid at the Managing Director's FAR rate and capped at six months.

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6. Executive KMP remuneration (continued)

The treatment of Mr Ficca's remuneration on retirement is set out in the following table:

Remuneration on Retirement – Mr Ficca	
FAR and leave entitlements	Paid in full immediately upon retirement based on all accrued entitlements.
Short-term incentive (at risk)	The Board assessed the outcome of the FY2020 STI performance together with Mr Ficca's contribution to the business for the pro rata period up to his retirement. Details of the FY2020 STI scorecard assessments are outlined further in this report. Two-thirds of this award was paid in cash with one-third deferred for a two-year period in the form of share rights. Shareholders have approved grants of deferred share rights applicable for the FY2018 and FY2019 performance years. These deferred rights are eligible for vesting at the conclusion of two-year deferral periods subject to Board consideration. The deferred rights are not eligible to receive dividends throughout the deferral period, however a cash equivalent payment will be made based on the equivalent value of dividends payable had the rights been issued as shares at the time of grant.
Long-term incentive (at risk)	At the AusNet Services July 2019 Annual General Meeting, shareholders approved a grant of 164,881 performance rights applicable the 2019 Grant. This number of rights represents the pro rata portion of rights applicable to Mr Ficca's date of retirement. Details of the 2019 LTI Grant are set out further in this report. The performance of these rights will be tested by the Board in May 2022 in accordance with the Board-approved parameters. Shareholders have approved grants of performance rights for the 2017 and 2018 LTI. The 2017 Grant has been assessed by the Board resulting in 65.6 per cent vesting. Mr Ficca's 2017 grant has been prorated for the period up to his retirement date which equates to a total of 765,655 eligible rights. Based on the moderated vesting percentage of 65.6 per cent, a total of 502,270 rights will vest. Mr Ficca's 2018 grant has been be pro-rated to reflect his service period up to his retirement date which equates to a total of 489,538 eligible rights. The performance of these rights will be tested by the Board in May 2021 in accordance with the Board-approved parameters.

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

Managing Director – Mr Narvaez – from 1 November 2019

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

Directors' report – Remuneration report (Audited)

6. Executive KMP remuneration (continued)

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

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

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

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

Directors' report – Remuneration report (Audited)

7. Non-executive Directors

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

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

NED fee element	Commentary
Fees	Non-executive Directors may receive Directors' fees and committee fees. The Board's policy is that Director and committee fees are set on the basis of independent benchmarking and market advice, including in relation to fees paid by comparable companies. Non-executive Director fees are not linked to the performance of AusNet Services. In accordance with the constitution of AusNet Services Ltd, Non-executive Directors may also be paid additional fees for special duties or exertions.
Total fee pool for remuneration of Non-executive Directors	The total fees paid to Non-executive Directors (including any additional fees for special duties or exertions) in any financial year must not exceed in aggregate the amount approved by shareholders in a general meeting. The total remuneration pool for Non-executive Directors is currently \$2,250,000 per year, as approved by shareholders at the Annual General Meeting held on 21 July 2016.
Equity-based compensation	Non-executive Directors are not provided with any form of equity-based compensation.
Business-related expenses	Non-executive Directors are entitled to be reimbursed for all business-related expenses, including travel on company business, as may be incurred in the discharge of their duties.
Retirement benefits	Non-executive Directors are not provided with any form of retirement benefit. Fees paid are inclusive of superannuation contributions made on behalf of the Non-executive Directors in accordance with our statutory superannuation obligations.
Review of fee levels and approach to Non-executive Director fees	The Remuneration Committee regularly reviews the fees payable to Non-executive Directors, considering market practices, governance developments and the time commitment and responsibilities involved in carrying out their duties. In general, the Board's policy is that fees should be reviewed at least every three years to ensure that the fee levels remain aligned with the market.

The annual fees payable to Non-executive Directors of AusNet Services and approved by the Board (inclusive of statutory superannuation) for the financial year ended 31 March 2020 are set out in the table below. It is not possible to allocate fees to individual entities within the AusNet Services Group.

Role ¹	Chair		Member	
	Pre-December 2019	Effective 1 December 2019	Pre-December 2019	Effective 1 December 2019
Board	\$430,000	\$495,000	\$165,000	\$178,000
Audit and Risk Management Committee	\$40,000	\$40,000	\$20,000	\$20,000
Remuneration Committee ²	\$35,000	\$40,000	\$17,500	\$20,000
Nomination Committee	no fee payable – included in base fee			

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

² Remuneration Committee fees were increased effective 18 September 2019.

8. Remuneration governance

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

ROLES AND RESPONSIBILITIES

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

Board

The Board oversees AusNet Services' remuneration arrangements. It is accountable for the remuneration of executives and of Non-executive Directors, and the policies and processes governing remuneration.

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

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

The Board's stakeholder engagement plan includes regular remuneration-related interactions and formal meetings, which inform the Board's thinking and decisions on remuneration. In addition, the Board seeks input from external advisors to challenge its thinking and to support informed and independent decision-making by the Board.

Remuneration Committee

The Remuneration Committee reviews and make recommendations to the Board on matters of remuneration frameworks and structure, non-executive remuneration levels and executive remuneration, including fixed and variable pay elements.

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

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

External advisors

The Remuneration Committee has appointed Ernst and Young (EY) as its Remuneration Advisor and engages other external advisors as required. No remuneration recommendations, as defined by the *Corporations Act 2001*, were provided to the Remuneration Committee or the Board by EY during the reporting period. Advice provided to the Remuneration Committee by EY during the reporting period focused on overall executive remuneration market practices and frameworks in addition to executive remuneration benchmarking.

Management

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

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

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

Directors' report – Remuneration report (Audited)

9. Statutory remuneration disclosures

9.1 EXECUTIVE KMP STATUTORY REMUNERATION

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

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

1 FY2020 STI includes amounts in respect of performance for the year ended 31 March 2020. These amounts have been approved and will be payable in June 2020. Mr Ficca's amount also includes an amount of \$34,021 being the dividend equivalent payment relating to the 2017 STI Deferred Share Rights that vested in July 2019.

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

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

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

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

6 Represents the pro-rata value applicable for the period of employment as a KMP in FY2020, except for long service leave balance net change which reflects revaluation of balance for the year.

7 Equity-based payment value for Mr Parker contains a value attributed to his special purpose performance incentive plan to be tested in May 2021.

9.2 SHORT-TERM INCENTIVE OUTCOMES

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

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

1 Incentive payments for the performance year ended 31 March 2020 have been approved and will be payable in June 2020.

2 One-third of the former and current Managing Director's and EGM Mondo FY2020 award is deferred into share rights to be held for a period of two years. STI is paid in cash for all other executives.

3 Under the terms of the Deferral Plan, the deferred STI component of Mr Ficca's FY2019 STI was allocated by way of deferred rights to be held for a period of two years. The number of deferred rights issued was 185,492 for Mr Ficca. The number of deferred rights was issued by dividing the value by the share price of \$1.8397. The share price was calculated based on the volume-weighted average price (VWAP) over the five-trading day period commencing on the date AusNet Services released its FY2019 results.

4 Mr Ellul represents amounts relating to 21 September 2019 to 31 March 2020. Amounts payable relating to Mr Ellul's pre-KMP period have been excluded from this table.

5 Mr Newman was not eligible for an STI following his resignation during FY2020.

Directors' report – Remuneration report (Audited)

9. Statutory remuneration disclosures (continued)

9.3 LONG-TERM INCENTIVE

FY2020 LTI VESTING OUTCOMES

The performance rights vesting in FY2020 were granted to the Managing Director and other Executive KMP under the terms and conditions of the 2017 grant. The performance outcome, outlined in Section 5 of this report for the 2017 grant, resulted in 65.6 per cent of performance rights vesting as shown in the table below.

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

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

LTI PERFORMANCE RIGHTS ALLOCATION – CURRENT

The LTI plan includes a three-year performance period, as at 31 March 2020, the grants subject to future performance testing and vesting cover grants made in 2017, 2018 and 2019. The following table shows the number and value of these grants. The performance periods for the grants made in 2018 and 2019 are still in progress and, as such, vesting has not been assessed against the performance conditions at the date of this report.

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

¹ These grants have vested. In determining LTIs for the 2017 grant, vesting outcomes were moderated as set out in section 5 of this report.

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

³ Mr Ficca's 2017 grant has forfeited 123,284 performance rights and his 2018 grant has forfeited 437,476 performance rights as a result of his retirement on 31 October 2019.

⁴ Mr Ellul was granted performance rights in the capacity of his previous role.

REMUNERATION PAID TO NON-EXECUTIVE DIRECTORS

The total remuneration paid to Non-executive Directors for FY2020 was \$1,899,599, which is 84.4 per cent of the total available fee pool of \$2,250,000 which was approved by shareholders at the 2016 AGM.

			Short-term	Post-employment	Total ¹
		Cash salary and fees	Other short-term benefits ¹	Super-annuation ²	
Non-executive Directors	FY				
Alan Chan Heng Loon ³	2020	171,843	-	16,325	188,168
	2019	140,938	-	13,389	154,327
Ralph Craven	2020	172,907	-	16,426	189,333
	2019	168,950	-	16,050	185,000
Sally Farrier	2020	207,309	-	19,694	227,003
	2019	200,913	-	19,087	220,000
Ho Tian Yee ⁴	2019	26,308	-	2,499	28,807
Li Lequan ⁵	2020	171,843	-	16,325	188,168
	2019	83,333	-	7,917	91,250
Peter Mason	2020	430,782	-	20,885	451,667
	2019	409,589	-	20,411	430,000
Robert Milliner ⁶	2020	217,257	-	18,583	235,840
	2019	184,931	-	17,569	202,500
Nora Scheinkestel ⁶	2020	211,403	-	18,684	230,087
	2019	187,215	-	17,785	205,000
Sun Jianxing ⁷	2019	83,952	-	7,975	91,927
Tan Chee Meng	2020	172,907	-	16,426	189,333
	2019	168,950	-	16,050	185,000
Total NEDs	2020	1,756,251	-	143,348	1,899,599
	2019	1,655,079	-	138,732	1,793,811

¹ The allocation of the premium for Directors' and Officers' insurance is not included as under the terms of the current policy this information cannot be disclosed.

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

³ Mr Alan Chan Heng Loon commenced as Non-executive Director effective 28 May 2018.

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

⁵ Mr Li Lequan commenced as Non-executive Director effective 1 October 2018.

⁶ Received exertion payments for the year ended 31 March 2020 in relation to services provided on the Special Purpose Finance Committee up to 31 March 2020.

⁷ Mr Sun Jianxing resigned on 1 October 2018.

Directors' report – Remuneration report (Audited)

9. Statutory remuneration disclosures (continued)

9.5 SHAREHOLDINGS OF KMP

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

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

Name	Number of shares at 1 April 2019	Granted during the year as compensation	Acquisitions / (disposals)	Number of shares at 31 March 2020
Non-executive Directors¹				
Alan Chan Heng Loon	51,568	-	3,041	54,609
Ralph Craven	50,000	-	-	50,000
Sally Farrier	121,800	-	-	121,800
Li Lequan	-	-	-	-
Peter Mason	100,000	-	-	100,000
Robert Milliner	-	-	-	-
Nora Scheinkestel	74,068	-	-	74,068
Tan Chee Meng	150,000	-	(100,000)	50,000
Executive KMP¹				
Nino Ficca ²	2,263,183	555,416	-	2,818,599
Tony Narvaez ³	-	-	-	-
Mark Ellul ³	-	-	-	-
Chad Hymas	264,783	57,221	(113,179)	208,825
Adam Newman ²	388,190	117,235	-	505,425
Alistair Parker	347,165	70,895	(57,486)	360,574
Mario Tieppo	246,111	71,975	(71,975)	246,111

¹ Total shareholdings include shares held by KMP and their related parties.

² Mr Ficca and Mr Newman's shareholding at 31 March 2020 represent shareholding when they ceased to be KMP.

³ Mr Narvaez and Mr Ellul's shareholding at 1 April 2019 represents the number of shares held at commencement date as KMP.

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



Peter Mason
Chairman



Tony Narvaez
Managing Director

Melbourne
11 May 2020

Consolidated income statement

For the year ended 31 March 2020

	Notes	2020 \$M	2019 \$M
Revenue	B.1	1,977.6	1,861.5
Use of system and associated charges		(110.1)	(89.9)
Easement and land tax		(176.8)	(142.5)
Employee benefits expenses		(163.3)	(188.0)
External maintenance and contractors' services		(139.4)	(121.9)
Materials		(42.9)	(26.5)
Information technology and communication costs		(49.0)	(51.1)
Lease expenses		(3.0)	(11.3)
Administrative expenses		(39.7)	(32.5)
Service level payments		(13.5)	(8.5)
Disposal of property, plant and equipment		(15.5)	(21.5)
Other costs		(27.8)	(33.6)
Total expenses excluding depreciation, amortisation, interest and tax		(781.0)	(727.3)
Earnings before interest, tax, depreciation and amortisation		1,196.6	1,134.2
Depreciation and amortisation	C.1, C.2	(464.5)	(456.4)
Profit from operating activities		732.1	677.8
Finance income	D.4	27.1	18.3
Finance costs	D.4	(343.8)	(324.2)
Net finance costs		(316.7)	(305.9)
Profit before income tax		415.4	371.9
Income tax expense	B.5	(124.7)	(118.0)
Profit for the year		290.7	253.9
Basic and diluted earnings per share (cents per share)	B.3	7.88	7.01

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

Consolidated statement of comprehensive income

For the year ended 31 March 2020

	Notes	2020 \$M	2019 \$M
Profit for the year		290.7	253.9
Other comprehensive income			
Items that will not be reclassified to profit or loss in subsequent periods			
Movement in defined benefit fund	F.2	(17.7)	(5.1)
Income tax on movement in defined benefit fund	B.5	5.3	1.6
		(12.4)	(3.5)
Items that may be reclassified to profit or loss in subsequent periods			
Movement in hedge reserve		(457.1)	(291.2)
Income tax on movement in hedge reserve	B.5	137.1	93.1
	D.3	(320.0)	(198.1)
Other comprehensive loss for the year, net of tax		(332.4)	(201.6)
Total comprehensive (loss)/income for the year		(41.7)	52.3

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

Consolidated statement of financial position

As at 31 March 2020

	Notes	2020 \$M	2019 \$M
ASSETS			
Current assets			
Cash and cash equivalents		155.3	339.4
Receivables	B.4	213.2	199.9
Other financial assets	C.3	262.7	12.1
Inventories	B.4	44.2	50.5
Derivative financial instruments	D.3	194.8	139.2
Other assets	B.4	23.4	24.3
Total current assets		893.6	765.4
Non-current assets			
Inventories	B.4	19.6	18.3
Property, plant and equipment	C.1	11,105.4	10,789.9
Intangible assets	C.2	535.1	542.3
Other financial assets	C.3	446.2	172.0
Derivative financial instruments	D.3	1,249.1	473.0
Other assets	B.4	35.8	54.9
Total non-current assets		13,391.2	12,050.4
Total assets		14,284.8	12,815.8
LIABILITIES			
Current liabilities			
Payables and other liabilities	B.4	300.7	292.1
Lease liabilities	D.5	6.1	-
Provisions	B.4	75.7	98.0
Borrowings	D.2	955.2	979.7
Derivative financial instruments	D.3	6.0	2.7
Current tax payable	B.5	26.2	31.9
Total current liabilities		1,369.9	1,404.4
Non-current liabilities			
Deferred revenue	B.4	218.5	199.3
Lease liabilities	D.5	88.2	-
Provisions	B.4	61.2	58.7
Borrowings	D.2	8,325.5	6,966.7
Derivative financial instruments	D.3	776.1	347.2
Deferred tax liabilities	B.5	439.8	550.4
Total non-current liabilities		9,909.3	8,122.3
Total liabilities		11,279.2	9,526.7
Net assets		3,005.6	3,289.1
EQUITY			
Contributed equity	D.6	5,352.8	5,222.9
Reserves		(2,083.4)	(1,761.6)
Retained profits		831.3	922.9
Other equity		(1,095.1)	(1,095.1)
Total equity		3,005.6	3,289.1

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

Consolidated statement of changes in equity

For the year ended 31 March 2020

	Notes	Contributed equity \$M	Restructure reserve ¹ \$M
31 March 2020			
Balance as at 1 April 2019		5,222.9	(1,501.9)
Impact of change in accounting policy	A	-	-
Adjusted balance as at 1 April 2019		5,222.9	(1,501.9)
Total comprehensive income for the year			
Profit for the year		-	-
Other comprehensive loss		-	-
Total comprehensive loss for the year		-	-
Transactions with owners, recorded directly in equity			
Dividends paid	D.7	-	-
Dividend Reinvestment Plan (net of transaction costs)	D.7	127.2	-
Share-based payment reserve		2.7	-
Total transactions with owners		129.9	-
Balance as at 31 March 2020		5,352.8	(1,501.9)
31 March 2019			
Balance as at 1 April 2018		5,162.5	(1,501.9)
Impact of change in accounting policy		-	-
Adjusted balance as at 1 April 2018		5,162.5	(1,501.9)
Total comprehensive income for the year			
Profit for the year		-	-
Other comprehensive income		-	-
Total comprehensive income for the year		-	-
Transactions with owners, recorded directly in equity			
Dividends paid	D.7	-	-
Dividend Reinvestment Plan (net of transaction costs)	D.7	59.3	-
Share-based payment reserve		4.2	-
Shares purchased as part of employee share plans	D.6	(3.1)	-
Total transactions with owners		60.4	-
Balance as at 31 March 2019		5,222.9	(1,501.9)

1 Under the corporate restructure, AusNet Services Ltd shares were issued to shareholders in return for their stapled securities. AusNet Services Ltd share capital was measured at fair value on the date of the transaction, being the market capitalisation of the AusNet Services Stapled Group on the date of implementation of 18 June 2015 (\$4,957.7 million). The difference between the contributed equity of AusNet Services Ltd and the pre restructure contributed equity of the Stapled Group at the date of the transaction was recognised as a restructure reserve.

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

3 This amount represents the fair value uplift to the assets of the AusNet Services Transmission Group on the date that the previous Stapled Group was formed. The fair value uplift was applied to easements which are considered to have an indefinite useful life. The amount was carried into the asset revaluation reserve of the Group following the corporate restructure on 18 June 2015.

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

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

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

Hedge reserve ² \$M	Asset revaluation reserve ³ \$M	Share-based payment reserve ⁴ \$M	Other equity component ⁵ \$M	Retained profits \$M	Total equity \$M
(315.2)	51.4	4.1	(1,095.1)	922.9	3,289.1
-	-	-	-	(4.2)	(4.2)
(315.2)	51.4	4.1	(1,095.1)	918.7	3,284.9
-	-	-	-	290.7	290.7
(320.0)	-	-	-	(12.4)	(332.4)
(320.0)	-	-	-	278.3	(41.7)
-	-	-	-	(365.7)	(365.7)
-	-	-	-	-	127.2
-	-	(1.8)	-	-	0.9
-	-	(1.8)	-	(365.7)	(237.6)
(635.2)	51.4	2.3	(1,095.1)	831.3	3,005.6
(117.1)	51.4	7.3	(1,095.1)	1,048.9	3,556.0
-	-	-	-	(33.9)	(33.9)
(117.1)	51.4	7.3	(1,095.1)	1,015.0	3,522.1
-	-	-	-	253.9	253.9
(198.1)	-	-	-	(3.5)	(201.6)
(198.1)	-	-	-	250.4	52.3
-	-	-	-	(342.5)	(342.5)
-	-	-	-	-	59.3
-	-	(3.2)	-	-	1.0
-	-	-	-	-	(3.1)
-	-	(3.2)	-	(342.5)	(285.3)
(315.2)	51.4	4.1	(1,095.1)	922.9	3,289.1

Consolidated statement of cash flows

For the year ended 31 March 2020

	Notes	2020 \$M	2019 \$M
Cash flows from operating activities			
Profit for the year		290.7	253.9
Add back interest, tax, depreciation and amortisation		905.9	880.3
Non-cash gifted assets revenue		(81.6)	(39.7)
Other non-cash items		0.6	16.2
Working capital movement		2.7	18.7
Income tax paid		(98.6)	(42.3)
Net interest paid		(299.1)	(273.4)
Net cash inflow from operating activities		720.6	813.7
Cash flows from investing activities			
Payments for property, plant and equipment ¹		(900.3)	(893.1)
Proceeds from sale of property, plant and equipment		16.5	1.4
Receipts from financial assets	C.3	9.7	8.8
Payments for financial assets ²	C.3	(249.7)	-
Net cash outflow from investing activities		(1,123.8)	(882.9)
Cash flows from financing activities			
Payments for employee equity plan shares		-	(3.1)
Payments for lease liabilities	D.5	(6.1)	-
Dividends paid ³	D.7	(238.5)	(283.2)
Proceeds from borrowings	D.2	1,282.1	574.2
Repayment of borrowings	D.2	(818.4)	(537.5)
Net cash (outflow)/inflow from financing activities		219.1	(249.6)
Net (decrease) in cash held		(184.1)	(318.8)
Cash and cash equivalents at the beginning of the year		339.4	658.2
Cash and cash equivalents at the end of the year		155.3	339.4

1 Net finance costs include a credit of \$25.1 million (2019: \$26.4 million) for capitalised finance charges which is included in payments for property, plant and equipment.

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

3 Amounts shown represent dividends paid of \$365.7 million (2019: \$342.5 million) offset by proceeds from the Dividend Reinvestment Plan net of transaction costs of \$127.2 million (2019: \$59.3 million).

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

Notes to the consolidated financial statements

Section A Overview

31 March 2020

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

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

(A) BASIS OF PREPARATION

The consolidated general purpose financial report, prepared by a for-profit entity and presented in Australian dollars, represents the consolidated financial statements of AusNet Services Ltd and its subsidiaries. The financial statements were approved by the Board of Directors on 11 May 2020.

The financial report has been prepared:

- > in accordance with Australian Accounting Standards and interpretations adopted by the Australian Accounting Standards Board and the *Corporations Act 2001* (Cth), as well as International Financial Reporting Standards and interpretations adopted by the International Accounting Standards Board;
- > on a going concern basis, which contemplates the continuity of normal trading operations. The Group's current liabilities exceed current assets by \$476.3 million at 31 March 2020. The Group is, and is expected to continue trading profitably, generating positive operating cash flows and successfully refinancing maturing debt. In making this assessment consideration has been given to potential impacts of COVID-19 on the Group's operations and forecast cash flows based on best estimates and reasonably possible scenarios, noting that the rapidly evolving nature of COVID-19 makes it inherently difficult to forecast outcomes with certainty. In addition, at 31 March 2020, the Group has available a total of \$652.0 million of undrawn but committed bank debt facilities and \$405.0 million of cash and short term investments;
- > under the historical cost convention, except for certain financial assets and liabilities (including derivative financial instruments) measured at fair value; and
- > with amounts rounded off to the nearest hundred thousand dollars, unless otherwise stated, in accordance with Instrument 2016/191 issued by the Australian Securities and Investments Commission.

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

Benchmark Reform, the accounting policies applied by the Group in this consolidated financial report are the same as those applied by the Group in its consolidated financial report as at and for the year ended 31 March 2019.

(B) CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

- > B.2 – Variable consideration and satisfaction of performance obligations
- > B.4 – Accrued revenue estimates
- > B.5 – Timing of and availability of tax deductions
- > C.1 – Useful lives of property, plant and equipment
- > C.4 – Determination of cash-generating units and assessments of recoverable amount
- > D.3 – Fair value of derivative financial instruments
- > D.5 – Lease terms and incremental borrowing rate
- > F.2 – Valuation of defined benefit assets and obligations

(C) CHANGE IN ACCOUNTING POLICIES – AASB 16 LEASES

i. AS A LESSEE

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

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

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

Notes to the consolidated financial statements 31 March 2020

Section A Overview

continued

(C) CHANGE IN ACCOUNTING POLICIES – AASB 16 LEASES (CONTINUED)

i. AS A LESSEE (CONTINUED)

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

ii. AS A LESSOR

Under AASB 16, the Group has determined that its dedicated unregulated customer connection assets now meet the new definition of a finance lease, resulting in de-recognition of property, plant and equipment and the recognition of a financial asset. The financial asset is initially measured at the present value of remaining revenue receipts, discounted at the interest rate implicit in the lease. In order to calculate the interest rate implicit in the lease, the Group has determined that the construction costs of the asset is equivalent to its fair value.

At transition, certain contract assets and contract liabilities recognised under AASB 15 *Revenue from Contracts with Customers* for dedicated unregulated customer connections were de-recognised and adjusted to retained profits.

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

iii. RECONCILIATION OF FY2019 OPERATING LEASE COMMITMENTS TO AASB 16 LEASE LIABILITY:

	\$M
Operating lease commitments at 31 March 2019	155.0
Discounted using the incremental borrowing rate at 1 April 2019 ¹	99.8
- Extension options reasonably certain to be exercised ²	4.0
Lease liabilities recognised at 1 April 2019	103.8

¹ When measuring lease liabilities, the Group discounted lease payments using its incremental borrowing rate at 1 April 2019. The weighted-average rate applied was 5.64%.

² Relates to a 20-year extension option beginning in 2048 for land at one of the Group's terminal stations.

Impacts on financial statements:

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2020

	Before adoption of AASB 16 \$M	Impact of AASB 16 (lessor) \$M	Impact of AASB 16 (lessee) \$M	Reported \$M
ASSETS				
Current assets				
Desalination licence receivable	12.1	(12.1)	-	-
Other financial assets	249.7	13.0	-	262.7
Total current assets	892.7	0.9	-	893.6
Non-current assets				
Property, plant and equipment	11,289.6	(273.5) ¹	89.3 ³	11,105.4
Desalination licence receivable	163.1	(163.1)	-	-
Other financial assets	-	446.2	-	446.2
Other assets	43.8	(8.0) ²	-	35.8
Total non-current assets	13,300.3	1.6	89.3	13,391.2
Total assets	14,193.0	2.5	89.3	14,284.8
LIABILITIES				
Current liabilities				
Lease liabilities	-	-	6.1 ⁴	6.1
Current tax payable	27.1	2.4	(3.3)	26.2
Total current liabilities	1,364.7	2.4	2.8	1,369.9
Non-current liabilities				
Deferred revenue	222.3	(3.8) ²	-	218.5
Lease liabilities	-	-	88.2 ⁴	88.2
Deferred tax liabilities	437.3	0.7	1.8	439.8
Total non-current liabilities	9,822.4	(3.1)	90.0	9,909.3
Total liabilities	11,187.1	(0.7)	92.8	11,279.2
Net assets	3,005.9	3.2	(3.5)	3,005.6
EQUITY				
Retained profits	831.6	3.2	(3.5)	831.3
Total equity	3,005.9	3.2	(3.5)	3,005.6

1 Includes \$284.8 million transferred to other financial assets less \$11.3 million of foregone depreciation.

2 On transition, \$4.2 million was adjusted to retained earnings for de-recognition of \$8.0 million of contract assets and \$3.8 million of contract liabilities recognised under AASB 15.

3 Includes transition adjustment of \$103.8 million less \$11.7 million of depreciation, \$1.0 million of new leases during FY2020 and lease modifications reductions of \$3.8 million.

4 Includes transition adjustment of \$103.8 million (\$12.2 million current and \$91.6 million non-current), \$6.1 million of repayments, \$0.4 million of new leases during FY2020 and lease modification reductions of \$3.8 million.

Notes to the consolidated financial statements 31 March 2020

Section A Overview

continued

(C) CHANGE IN ACCOUNTING POLICIES – AASB 16 LEASES (CONTINUED)

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 MARCH 2020

	Before adoption of AASB 16 \$M	Impact of AASB 16 (lessor) \$M	Impact of AASB 16 (lessee) \$M	Reported \$M
Revenue	1,992.0	(14.4)	-	1,977.6
Lease expense	(15.1)	-	12.1	(3.0)
Other costs	(28.4)	-	0.6	(27.8)
Earnings before interest, tax, depreciation and amortisation	1,198.3	(14.4)	12.7	1,196.6
Depreciation and amortisation	(464.2)	11.4	(11.7)	(464.5)
Net finance costs	(324.2)	13.5	(6.0)	(316.7)
Profit before income tax	409.9	10.5	(5.0)	415.4
Income tax expense	(123.1)	(3.1)	1.5	(124.7)
Profit for the year	286.8	7.4	(3.5)	290.7

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 MARCH 2020

	Before adoption of AASB 16 \$M	Impact of AASB 16 (lessor) \$M	Impact of AASB 16 (lessee) \$M	Reported \$M
Cash flows from operating activities				
Profit for the period	286.8	7.4	(3.5)	290.7
Add back interest, tax, depreciation	911.5	(21.8)	16.2	905.9
Net interest received/(paid)	(306.6)	13.5	(6.0)	(299.1)
Working capital movement	3.3	-	(0.6)	2.7
Net cash inflow from operating activities	715.4	(0.9)	6.1	720.6
Cash flows from investing activities				
Receipts from desalination licence receivable	8.8	(8.8)	-	-
Receipts from financial assets	-	9.7	-	9.7
Net cash (outflow) from investing activities	(1,124.7)	0.9	-	(1,123.8)
Cash flows from financing activities				
Payments for lease liabilities	-	-	(6.1)	(6.1)
Net cash inflow from financing activities	225.2	-	(6.1)	219.1

**(D) CHANGE IN ACCOUNTING POLICIES – ADOPTION OF AASB 2019-3 AMENDMENTS TO AUSTRALIAN ACCOUNTING STANDARDS
– INTEREST RATE BENCHMARK REFORM**

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

We have elected to early adopt AASB 2019-3 *Amendments to Australian Accounting Standards – Interest Rate Benchmark Reform* issued by the AASB in October 2019. The amendments includes relief that applies to all hedging relationships directly affected by interest rate benchmark reform. A hedging relationship is affected if interest rate benchmark reform gives rise to uncertainties about the timing and/or amount of benchmark-based cash flows of the hedged item or hedging instrument. AusNet Services' hedging derivatives portfolio is exposed to a number of benchmark rates, predominately Euribor, US dollar LIBOR and Bank Bill Swap Rate (BBSW). We are monitoring the developments of international regulators to assess the impact of the introduction of alternative risk-free rates, which is expected to occur at the end of calendar 2021.

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

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

Notes to the consolidated financial statements 31 March 2020

Section B Operating our business

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

NOTE B.1 SEGMENT RESULTS

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

(A) DESCRIPTION OF REPORTABLE SEGMENTS

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

i. ELECTRICITY DISTRIBUTION

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

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

CUSTOMER CONTRIBUTIONS

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

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

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

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

ii. GAS DISTRIBUTION

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

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

iii. ELECTRICITY TRANSMISSION

We own and manage the vast majority of the electricity transmission network in Victoria. Our electricity transmission network consists of the transmission lines and towers which carry electricity at high voltages from power generators to electricity distributors around Victoria forming the backbone of the Victorian electricity network. We charge the Australian Energy Market Operator (AEMO), distribution network service providers and electricity generators for connections and use of the electricity transmission network. Prescribed excluded services revenue is generated from assets that will be rolled into the regulated asset base (RAB) in the next regulatory reset period and included in regulated transmission revenue from that date. The performance obligation is the provision of the access to the network and as such revenue is recognised over the contract period which is deemed to be the regulatory reset period. The transaction price is deemed to be the determined recoverable revenue over that period.

Negotiated excluded services revenue is generated from assets that are excluded from the RAB but for which revenue is controlled under a regulated negotiating framework. In each case, contracts are based on fixed fees over the life of the asset (which is deemed as the contract price) and performance obligations are satisfied over time. The performance obligation is the provision of the access to the network and as such revenue is recognised over the contract period.

The electricity transmission segment does not purchase or sell electricity.

iv. MONDO

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

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

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

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

Notes to the consolidated financial statements 31 March 2020

Section B Operating our business

continued

NOTE B.1 SEGMENT RESULTS (CONTINUED)

(B) REPORTABLE SEGMENT FINANCIAL INFORMATION

	Electricity distribution	Gas distribution	Electricity transmission	Mondo	Inter- segment eliminations	Consolidated
2020	\$M	\$M	\$M	\$M	\$M	\$M
Regulated revenue	824.9	213.6	581.2	-	(9.5)	1,610.2
Excluded transmission revenue	-	-	85.4	-	(0.9)	84.5
Unregulated infrastructure revenue	-	-	-	51.9	-	51.9
Customer contributions	91.2	8.5	-	1.7	-	101.4
Service revenue	-	-	-	78.0	-	78.0
Other revenue	21.0	1.7	4.3	24.7	(0.1)	51.6
Total segment revenue	937.1	223.8	670.9	156.3	(10.5)	1,977.6
Segment operating expense	(373.0)	(64.8)	(249.7)	(104.0)	10.5	(781.0)
Segment result – EBITDA¹	564.1	159.0	421.2	52.3	-	1,196.6
Lease interest income	-	-	-	24.7	-	24.7
EBITDAaL²	564.1	159.0	421.2	77.0	-	1,221.3
Depreciation and amortisation	(261.4)	(62.1)	(112.0)	(29.0)	-	(464.5)
Capital expenditure	501.5	104.9	228.1	154.6	-	989.1

2019

Regulated revenue	784.4	202.4	540.3	-	(9.7)	1,517.4
Excluded transmission revenue	-	-	73.5	-	(0.2)	73.3
Unregulated infrastructure revenue	-	-	-	54.6	-	54.6
Customer contributions	70.2	7.4	-	0.5	-	78.1
Service revenue	-	-	-	103.1	-	103.1
Other revenue	11.6	5.3	4.4	13.9	(0.2)	35.0
Total segment revenue	866.2	215.1	618.2	172.1	(10.1)	1,861.5
Segment operating expense	(337.7)	(62.6)	(227.8)	(109.3)	10.1	(727.3)
Segment result – EBITDA¹	528.5	152.5	390.4	62.8	-	1,134.2
Lease interest income ³	-	-	-	11.7	-	11.7
EBITDAaL²	528.5	152.5	390.4	74.5	-	1,145.9
Depreciation and amortisation	(284.4)	(51.8)	(97.5)	(22.7)	-	(456.4)
Capital expenditure	461.0	106.8	211.1	190.9	-	969.8

¹ Earnings before interest, tax, depreciation and amortisation.

² EBITDA after lease interest income.

³ For FY2019, \$11.7 million of finance income has been re-allocated from the \$305.9 million of net finance costs presented in the consolidated income statement representing desalination interest income now presented within EBITDAaL to maintain consistency with presentation in FY2020.

NOTE B.2 REVENUE FROM CONTRACTS WITH CUSTOMERS

(A) DISAGGREGATED REVENUE

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

	Electricity distribution \$M	Gas distribution \$M	Electricity transmission \$M	Mondo \$M	Inter- segment eliminations \$M	Consolidated \$M
31 March 2020						
Timing of recognition						
At a point in time	129.5	20.1	18.3	69.2	-	237.1
Over time	806.0	203.7	652.1	85.4	(10.5)	1,736.7
Revenue from contracts with customers	935.5	223.8	670.4	154.6	(10.5)	1,973.8
Other income not in scope of AASB 15						
Operating lease income	0.1	-	0.5	-	-	0.6
Income from government grants ¹	1.5	-	-	1.7	-	3.2
Total revenue	937.1	223.8	670.9	156.3	(10.5)	1,977.6
31 March 2019						
Timing of recognition						
At a point in time	97.4	19.1	4.0	76.0	-	196.5
Over time	767.7	196.0	613.7	95.6	(10.1)	1,662.9
Revenue from contracts with customers	865.1	215.1	617.7	171.6	(10.1)	1,859.4
Other income not in scope of AASB 15						
Operating lease income	0.1	-	0.5	-	-	0.6
Income from government grants ¹	1.0	-	-	0.5	-	1.5
Total revenue	866.2	215.1	618.2	172.1	(10.1)	1,861.5

¹ Government grant income in the electricity distribution segment comprises grants under the Powerline Replacement Program whereby grants are received to fund bushfire safety capital expenditure, with income recognised over the life of the constructed assets. Government grants in the Mondo segment comprises assets received in relation to the Ballarat Energy Storage System, with income recognised over the life of the asset.

KEY ESTIMATES AND JUDGEMENTS – VARIABLE CONSIDERATION AND SATISFACTION OF PERFORMANCE OBLIGATIONS

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

Notes to the consolidated financial statements 31 March 2020

Section B Operating our business continued

NOTE B.3 EARNINGS PER SHARE

(A) BASIC EARNINGS PER SHARE

	2020	2019
Profit attributable to ordinary shareholders of AusNet Services (\$M)	290.7	253.9
divided by Weighted average number of shares (million)	3,687	3,620
equals Earnings per share (cents)	7.88	7.01

(B) DILUTED EARNINGS PER SHARE

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

NOTE B.4 WORKING CAPITAL

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

KEY ESTIMATES AND JUDGEMENTS – ACCRUED REVENUE ESTIMATES

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

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

	Assets		Liabilities	
	2020	2019	2020	2019
	\$M	\$M	\$M	\$M
Accounts receivable/payable	60.3	53.1	(22.0)	(21.2)
Accrued revenue – other/accrued expenses	8.1	4.5	(172.8)	(134.8)
Accrued revenue – contract assets ¹	142.6	140.1	-	-
Related party receivables/payables	1.4	1.5	(18.7)	(36.4)
Deferred revenue – contract liabilities ²	-	-	(36.0)	(44.3)
Deferred revenue – government grants	-	-	(1.7)	(1.3)
Deferred revenue – other	-	-	(0.8)	(1.7)
Other receivables/payables	0.3	0.4	(10.6)	(8.1)
Interest receivables/payables	0.5	0.3	(38.1)	(44.3)
Total current receivables/payables and other liabilities	213.2	199.9	(300.7)	(292.1)
Current other asset	23.4	24.3	-	-
Non-current accounts receivable	0.5	0.7	-	-
Non-current other contract assets ¹	-	8.0	-	-
Non-current other assets ³	35.3	46.2	-	-
Current inventory	44.2	50.5	-	-
Non-current inventory	19.6	18.3	-	-
Non-current deferred revenue – contract liabilities ²	-	-	(120.1)	(132.3)
Non-current deferred revenue – government grants	-	-	(98.4)	(66.2)
Non-current deferred revenue – other	-	-	-	(0.8)
Current provisions	-	-	(75.7)	(98.0)
Non-current provisions	-	-	(61.2)	(58.7)
Defined benefit reserve and share-based payment reserve	-	-	(14.2)	(33.6)
Working capital	336.2	347.9	(670.3)	(681.7)

1 Contract assets primarily relate to unbilled regulated distribution and transmission revenue from AEMO market participants (generators, distributors and retailers). Invoices are raised on 30-day billing cycles for distribution and transmission and on 60-day cycles for gas. We assess these balances as fully recoverable, noting that our COVID-19 customer relief package commences for charges incurred from 1 April 2020.

2 Contract liabilities primarily relate to funds received in advance for customer contributions, telecommunications services, unregulated infrastructure services and software maintenance fees. Revenue is recognised over the construction period and contract term. Revenue recognised in FY20 that was included in the contract liability balance at 1 April 2019 was \$42.8 million. Of the total contract liabilities of \$156.1 million we expect that approximately 23 per cent of these performance obligations will be satisfied in the next twelve months, with the remainder satisfied over the longer term. Long-term obligations primarily comprise unregulated and negotiated transmission contracts (primarily 30 years).

3 Includes \$34.1 million (2019: \$43.0 million) defined benefit surplus, refer to note F.2 for further details.

Notes to the consolidated financial statements 31 March 2020

Section B Operating our business

continued

NOTE B.4 WORKING CAPITAL (CONTINUED)

(A) ACCOUNTS RECEIVABLE

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

Collectability of receivables is reviewed on an ongoing basis. Debts that are known to be uncollectable are written off. For accounts receivable, contract assets and lease assets, the Group applies the simplified approach for expected credit losses, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

Accounts receivable are non-interest bearing and the average credit period is 15 business days (10 days for regulated retailers, 30 days for customer contracts).

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

	Gross 2020 \$M	Allowance 2020 \$M	Gross 2019 \$M	Allowance 2019 \$M
Electricity Distribution	12.6	-	10.4	(0.1)
Gas Distribution	12.7	(0.1)	11.5	(0.1)
Electricity Transmission	8.2	-	1.1	(0.3)
Mondo	30.6	(2.4)	32.7	(1.4)
Total	64.1	(2.5)	55.7	(1.9)

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

	2020 \$M	2019 \$M
Opening loss allowance as at 1 April	(1.9)	(0.8)
Increase in loss allowance recognised in profit or loss during the year	(1.7)	(1.9)
Receivables written off during the year as uncollectible	1.1	0.8
Closing loss allowance as at 31 March	(2.5)	(1.9)

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

Mondo receivables are primarily large telecommunications, electricity and gas retail businesses and other utilities such as water and transport companies. Allowances are required to cover potential contractual disputes over services provided as well as delinquent customers. We have reassessed expected credit losses in light of current COVID-19 pandemic impacts on customers as at 31 March 2020. The impact of this reassessment was not material.

(B) TRADE AND OTHER PAYABLES

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

(C) PROVISIONS

	2020 \$M	2019 \$M
Current provisions		
Employee benefits ¹	61.9	85.0
Sundry provisions ²	10.0	7.6
Redundancy provision	3.8	4.7
Environmental provision ³	-	0.7
Total current provisions	75.7	98.0
Non-current provisions		
Employee benefits ¹	12.1	10.0
Environmental provision ³	37.4	35.1
Make good provision	11.7	13.6
Total non-current provisions	61.2	58.7
Total provisions	136.9	156.7

1 Employee benefits provisions represent provisions for annual and long service leave for our employees as well as provisions for employee bonuses. Liabilities for annual leave and long service leave are measured at the present value of expected future payments for services provided by employees up to the reporting date, including on costs. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using interest rates on corporate bonds with a term to maturity and currency that match, as closely as possible, the estimated future cash outflows. Current employee benefits provisions decrease in FY2020 due to 326 employees transferring to Downer and Zinfra as part of the electricity distribution and transmission operations and maintenance transfer in September 2019 and March 2020.

2 Sundry provisions include uninsured losses, make good provisions and provisions for cross boundary charges.

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

Notes to the consolidated financial statements 31 March 2020

Section B Operating our business

continued

NOTE B.5 TAXATION

KEY ESTIMATES AND JUDGEMENTS – TIMING AND AVAILABILITY OF TAX DEDUCTIONS

The tax expense and deferred tax balances assume certain tax outcomes and values of assets in relation to the application of tax legislation as it applies to AusNet Services Ltd. Judgement is required in determining the timing of deductibility of expenditure, which impacts the amount of income tax payable and whether deferred tax balances are to be recognised in the statement of financial position. Changes in tax legislation or the interpretation of tax laws by tax authorities may affect the amount of provision for income taxes and deferred tax balances recognised.

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

(A) EFFECTIVE TAX RATE RECONCILIATION

	2020 \$M	2019 \$M
Profit before income tax	415.4	371.9
Tax at the Australian tax rate of 30.0% (2019: 30.0%)	124.6	111.6
Tax effect of amounts which are not (taxable)/deductible in calculating taxable income:		
Prior year under provisions	-	0.5
Tax risk provision	-	11.0
Sundry items	0.1	(5.1)
Income tax expense	124.7	118.0
Consists of:		
Current tax	84.5	68.6
Prior year under/(over) provision – current tax	8.5	1.9
Deferred tax	40.2	48.9
Prior year (over)/under provision – deferred tax	(8.5)	(1.4)
Income tax expense	124.7	118.0

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

(B) CURRENT TAX

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

(C) DEFERRED TAX

	Deferred tax assets / (Deferred tax liabilities)					
	1 April 2019 \$M	Other items \$M	Prior year (under)/ overs \$M	(Charged)/ credited to income statement \$M	Charged/ (credited) directly in equity \$M	31 March 2020 \$M
2020						
Employee benefits	28.6	-	-	(6.3)	-	22.3
Other accruals and provisions	91.2	-	(0.9)	5.0	(0.1)	95.2
Derivative financial instruments and fair value adjustments on borrowings	113.3	-	1.8	15.9	137.1	268.1
Defined benefit fund	(12.9)	-	-	(2.6)	5.3	(10.2)
Intangibles	(26.7)	-	-	-	-	(26.7)
Other financial assets	(27.7)	-	-	(4.3)	-	(32.0)
Property, plant and equipment	(716.2)	-	7.6	(47.9)	-	(756.5)
Net deferred tax liabilities	(550.4)	-	8.5	(40.2)	142.3	(439.8)
	1 April 2018 \$M	Other items ¹ \$M	Prior year (under)/ overs \$M	(Charged)/ credited to income statement \$M	Charged/ (credited) directly in equity \$M	31 March 2019 \$M
2019						
Employee benefits	27.8	-	-	0.8	-	28.6
Other accruals and provisions	57.5	14.5	-	19.8	(0.6)	91.2
Derivative financial instruments and fair value adjustments on borrowings	11.4	-	(1.1)	9.9	93.1	113.3
Defined benefit fund	(15.6)	-	-	1.1	1.6	(12.9)
Intangibles	(26.7)	-	-	-	-	(26.7)
Other financial assets	(23.3)	-	-	(4.4)	-	(27.7)
Property, plant and equipment	(642.6)	-	2.5	(76.1)	-	(716.2)
Net deferred tax liabilities	(611.5)	14.5	1.4	(48.9)	94.1	(550.4)

1 Other items in the previous year relates to the tax effect of the AASB 15 transition adjustments.

Notes to the consolidated financial statements 31 March 2020

Section B Operating our business

continued

NOTE B.5 TAXATION (CONTINUED)

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

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

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

i. TAX CONSOLIDATION

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

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

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

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

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

(D) RECONCILIATION OF TAX PAYABLE

	2020 \$M	2019 \$M
Balance at 1 April	31.9	3.6
Finalisation of prior year tax return	(40.6)	1.9
Tax instalments paid	(58.1)	(44.1)
Current year tax expense	93.0	70.5
Balance at 31 March¹	26.2	31.9

¹ Closing balance as at 31 March 2020 includes \$11.0 million relating to uncertain tax positions.

Notes to the consolidated financial statements 31 March 2020

Section C Investing in our business

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

NOTE C.1 PROPERTY, PLANT AND EQUIPMENT

KEY ESTIMATES AND JUDGEMENTS – USEFUL LIVES OF PROPERTY, PLANT AND EQUIPMENT

Management judgement is applied to estimate service lives and residual values of our assets and these are reviewed annually. If service lives or residual values need to be modified, the depreciation expense changes as from the date of reassessment until the end of the revised useful life (for both the current and future years). This assessment includes consideration of the regulatory environment and technological developments, including but not limited to asset condition and obsolescence, location of supply and demand and estimated transformation in the energy market, including the changing source of generation. Any reassessment for useful lives in a particular year will affect the depreciation expense.

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

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

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

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

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

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

Included within this note are leases where the Group is a lessee. These are disclosed as right-of-use assets as at 31 March 2020, and are reconciled from the transition adjustment at 1 April 2019. The other transition adjustment involves the removal of transmission assets where the Group is a lessor, which are now presented in Note C.3. Further details on adjustments recognised on adoption of AASB 16 are presented in Section A(c).

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

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Notes to the consolidated financial statements 31 March 2020

Section C Investing in our business

continued

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

	Freehold land \$M	Buildings \$M	Easements \$M	Transmission network \$M
Useful life (years)	Indefinite	40–99	30–Indefinite	15–70
2020				
Carrying amount as at 1 April 2019	253.5	425.8	1,227.4	2,245.6
AASB 16 initial recognition	-	-	-	-
AASB 16 new lease costs	-	-	-	-
AASB 16 lease modifications	-	-	-	-
AASB 16 lessor initial recognition	(0.9)	(8.9)	(0.7)	(76.3)
AASB 16 lessor transfers	-	-	-	-
Additions	-	-	-	-
Transfers	-	48.7	-	235.9
Disposals	(0.6)	-	-	(3.8)
Depreciation expense	-	(11.9)	-	(90.6)
Carrying amount as at 31 March 2020	252.0	453.7	1,226.7	2,310.8
Cost	252.0	566.8	1,226.9	3,254.3
Accumulated depreciation	-	(113.1)	(0.2)	(943.5)
Carrying amount as at 31 March 2020	252.0	453.7	1,226.7	2,310.8

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

	Freehold land \$M	Buildings \$M	Easements \$M	Transmission network \$M
Useful life (years)	Indefinite	40–99	30–Indefinite	15–70
2019				
Carrying amount as at 1 April 2018	253.5	423.0	1,223.4	2,104.3
Additions	-	-	-	-
Transfers	-	13.9	4.1	223.1
Disposals	-	-	-	(1.4)
Depreciation expense	-	(11.1)	(0.1)	(80.4)
Carrying amount as at 31 March 2019	253.5	425.8	1,227.4	2,245.6
Cost	253.5	528.6	1,227.5	3,119.8
Accumulated depreciation	-	(102.8)	(0.1)	(874.2)
Carrying amount as at 31 March 2019	253.5	425.8	1,227.4	2,245.6

Electricity distribution network \$M	Gas distribution network \$M	Other plant and equipment \$M	Right- of-use asset ¹ \$M	Capital work in progress \$M	Total \$M
5–70	15–80	3–12	1–47	n/a	
4,207.1	1,615.3	162.9	-	652.3	10,789.9
-	-	-	103.8	-	103.8
-	-	-	1.0	-	1.0
-	-	-	(3.8)	-	(3.8)
-	-	(2.7)	-	-	(89.5)
-	-	-	-	(195.3)	(195.3)
-	-	-	-	950.1	950.1
366.4	96.3	37.6	-	(784.9)	-
(9.5)	(5.3)	(13.3)	-	-	(32.5)
(198.6)	(55.1)	(50.4)	(11.7)	-	(418.3)
4,365.4	1,651.2	134.1	89.3	622.2	11,105.4
6,117.7	2,188.7	686.1	100.7	622.2	15,015.4
(1,752.3)	(537.5)	(552.0)	(11.4)	-	(3,910.0)
4,365.4	1,651.2	134.1	89.3	622.2	11,105.4

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

Notes to the consolidated financial statements 31 March 2020

Section C Investing in our business

continued

NOTE C.2 INTANGIBLE ASSETS

	Distribution licences ¹ \$M	Goodwill ² \$M	Software ³ \$M	Other intangible assets \$M	Total \$M
Useful life (years)	Indefinite	Indefinite	3–10	3–10	
2020					
Carrying amount as at 1 April 2019	354.5	35.8	151.9	0.1	542.3
Additions	-	-	39.0	-	39.0
Amortisation expense	-	-	(46.1)	(0.1)	(46.2)
Carrying amount as at 31 March 2020	354.5	35.8	144.8	-	535.1
Cost	354.5	35.8	626.4	5.5	1,022.2
Accumulated amortisation	-	-	(481.6)	(5.5)	(487.1)
Carrying amount as at 31 March 2020	354.5	35.8	144.8	-	535.1
2019					
Carrying amount as at 1 April 2018	354.5	35.8	159.1	0.7	550.1
Additions	-	-	45.2	-	45.2
Amortisation expense	-	-	(52.4)	(0.6)	(53.0)
Carrying amount as at 31 March 2019	354.5	35.8	151.9	0.1	542.3
Cost	354.5	35.8	587.6	5.5	983.4
Accumulated amortisation	-	-	(435.7)	(5.4)	(441.1)
Carrying amount as at 31 March 2019	354.5	35.8	151.9	0.1	542.3

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

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

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

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

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

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

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

NOTE C.3 OTHER FINANCIAL ASSETS

	Note	Lessor finance receivable \$M	Desalination licence receivable \$M	Short term investments \$M	Total \$M
Carrying amount at 1 April 2019		-	184.1	-	184.1
AASB 16 lessor initial recognition	C.1	89.5	-	-	89.5
Transfers from capital work in progress	C.1	195.3	-	-	195.3
Principal repayments		(0.9)	(8.8)	-	(9.7)
Short term investments		-	-	249.7	249.7
Carrying amount at 31 March 2020		283.9	175.3	249.7	708.9
<i>Comprising of:</i>					
Current assets		0.9	12.1	249.7	262.7
Non-current assets		283.0	163.2	-	446.2
Total other financial assets		283.9	175.3	249.7	708.9

LESSOR FINANCE RECEIVABLE

As disclosed within Section A(c), as a result of the adoption of AASB 16, the Group has determined that its dedicated unregulated customer connection assets meet the new definition of a finance lease, resulting in de-recognition of property, plant and equipment and the recognition of a financial asset. The financial asset is initially measured at the present value of remaining revenue receipts, discounted at the interest rate implicit in the lease. In order to calculate the interest rate implicit in the lease, the Group has determined that the construction costs of the asset is equivalent to its fair value.

DESALINATION LICENCE RECEIVABLE

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

The upfront payment of \$235 million plus transaction costs of \$1.2 million for the licence has been classified as a receivable. This receivable is interest-bearing and \$8.8 million (2019: \$8.8 million) of the total cash flows received from the operator during the year has been allocated against this receivable balance. The monthly revenue payment received from the operator is fixed, with an annual adjustment for inflation. Any amounts not received from the operator, but which are past due, can be recovered from the Victorian State Government.

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

SHORT TERM INVESTMENTS

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

Notes to the consolidated financial statements 31 March 2020

Section C Investing in our business continued

NOTE C.4 IMPAIRMENT OF NON-CURRENT ASSETS

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

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

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

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

KEY ESTIMATES AND JUDGEMENTS – DETERMINATION OF CGUS AND ASSESSMENT OF RECOVERABLE AMOUNT

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

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

The following CGUs have intangible assets with an indefinite life:

	Cash flow projection period ¹		Post-tax discount rate ²		Carrying value	
	2020 years	2019 years	2020 %	2019 %	2020 \$M	2019 \$M
Regulated CGUs						
Electricity distribution (distribution licence)	10	20	4.2	5.1	117.2	117.2
Electricity distribution (goodwill)	10	20	4.2	5.1	19.0	19.0
Gas distribution (distribution licence)	10	20	4.2	5.1	237.3	237.3
Unregulated CGUs						
Mondo – field services (goodwill)	5	5	10.2	10.2	16.8	16.8

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

- 1 Regulated cash flow forecasts are based on allowable returns on electricity and gas distribution assets as set out in the Victorian Electricity Supply Industry Tariff Order and the Victorian Gas Industries Tariff Order respectively, together with other information included in our five year forecast. Cash flows after that period are based on an extrapolation of the forecast, taking into account inflation and expected customer connection growth rates. In the current year, this cash flow projection period was revised down to 10 years following a rebuild of the financial planning model and to factor in the inherent uncertainty in cashflows beyond the next regulatory resets.
- 2 The discount rate represents the post-tax discount rate applied to the cash flow projections. The discount rate reflects the market-determined risk-adjusted discount rate that is adjusted for specific risks relating to the CGU.

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

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

NOTE C.5 CAPITAL COMMITMENTS

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

	2020 \$M	2019 \$M
Property, plant and equipment	299.1	312.0

Notes to the consolidated financial statements 31 March 2020

Section D Financing our business

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

NOTE D.1 CAPITAL MANAGEMENT

We manage our capital structure in order to maximise the long-term returns to shareholders. We achieve this by being disciplined in the pursuit of the following objectives:

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

We review our capital structure and dividend policy regularly and do so in the context of our ability to continue as a going concern over the long term, to invest in opportunities that grow the business and enhance shareholder value.

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

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

The movement of this metric over time demonstrates how the business is funding its capital expenditure in terms of debt versus income generating assets. Net debt to R&CAB ratio is expected to remain below 70 per cent to FY2024.

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

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

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

NOTE D.2 BORROWINGS

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

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

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

	Maturity date	Carrying Value		Face Value ¹	
		2020 \$M	2019 \$M	2020 \$M	2019 \$M
Current borrowings					
Swiss francs (CHF) senior notes	-	-	389.5	-	283.2
Bank debt facilities	October 2020	48.0	22.0	48.0	22.0
Domestic medium-term notes	-	-	341.1	-	335.2
Hong Kong dollar (HKD) senior notes	-	-	127.1	-	100.0
Floating rate note	-	-	100.0	-	100.0
Euro (EUR) senior notes	July 2020	907.2	-	709.7	-
Total current borrowings		955.2	979.7	757.7	840.4
Non-current borrowings					
Hong Kong dollar (HKD) senior notes	2021–2034	1,119.6	876.5	751.4	751.5
Domestic medium term notes	2021–2043	2,351.0	1,949.5	2,235.0	1,885.0
Bank debt facilities	2023	98.1	-	100.0	-
Euro (EUR) senior notes	2024–2030	3,058.8	2,637.1	2,426.2	2,329.8
Japanese yen (JPY) senior notes	2024	78.6	66.3	62.6	62.6
US dollar (USD) senior notes	2026	145.6	118.7	107.0	107.0
Norwegian kroner (NOK) senior notes	2027–2029	620.4	596.4	565.8	565.8
US dollar (USD) hybrid securities ²	2076	619.5	513.7	505.7	505.7
Singapore dollar (SGD) hybrid securities ²	2076	233.9	208.5	199.6	199.6
Total non-current borrowings		8,325.5	6,966.7	6,953.3	6,407.0
Total borrowings		9,280.7	7,946.4	7,711.0	7,247.4
less:					
Cash and cash equivalents		155.3	339.4	155.3	339.4
Short term investments		249.7	-	249.7	-
Net debt		8,875.7	7,607.0	7,306.0	6,908.0

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

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

Notes to the consolidated financial statements 31 March 2020

Section D Financing our business

continued

NOTE D.2 BORROWINGS (CONTINUED)

(A) FOREIGN CURRENCY TRANSLATION

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

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

(B) FAIR VALUES OF FINANCIAL INSTRUMENTS

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

(C) FINANCIAL COVENANTS

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

(D) OTHER BANK GUARANTEES

Certain entities within the Group are required to provide bank guarantees in the form of tender bid bonds or performance bonds for contractual obligations. The subsidiaries have guarantee facilities with a number of institutions amounting to \$15.0 million, of which \$6.5 million was provided to third parties at 31 March 2020 (2019: \$6.1 million).

(E) CHANGES IN LIABILITY ARISING FROM FINANCING ACTIVITIES

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

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

NOTE D.3 FINANCIAL RISK MANAGEMENT

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

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

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

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

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

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

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

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

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

Notes to the consolidated financial statements 31 March 2020

Section D Financing our business

continued

NOTE D.3 FINANCIAL RISK MANAGEMENT (CONTINUED)

(A) INTEREST RATE RISK

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

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

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

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

	2020 \$M	2019 \$M
Financial assets		
Fixed-rate instruments	399.7	327.0
Financial liabilities¹		
Fixed-rate instruments	(6,915.0)	(6,816.5)
Floating-rate instruments	(796.1)	(430.9)

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

Our exposure to changes in interest rates is limited to exposures denominated in Australian dollars due to our policy of mitigating interest rate risk exposure on foreign currency debt. As a result, the sensitivity analysis below has only been performed based on movements in Australian interest rates. As at reporting date, if Australian interest rates had increased and decreased by 67 basis points as at 31 March 2020 (2019: 47 basis points), with all other variables held constant, post tax profit and equity would have increased/(decreased) as follows:

	Net profit after tax		Equity after tax (hedge reserve)	
	2020 \$M	2019 \$M	2020 \$M	2019 \$M
Increase in Australian interest rates with all other variables held constant	0.3	1.0	102.2	169.7
Decrease in Australian interest rates with all other variables held constant	(2.0)	(1.9)	(383.4)	(176.6)

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

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

(B) CURRENCY RISK

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

Notes to the consolidated financial statements 31 March 2020

Section D Financing our business

continued

NOTE D.3 FINANCIAL RISK MANAGEMENT (CONTINUED)

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

(i) ACCOUNTING FOR FINANCIAL INSTRUMENTS

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

	Fair value hedges	Cash flow hedges
Objective of the hedge	To mitigate the exposure to changes in fair value of certain borrowings. Fair value hedges are generally fixed rate designated for the terms of borrowings that fall outside of the price review periods for the regulated businesses.	To mitigate the variability in cash flows attributable to variable interest rate and/or foreign currency movements on borrowings or highly probable forecast transactions.
Treatment of changes in fair value of qualifying hedges	Recognised immediately in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.	The effective portion is recognised directly in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the income statement. Amounts accumulated in the hedge reserve are recycled in the income statement when the hedged item affects the income statement (generally when the forecast transaction that is hedged takes place). However, when the forecast transaction results in the recognition of a non-financial asset, the gains and losses are transferred from the hedge reserve and included in the measurement of the initial carrying amount of the asset.
Documentation of the hedge relationship	To ensure derivative financial instruments qualify for hedge accounting we document, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as our risk management objectives and strategy for undertaking various hedge transactions. We also document our assessment, both at hedge inception and on an ongoing basis, of whether the derivative financial instruments that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.	
Discontinuation of hedge accounting	Hedge accounting is discontinued when the hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting.	
	After discontinuation, the previously hedged asset or liability is no longer revalued for changes in fair value.	At that time, any cumulative gain or loss existing in the hedge reserve remains in hedge reserve and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in the hedge reserve is immediately recognised in the income statement.

(ii) MEASUREMENT AND CLASSIFICATION

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

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

	Interest rate swaps \$M	Forward foreign currency contracts \$M	Cross- currency swaps \$M	Currency options \$M	Total net derivative financial instruments \$M
2020					
Current assets	-	0.6	194.2	-	194.8
Non-current assets	121.9	0.5	1,114.9	11.8	1,249.1
Current liabilities	(5.5)	(0.5)	-	-	(6.0)
Non-current liabilities	(775.7)	(0.4)	-	-	(776.1)
Total derivative financial instruments	(659.3)	0.2	1,309.1	11.8	661.8
Consists of:					
– fair value hedges	122.4	-	494.5	-	616.9
– cash flow hedges	(781.7)	0.2	815.8	11.8	46.1
– not in a hedge relationship	-	-	(1.2)	-	(1.2)
Total derivative financial instruments	(659.3)	0.2	1,309.1	11.8	661.8
2019					
Current assets	5.6	0.2	133.4	-	139.2
Non-current assets	72.3	-	400.7	-	473.0
Current liabilities	(2.5)	(0.2)	-	-	(2.7)
Non-current liabilities	(346.7)	-	(0.5)	-	(347.2)
Total derivative financial instruments	(271.3)	-	533.6	-	262.3
Consists of:					
– fair value hedges	78.8	-	207.7	-	286.5
– cash flow hedges	(350.1)	-	327.1	-	(23.0)
– not in a hedge relationship	-	-	(1.2)	-	(1.2)
Total derivative financial instruments	(271.3)	-	533.6	-	262.3

Notes to the consolidated financial statements 31 March 2020

Section D Financing our business continued

NOTE D.3 FINANCIAL RISK MANAGEMENT (CONTINUED)

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

(ii) MEASUREMENT AND CLASSIFICATION (CONTINUED)

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

Credit risk is included in the fair value of derivative financial instruments based on a bilateral credit risk adjustment obtained using credit default swap curves. Credit risk is obtained directly from the observable Credit Default Swap curves within Bloomberg for each of the relevant counterparties, with the Bilateral Credit Risk applied uniformly across all asset and liability positions as at the reporting date. The difference between the fair value of derivatives and their transaction price at inception due to credit valuation adjustments is recognised progressively over the period to maturity. The unamortised value of the deferred credit risk adjustment for derivative financial instruments as at 31 March 2020 is \$22.4 million (2019: \$25.8 million).

KEY ESTIMATES AND JUDGEMENTS – FAIR VALUE OF DERIVATIVE FINANCIAL INSTRUMENTS

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

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

The fair value of derivative financial instruments is determined using valuation techniques and available market observable data as well as market corroboration based on active quotes. These include industry standard interest rates, foreign exchange and currency basis yield curves sourced directly from Bloomberg. These observable inputs from 31 March 2020 reflect market volatility as a result of COVID-19, including significant movements in credit risk. These inputs are appropriate to use and represent orderly transactions in an active market as required by AASB 13. Appropriate transaction costs and risk premiums are included in the determination of net fair value.

(iii) OFFSETTING DERIVATIVE FINANCIAL INSTRUMENTS

Derivative assets and liabilities are presented on a gross basis. Certain derivative assets and liabilities are subject to enforceable master netting arrangements with individual counterparties if they were subject to default. Notwithstanding that these financial assets and liabilities do not meet the criteria for being presented on a net basis, if these netting arrangements were applied to the derivative portfolio as at 31 March 2020, derivative assets and liabilities would be reduced by \$762.8 million respectively (2019: \$332.7 million). Refer to the below table:

	Gross amounts in the financial statements \$M	Amounts subject to master netting arrangements \$M	Net amount \$M
2020			
Derivative financial assets	1,443.9	(762.8)	681.1
Derivative financial liabilities	(782.1)	762.8	(19.3)
	661.8	-	661.8
2019			
Derivative financial assets	612.2	(332.7)	279.5
Derivative financial liabilities	(349.9)	332.7	(17.2)
	262.3	-	262.3

Notes to the consolidated financial statements 31 March 2020

Section D Financing our business continued

NOTE D.3 FINANCIAL RISK MANAGEMENT (CONTINUED)

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

(iv) CASH FLOW HEDGES

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

	Change in value of hedged item used to measure ineffectiveness ¹ \$M	Change in value of hedging instrument used to measure ineffectiveness ¹ \$M	Nominal amounts of hedging instruments ¹ \$M
Interest rate risk	383.8	(380.9)	14,316.6
Foreign currency risk – debt	(456.2)	443.3	8,041.1
Foreign currency risk – capital expenditure	(6.5)	6.5	22.0

¹ Nominal amounts represent the total principal in each hedging instrument (derivative) in cash flow hedges. For hedging purposes derivatives are split into multiple hedging components becoming hedging instruments in each hedge relationship. The nominal amounts in the table above are based on these multiple hedging components. The nominal value for all external derivatives in both cash flow and fair value hedges is \$14,496.9 million.

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

	2020 \$M	2019 \$M
Opening balance of cash flow hedge reserve	(315.2)	(117.1)
Amounts recognised in other comprehensive income, net of income tax:		
Changes in fair value of cash flow hedges (excluding foreign currency basis spreads)	(596.0)	(356.1)
Amounts reclassified to interest expense for effective hedges	121.1	79.6
Changes in foreign currency basis spreads	17.8	(14.7)
Tax effect	137.1	93.1
Total amounts recognised in other comprehensive income, net of income tax	(320.0)	(198.1)
Closing balance of cash flow hedge reserve	(635.2)	(315.2)

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

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

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

(v) FAIR VALUE HEDGES

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

	Carrying amount of the hedged item \$M	Accumulated amount of fair value adjustments on hedged items \$M	Gain/(loss) on remeasurement of hedged item \$M	Gain/(loss) on remeasurement of hedging instruments \$M	Nominal amounts of hedging instruments ¹ \$M
AUD denominated borrowings	(2,496.9)	(126.9)	(46.0)	43.7	1,273.0
Foreign currency denominated borrowings	(6,783.8)	(1,471.0)	(283.5)	273.5	9,532.0

¹ Nominal amounts represent the total principal in each hedging instrument (derivative) in fair value hedges. For hedging purposes derivatives are split into multiple hedging components becoming hedging instruments in each hedge relationship. The nominal amounts in the table above are based on these multiple hedging components. The nominal value for all external derivatives in both cash flow and fair value hedges is \$14,496.9 million.

(D) LIQUIDITY RISK

We manage liquidity risk by maintaining adequate cash reserves, committed banking facilities and reserve borrowing facilities and by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. These practices are governed by our liquidity management policies, which include Board approved guidelines covering the maximum volume of long-term debt maturing in any one year, the minimum number of years over which debt maturities are to be spread and the timing of refinancing. In addition, short-term bank debt and commercial papers must not represent more than an agreed percentage of the total debt portfolio.

The liquidity management policies ensure that we have a well diversified portfolio of debt, in terms of maturity and source, which significantly reduces reliance on any one source of debt in any particular year. In addition, our investment grade credit rating ensures ready access to both domestic and offshore capital markets.

Our policy is that financing facilities are to be put in place at least six months before maturity of the debt being replaced or in the case of new debt at least six months before funding is required. "In place" is defined as meaning all documentation has been completed and settlement has occurred or if settlement has not occurred (e.g. committed but undrawn bank debt facilities) funding is committed and is not subject to a material adverse change in the market.

(i) CONTRACTUAL CASH FLOWS

Liquidity risk is managed based on net contracted and forecast inflows and outflows from operating, financing and investing activities. The following table summarises the contractual cash flows of our non derivative and derivative financial assets and liabilities based on the remaining earliest contractual maturities. The contractual cash flows are based on undiscounted principal and interest commitments, and foreign exchange rates at the reporting date.

Notes to the consolidated financial statements 31 March 2020

Section D Financing our business

continued

NOTE D.3 FINANCIAL RISK MANAGEMENT (CONTINUED)

(D) LIQUIDITY RISK (CONTINUED)

(i) CONTRACTUAL CASH FLOWS (CONTINUED)

	Notes	Principal at face value \$M
2020		
Financial assets		
Cash and cash equivalents		155.3
Accounts and other receivables	B.4	213.2
Other financial assets	C.3	708.9
Derivative financial assets		
Financial liabilities		
Trade and other payables	B.4	262.2
Lease liabilities	D.5	94.3
Bank debt facilities		148.0
Domestic medium-term notes		2,235.0
Foreign senior notes		4,622.7
Hybrid securities ¹		705.4
Derivative financial liabilities		
Net cash outflow		
2019		
Financial assets		
Cash and cash equivalents		339.4
Accounts and other receivables	B.4	199.9
Other financial assets	C.3	184.1
Derivative financial assets		
Financial liabilities		
Trade and other payables	B.4	244.8
Bank debt facilities		22.0
Floating rate notes		100.0
Domestic medium-term notes		2,220.2
Foreign senior notes		4,199.8
Hybrid securities ¹		705.4
Derivative financial liabilities		
Net cash outflow		

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

Carrying amount \$M	Total contractual cash flows \$M	Less than 1 year \$M	1 – 2 years \$M	2 – 5 years \$M	Greater than 5 years \$M
155.3	155.3	155.3	-	-	-
213.2	213.2	213.2	-	-	-
708.9	1,228.0	295.4	42.6	125.4	764.6
1,433.9	1,194.6	267.0	231.4	165.3	530.9
2,511.3	2,791.1	930.9	274.0	290.7	1,295.5
262.2	262.2	262.2	-	-	-
94.3	197.0	12.7	24.9	20.4	139.0
146.1	155.3	155.3	-	-	-
2,351.0	2,980.6	104.6	345.3	669.5	1,861.2
5,930.2	6,239.2	1,016.7	182.7	973.6	4,066.2
853.4	912.9	47.8	865.1	-	-
782.1	839.5	126.9	123.4	267.2	322.0
10,419.3	11,586.7	1,726.2	1,541.1	1,930.7	6,388.4
	(8,795.6)	(795.3)	(1,267.4)	(1,640.0)	(5,092.9)
339.4	339.4	339.4	-	-	-
199.9	199.9	199.9	-	-	-
184.1	301.1	23.3	19.4	54.8	203.6
612.2	336.7	141.6	95.0	40.5	59.6
1,335.6	1,177.1	704.2	114.4	95.3	263.2
244.8	244.8	244.8	-	-	-
22.0	22.0	22.0	-	-	-
100.0	103.5	103.5	-	-	-
2,290.6	2,997.2	453.1	95.5	795.8	1,652.8
4,811.6	5,340.0	626.9	892.6	870.9	2,949.6
722.2	840.9	42.0	41.9	757.0	-
349.9	408.6	62.9	62.7	143.2	139.8
8,541.1	9,957.0	1,555.2	1,092.7	2,566.9	4,742.2
	(8,779.9)	(851.0)	(978.3)	(2,471.6)	(4,479.0)

Notes to the consolidated financial statements 31 March 2020

Section D Financing our business

continued

NOTE D.3 FINANCIAL RISK MANAGEMENT (CONTINUED)

(D) LIQUIDITY RISK (CONTINUED)

(ii) FINANCING FACILITIES

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

	2020			2019		
	Amount used \$M	Amount unused \$M	Total \$M	Amount used \$M	Amount unused \$M	Total \$M
Financing facilities (face value)						
Unsecured bank overdraft facility, reviewed annually and payable at call	-	2.5	2.5	-	2.5	2.5
Unsecured working capital facility, reviewed annually	48.0	52.0	100.0	22.0	78.0	100.0
Unsecured bank loan facility with various maturity dates and which may be extended by mutual agreement	100.0	600.0	700.0	-	700.0	700.0
Total financing facilities	148.0	654.5	802.5	22.0	780.5	802.5

(E) CREDIT RISK

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

We have adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults (refer to Note B.4). Our exposure and the credit ratings of our counterparties are continuously monitored and the aggregate values of transactions concluded are spread amongst approved counterparties. Revenues from a single customer, AEMO (which is majority Government owned), in our electricity transmission segment, represents 31 per cent (2019: 30 per cent) of our total revenues. We are licensed to transmit electricity in Victoria, whereas AEMO is the provider of shared network services and the planner, authoriser, contractor and director of augmentation of the declared shared network in Victoria. A network agreement is in place between both parties whereby we receive network charges from AEMO for the use of our transmission network to transmit electricity to participants in the market. Due to the nature of this network agreement, we do not believe that there is any significant credit risk exposure on this customer. Therefore, we consider the credit risk exposure to be minimal.

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

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies. At balance date we had \$399.7 million on term deposit and \$1,276.7 million of cross currency and interest rate swaps with 'A' rated or higher Australian and international banks.

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

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

NOTE D.4 NET FINANCE COSTS

	2020 \$M	2019 \$M
Finance income¹		
Interest income	2.4	6.6
Return on other financial assets	24.7	11.7
Total finance income	27.1	18.3
Finance costs²		
Interest expense	330.4	323.2
Interest expense – leases	6.0	-
Other finance charges – cash	3.3	3.4
Other finance charges – non-cash	4.8	5.1
Loss on fair value hedges	12.3	9.5
Loss on transactions not in a hedge relationship	-	0.7
Loss/(gain) on ineffective portion of cash flow hedges	9.9	3.4
Unwind of discount on provisions	3.4	7.0
Defined benefit net interest (income)/expense	(1.2)	(1.7)
Capitalised finance charges ³	(25.1)	(26.4)
Total finance costs	343.8	324.2
Net finance costs	316.7	305.9

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

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

3 The capitalisation rate used to determine the amount of borrowing costs to be included in the cost of qualifying assets is the average interest rate of 4.3 per cent (2019: 4.6 per cent) applicable to our outstanding borrowings at the end of the period.

Notes to the consolidated financial statements 31 March 2020

Section D Financing our business

continued

NOTE D.5 LEASE LIABILITIES

	Note	2020 \$M	2019 \$M
Carrying amount at 1 April 2019		-	-
Additions recognised on adoption of AASB 16	A(c)	103.8	-
New lease costs		0.4	-
Lease modifications		(3.8)	-
Principal repayments		(6.1)	-
Carrying amount at 31 March 2020		94.3	-
Comprising of:			
Current liability		6.1	-
Non-current liability		88.2	-
Total lease liabilities		94.3	-

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

To determine the incremental borrowing rate, the Group uses recent third-party financing received by the lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received with overlay adjustments specific to the lease term. As at 31 March 2020 the weighted-average rate applied was 6.11 per cent (adoption date: 5.64 per cent).

Payments associated with short-term leases and low-value assets are recognised on a straight-line basis as an expense within "Lease expenses" in the consolidated income statement. Short-term leases are leases with a contractual term of 12 months or less. Low-value assets comprise IT equipment and small items of office furniture. Furthermore, certain tax and insurance reimbursements to landlords do not convey a good or service to the Group and therefore are not included in the lease liability (non-lease payments). For the year ended 31 March 2020, \$3.0 million of short-term or low value leases and non-lease payments have been recognised in the income statement.

KEY ESTIMATES AND JUDGEMENTS – LEASE TERMS AND INCREMENTAL BORROWING RATE

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

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

NOTE D.6 EQUITY

	Notes	2020 \$M	2019 \$M
Contributed equity			
Ordinary shares – fully paid	(a), (b)	5,359.3	5,232.1
Shares held by employee share plans trust	(c)	(6.5)	(9.2)
Total contributed equity		5,352.8	5,222.9

(A) ORDINARY SHARES

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

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

(B) MOVEMENTS IN ORDINARY SHARE CAPITAL

Date	Details	Issue price	Number of shares	\$M
1 April 2019	Opening balance		3,652,664,376	5,232.1
27 June 2019	Dividend Reinvestment Plan ¹	\$1.75	37,146,857	65.0
19 December 2019	Dividend Reinvestment Plan ¹	\$1.68	37,029,297	62.2
31 March 2020	Closing balance		3,726,840,530	5,359.3
1 April 2018	Opening balance		3,614,346,765	5,172.8
20 December 2018	Dividend Reinvestment Plan ¹	\$1.55	38,317,611	59.3
31 March 2019	Closing balance		3,652,664,376	5,232.1

¹ The value of DRP is net of transaction costs.

(C) SHARES HELD BY EMPLOYEE SHARE PLANS TRUST

The Group uses an employee share trust as a delivery mechanism to satisfy future vesting entitlements for the Short Term Incentive Plan deferred equity rights for the Managing Director and the Long Term Incentive Plan (LTIP) performance rights. During the year, no shares were acquired on market and 1,622,106 shares vested at an average price of \$1.69 per share. During the previous year, 1,901,462 shares were acquired on market at an average price of \$1.60 per share and 2,411,082 shares vested at an average price of \$1.73 per share.

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

Notes to the consolidated financial statements 31 March 2020

Section D Financing our business continued

NOTE D.7 DIVIDENDS

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

Dividends	Date paid	Cents per share	Total dividend \$M
Final FY2019 dividend	27 June 2019	4.860	177.5
Interim FY2020 dividend	19 December 2019	5.100	188.2
Total dividends		9.960	365.7

In relation to the dividends paid in the current financial year of \$365.7 million (2019: \$342.5 million), \$127.2 million (2019: \$59.3 million) was utilised in the allotment of new shares issued under the Dividend Reinvestment Plan (DRP), net of transaction costs.

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

(A) FRANKING ACCOUNT

	2020 \$M	2019 \$M
Franking credits available to shareholders	91.1	72.8

The above available amounts are based on the balance of the dividend franking account at year end adjusted for the increase in franking credits that will arise on payment of the income tax provision at 31 March 2020.

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

Notes to the consolidated financial statements 31 March 2020

Section E Group Structure

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

NOTE E.1 SUBSIDIARIES

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

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

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

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

Name of entity	Country of incorporation	Class of shares	Equity holding	
			2020 %	2019 %
AusNet Services Ltd	Australia	Ordinary	100.0	100.0
AusNet Services (Distribution) Pty Ltd	Australia	Ordinary	100.0	100.0
AusNet Services (RE) Pty Ltd	Australia	Ordinary	100.0	100.0
AusNet Distribution Group Pty Ltd ¹	Australia	Ordinary	-	100.0
AusNet LDP (No.1) Ltd ²	UK	n/a	-	100.0
AusNet LDP (No.2) Ltd ²	UK	n/a	-	100.0
AusNet Holdings General Partner Pty Ltd ¹	Australia	Ordinary	-	100.0
AusNet Holdings (Partnership) Ltd Partnership ¹	Australia	n/a	-	100.0
AusNet Services Holdings Pty Ltd	Australia	Ordinary	100.0	100.0
AusNet Electricity Services Pty Ltd	Australia	Ordinary	100.0	100.0
AusNet Asset Services Pty Ltd	Australia	Ordinary	100.0	100.0
AusNet (No. 8) Pty Ltd ¹	Australia	Ordinary	-	100.0
AusNet (No. 9) Pty Ltd ¹	Australia	Ordinary	-	100.0
AusNet Gas Services Pty Ltd	Australia	Ordinary	100.0	100.0
Mondo Power Pty Ltd	Australia	Ordinary	100.0	100.0
AusNet Services (Transmission) Pty Ltd	Australia	Ordinary	100.0	100.0
AusNet Transmission Group Pty Ltd	Australia	Ordinary	100.0	100.0
AusNet Finance Pty Ltd ¹	Australia	Ordinary	-	100.0
Geomatic Holdings Pty Ltd ³	Australia	Ordinary	100.0	100.0
Geomatic Technologies Pty Ltd ³	Australia	Ordinary	100.0	100.0
AusNet Services Insurance Ltd	Guernsey	Ordinary	100.0	100.0
AusNet Services Finance Trust	Australia	Ordinary	100.0	100.0

1 In August 2019, these dormant companies were de-registered by ASIC and the partnership was dissolved.

2 In November 2019, these entities were dissolved by UK Companies House.

3 In September 2019, the Boards of these companies resolved to liquidate these dormant companies.

Notes to the consolidated financial statements 31 March 2020

Section E Group Structure

continued

NOTE E.2 PARENT ENTITY INFORMATION

(A) STATEMENT OF FINANCIAL POSITION

	2020 \$M	2019 \$M
Current assets	206.5	31.9
Non-current assets	5,370.1	5,409.7
Total assets	5,576.6	5,441.6
Current liabilities	26.3	31.9
Non-current liabilities	1.5	1.1
Total liabilities	27.8	33.0
Contributed equity	5,352.8	5,222.9
Reserves	0.5	2.6
Retained profits	195.5	183.1
Total equity	5,548.8	5,408.6

(B) STATEMENT OF COMPREHENSIVE INCOME

	2020 \$M	2019 \$M
Profit for the year	378.3	353.1
Total comprehensive income for the year	378.3	353.1

(C) CONTINGENT LIABILITIES

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

NOTE E.3 RELATED PARTY TRANSACTIONS

(A) MAJOR SHAREHOLDERS

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

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

(B) KEY MANAGEMENT PERSONNEL

	2020 \$	2019 \$
Short-term employee benefits	6,836,426	6,638,532
Post-employment benefits	320,568	351,085
Equity based payments	330,532	1,049,045
Other long-term benefits	152,620	84,555
	7,640,146	8,123,217

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

Notes to the consolidated financial statements 31 March 2020

Section E Group Structure

continued

(C) TRANSACTIONS WITH RELATED PARTIES

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

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

Zinfra (a subsidiary of Jemena) performs construction services under competitive tender processes. AusNet Services outsource a large portion of construction expenditure and the procurement function manages competitive tender processes for all contracts. In March 2020, the Group entered into an agreement with Zinfra to provide the majority of its transmission operations and maintenance works.

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

	2020 \$'000	2019 \$'000
Sales of goods and services		
Regulated revenue ¹	10,038	10,937
Services revenue	3,282	2,888
Purchases of goods and services		
Other expenses	1,156	3,912
Property, plant and equipment (construction services)	134,056	166,703
Dividends paid, net of DRP	113,499	140,035

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

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

	2020 \$'000	2019 \$'000
Current receivables (sale of goods and services)		
Jemena ¹	1,168	1,326
Singapore Power entities	212	185
Current payables and other liabilities (purchase of goods)		
Jemena	18,649	36,407

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

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

Notes to the consolidated financial statements 31 March 2020

Section F Other disclosures

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

NOTE F.1 REMUNERATION OF AUDITORS

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

	2020 \$'000	2019 \$'000
Audit and review services		
Audit and review of financial statements	1,491	1,474
Total remuneration for audit and review services	1,491	1,474
Assurance services		
Regulatory assurance services ¹	602	500
Total remuneration for assurance services	602	500
Other services		
Taxation services	12	110
Other services ²	290	5
Total remuneration for other services	302	115
Total remuneration of auditors	2,395	2,089

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

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

Notes to the consolidated financial statements 31 March 2020

Section F Other disclosures

continued

NOTE F.2 DEFINED BENEFIT OBLIGATIONS

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

During FY2020, we merged our two defined benefit plans, with members of the AusNet Transmission Group Pty Ltd plan transferring to the AusNet Electricity Services Pty Ltd plan. There was no impact on the Group financial statements as a result of the merger.

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

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

	2020 \$M	2019 \$M
Total amount included in the statement of financial position in respect of the defined benefit plans is as follows:		
Present value of defined benefit obligations	(173.7)	(266.2)
Fair value of plan assets	207.8	309.2
Net asset arising from defined benefit obligations	34.1	43.0

	2020 \$M	2019 \$M
Amounts recognised in the income statement in respect of the defined benefit plans are as follows:		
Current service cost	5.3	6.3
Curtailment gain on transfer to third parties ¹	(12.9)	-
Net interest (income)/expense on defined benefit obligations	(1.2)	(1.7)
Total	(8.8)	4.6
Remeasurement (losses)/gains recognised during the year in other comprehensive income	(17.7)	(5.1)

¹ Curtailment gain on transfer of 113 members to third party defined benefit funds as part of the electricity distribution and electricity transmission operations and maintenance transfer in September 2019 and March 2020 respectively.

Each year we engage an independent actuary to perform actuarial reviews of the defined benefit fund. Our net obligation in respect of the defined benefit superannuation fund is calculated by estimating the amount of future benefits that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value and recognised after deducting the fair value of any plan assets.

The discount rate is the yield at the balance date on corporate bonds that have maturity dates approximating the terms of our obligations. A qualified actuary performs the calculation using the projected unit credit method. Remeasurements comprise actuarial gains and losses and the return on plan assets (excluding interest). They are recognised in full directly in retained profits in the period in which they occur and are presented in other comprehensive income.

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

(A) MOVEMENT IN DEFINED BENEFIT OBLIGATIONS

	2020 \$M	2019 \$M
Movements in the present value of the defined benefit obligations were as follows:		
Opening defined benefit obligations	266.2	261.0
Current service cost	5.3	6.3
Interest cost	8.4	9.3
Transfer of obligations to third parties	(81.4)	-
Contributions by plan participants	1.8	2.3
Actuarial loss/(gain)	9.8	11.1
Benefits, taxes and premiums paid	(36.4)	(23.8)
Closing defined benefit obligations	173.7	266.2
Movements in the fair value of plan assets were as follows:		
Opening fair value of plan assets	309.2	312.9
Interest income	9.6	11.0
Actual return on fund assets less interest income	(7.9)	6.0
Transfer of assets to third parties	(68.5)	-
Contributions from the employer	-	0.8
Contributions by plan participants	1.8	2.3
Benefits, taxes and premiums paid	(36.4)	(23.8)
Closing fair value of plan assets	207.8	309.2

The actual return on plan assets was a gain of \$1.7 million (2019: \$17.0 million).

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

Notes to the consolidated financial statements 31 March 2020

Section F Other disclosures

continued

NOTE F.2 DEFINED BENEFIT OBLIGATIONS (CONTINUED)

(B) ANALYSIS OF PLAN ASSETS

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

	2020 %	2019 %
Investments quoted in active markets:		
Australian equities	11	11
International equities	17	18
Fixed interest securities	17	17
Unquoted investments:		
Property	7	7
Growth alternative	11	11
Defensive alternative	13	9
Cash	24	27
	100	100

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

(C) ACTUARIAL ASSUMPTIONS

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

	Defined benefit expense		Defined benefit obligation	
	2020 %	2019 %	2020 %	2019 %
Key assumptions				
Discount rate	3.3	3.7	2.4	3.3
Expected salary increase rate	3.0	3.8	3.0	3.8

As at 31 March 2020, the weighted average duration of the defined benefit obligation was 10 years (2019: 8 years).

KEY ESTIMATES AND JUDGEMENTS – VALUATION OF DEFINED BENEFIT ASSETS AND OBLIGATIONS

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

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

(D) SENSITIVITY ANALYSIS

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

	Increase \$M	Decrease \$M
Defined benefit obligation		
Discount rate (0.5 per cent movement)	(6.8)	7.4
Expected salary increase rate (0.5 per cent movement)	3.8	(3.5)

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

(E) DEFINED CONTRIBUTION EXPENSE

During FY2020, we contributed \$17.9 million of defined contribution benefit to employees (2019: \$17.3 million).

NOTE F.3 SHARE-BASED PAYMENTS

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

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

LONG TERM INCENTIVE PLAN

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

The Group has the following grants on foot at 31 March 2020:

Plan	Grant date	Vesting date	PRs granted	Value of PRs at grant date
MD LTIP 2019	1 November 2019	31 March 2022	260,459	\$309,946
LTIP 2019	24 May 2019	31 March 2022	3,263,316	\$3,883,346
LTIP 2018	23 May 2018	31 March 2021	3,876,789	\$4,186,932
LTIP 2017	23 May 2017	31 March 2020	3,327,515	\$4,026,293

Notes to the consolidated financial statements 31 March 2020

Section F Other disclosures

continued

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

	MD LTIP 2019	LTIP 2019	LTIP 2018	LTIP 2017
Share price at grant date (\$)	1.87	1.81	1.61	1.77
Exercise price (\$)	0.00	0.00	0.00	0.00
Expected volatility (%)	17.5	17.5	20	20
Risk free interest rate (%)	1.10	1.10	2.19	1.70
Dividend yield (%)	5.59	5.59	5.50	5.75
Expected life of performance rights (months)	36	36	36	36

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

Reconciliation of equity rights on issue:

	2019 Grant (including MD)	2018 Grant	2017 Grant	FY2020 Total	FY2019 Total
Opening balance	-	3,757,748	3,105,026	6,862,774	5,911,284
Granted during the year	3,523,775	-	-	3,523,775	3,876,789
Lapsed during the year	(675,580)	(1,165,363)	(1,495,608)	(3,336,551)	(1,482,536)
Vested during the year ¹	-	-	(1,609,418)	(1,609,418)	(1,442,763)
Closing balance	2,848,195	2,592,385	-	5,440,580	6,862,774

¹ The 2017 Grant vested to 65.6 per cent based on the vesting assessment performed at 31 March 2020. Participants with vested rights will be issued shares from the employee share plans trust in May 2020.

An expense of \$0.7 million has been recognised for the year ended 31 March 2020 (2019: \$1.8 million) in relation to equity-settled share-based payments.

NOTE F.4 CONTINGENT LIABILITIES AND CONTINGENT ASSETS

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

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

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

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

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

(B) OTHER

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

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

Notes to the consolidated financial statements 31 March 2020

Section F Other disclosures

continued

NOTE F.5 EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

(A) DIVIDEND

Since the end of the financial year, the Directors have approved a final dividend for FY2020 of \$190.1 million (5.10 cents per share) to be paid on 25 June 2020. The final dividend will be 50 per cent franked.

(B) NEW FINANCING FACILITIES

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

(C) COVID-19 PANDEMIC

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

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

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

(D) OTHER MATTERS

Other than outlined above, there has been no matter or circumstance that has arisen since 31 March 2020 up to the date of issue of this financial report that has significantly affected or may significantly affect:

- (a) the operations in financial years subsequent to 31 March 2020 of the Group;
- (b) the results of those operations; or
- (c) the state of affairs, in financial years subsequent to 31 March 2020, of the Group.

Directors' declaration

In the opinion of the Directors of AusNet Services Ltd (the Company):

- (a) the financial statements and notes set out on pages 75 to 134, and the remuneration disclosures that are contained in the Remuneration report set out on pages 47 to 74 in the Directors' report, are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
 - (ii) giving a true and fair view of the consolidated entity's financial position as at 31 March 2020 and of its performance for the financial year ended on that date;
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Section A; and
- (c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

The Directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer required by section 295A of the *Corporations Act 2001*.

Signed in accordance with a resolution of the Directors.



Peter Mason
Chairman



Tony Narvaez
Managing Director

Melbourne
11 May 2020



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

To the Directors of AusNet Services Ltd

I declare that, to the best of my knowledge and belief, in relation to the audit of AusNet Services Ltd for the financial year ended 31 March 2020 there have been:

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


KPMG



BW Szentirmay

Partner

Melbourne

11 May 2020



Independent Auditor's Report

To the shareholders of AusNet Services Ltd

Report on the audit of the Financial Report

Opinion

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

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

- giving a true and fair view of the **Group's** financial position as at 31 March 2020 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The **Financial Report** comprises:

- Consolidated statement of financial position as at 31 March 2020
- Consolidated income statement, Consolidated statement of comprehensive income, Consolidated statement of changes in equity, and Consolidated statement of cash flows for the year then ended
- Notes including a summary of significant accounting policies
- Directors' Declaration.

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

Basis for opinion

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

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

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



Key Audit Matters

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

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

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

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

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

Refer to Note B.5 Income Tax of the Financial Report.

The key audit matter	How the matter was addressed in our audit
The assessment of uncertain tax position is a key audit matter due to the complexity of relevant tax legislation and the audit effort required in the assessment of the Group's estimates and assumptions. The Group has recognised a tax risk provision in relation to the uncertainty over income tax treatment as set out in note B.5 amounting to \$11m, based on a probability-weighted range of possible outcomes. This provision is recognised in relation to matters subject to an Australian Tax Office (ATO) audit arising from the Pre-Lodgement Compliance Review for the income years 31 March 2016 and 31 March 2017, and audit matters relating to the tax depreciation profile of capital allowances. There is significant effort involved in the audit of the judgemental provisions in respect of uncertain tax positions. The estimates and assumptions applied by the Group may be subsequently challenged by the relevant tax authorities. In assessing this key audit matter, we involved our taxation specialists, who have industry-specific experience and detailed knowledge of the complex Australian taxation requirements and the ATO's compliance program activities.	Working with our taxation specialists, our procedures included: • Examining the tax audit notification and other relevant correspondence received from the ATO to understand the current status of the ATO audit; • Attendance at the Audit and Risk Management Committee meeting and assessment of management's key accounting papers in order to understand the analysis and submissions being prepared by the Group; • Considering tax advice obtained by the Group from external tax advisors. We assessed the skills and competencies of the external advisors; • Challenging the appropriateness of the assumptions applied and estimates made in relation to the provision in determining the range of possible outcomes. We challenged these assumptions using our experience and knowledge of ATO audits and compliance programs, and applicable tax laws and regulations; and • Evaluating the disclosure of uncertain tax position and potential exposures in the financial report against accounting standards requirements.


Valuation of non-current assets including property, plant and equipment (AUD \$11,105.4m) and intangible assets (AUD \$535.1m)

Refer to Note C.1 Property, Plant and Equipment, C.2 Intangible Assets, and C.4 Impairment of non-current assets of the Financial Report.

The key audit matter

The valuation of non-current assets is a key audit matter due to the:

- complex nature of the regulatory framework for determining revenue and expenditure applicable to each of the Group's regulated CGU's;
- complexity in assessing the forward-looking assumptions applied to the Group's discounted cash flow models for each CGU given the significant assumptions involved and the increased level of market volatility and uncertainty caused by COVID-19. The main assumptions included those relating to terminal values, expected capital and operating expenditure, expected returns from future regulatory determinations, inflation, growth rates and discount rates; and
- challenges associated with assessing the Group's long term forecast cash flow model having regard to potential regulatory change, technology and market changes, and accounting standard requirements.

On 2 April 2020 the Group announced a suite of measures to provide support to customers enduring hardship as a result of COVID-19. This includes the rebate or deferral of network charges for certain customers from 1 April 2020 which is expected to impact forecast cash flow assumptions included within the Group's cash flow model, and gives rise to additional forecasting uncertainty.

How the matter was addressed in our audit

Our procedures included:

- testing the key controls for the cash flow models, including Board approval of key assumptions and the 5 year Financial Plan, which form the basis of cash flow forecasts;
- assessing the Group's cash flow model assumptions by:
 - comparing regulated cash flow assumptions to regulatory determinations relevant to the forecast cash flow period;
 - comparing unregulated cash flow assumptions to customer contracts and historical trends;
 - checking the relevant cash flow forecasts to the Board approved 5 year Financial Plan, as well as additional Group prepared revised forecasts which specifically address the potential impact of COVID-19 including the Group's hardship related measures announced on 2 April 2020;
 - using our industry knowledge and information published by regulatory and other bodies to assess the reasonableness of assumptions and the impact of technology, market and regulatory changes (including the impact of COVID-19 hardship related measures on the Group's forecast cash flows) on those assumptions;
 - involving our valuation specialists to assess the reasonableness of discount rates by considering comparable market rate information and evaluating the economic assumptions relating to cost of debt and cost of equity;
 - comparing carrying values of regulated CGUs to available market data, such as implied earnings and asset multiples of comparable entities; and



	• for regulated assets, assessing the appropriateness of using a long term cash flow forecast against accounting standard requirements by considering industry practice and the long term nature of the Group's regulated asset base. • assessing the accuracy of previous forecasts of the Group to inform the areas on which to focus in the current financial year; • assessing the Group's determination of carrying values of CGUs against the requirements of the accounting standards; • evaluating the Group's sensitivity analysis in respect of the key assumptions, including the identification of areas of estimation uncertainty; and • assessing the appropriateness of the related financial statement disclosures against accounting standard requirements.
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Valuation and accounting for derivatives (AUD \$1,443.9m assets; AUD \$782.1m liabilities)	
Refer to Note D.3 Financial risk management of the Financial Report.	
The key audit matter	How the matter was addressed in our audit
Valuation and accounting for derivatives is a key audit matter due to the: • size and complexity of the Group's derivative portfolios, in particular cross currency and interest rate swaps hedging foreign currency and Australian dollar denominated fixed and floating rate debt; • Group undertaking capital management activities during the year, including the issuance of EUR500m of bonds in February 2020 and AUD \$350m bonds in July 2019, impacting on the Group's derivative portfolio and creating new hedge relationships; • impact of COVID-19 which has resulted in greater volatility and uncertainty across financial markets, and reflected in the derivative valuations and accounting;	With the assistance of our Financial Instrument and Treasury specialists, our procedures included: • evaluating the appropriateness of valuation methodologies and accounting for hedging activities against accounting standard requirements; • assessing and challenging the Group's market inputs and assumptions underlying the valuation of derivatives. We compared market inputs and assumptions to independently sourced market and credit data sets including spot foreign exchange rates, currency interest rate curves, currency basis spreads and credit pricing curves. We increased our focus on market data impacted by COVID-19, in particular, significant movements in credit risks; • evaluating a selection of derivative fair



• Group's early adoption of AASB 2019-3 <i>Amendments to Australian Accounting Standards – Interest Rate Benchmark Reform</i> issued by the AASB in October 2019 requiring additional disclosures; and • inherent complexity and judgment in applying accounting principles in the valuation and disclosure of derivatives and related hedging activities. In assessing this key audit matter, we involved our Financial Instrument and Treasury specialists, who have industry specific experience and detailed knowledge of the complex accounting requirements.	valuations using independent market observable inputs and industry accepted valuation techniques; • evaluating the adequacy of hedge designation documentation for a selection of new hedges in relation to the Group's documented Treasury Risk Management policy and accounting requirements; • obtaining independent confirmations from counterparties with which the Group has borrowings or derivative financial instruments and comparing these to accounting records; and • evaluating the appropriateness of the classification and presentation of derivative financial instruments and related financial risk management disclosures against accounting standard requirements, including transitional disclosure requirements for AASB 2019-3 <i>Amendments to Australian Accounting Standards – Interest Rate Benchmark Reform</i>.
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Other Information

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

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

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

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

Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error
- assessing the Group and Company's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate. This includes disclosing, as applicable,



matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Group and Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

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

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

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

A further description of our responsibilities for the audit of the Financial Report is located at the *Auditing and Assurance Standards Board* website at:

https://www.auasb.gov.au/auditors_responsibilities/ar1.pdf This description forms part of our Auditor's Report.

Report on the Remuneration Report

Opinion

In our opinion, the Remuneration Report of AusNet Services Ltd for the year ended 31 March 2020, complies with *Section 300A* of the *Corporations Act 2001*.

Directors' responsibilities

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

Our responsibilities

We have audited the Remuneration Report included in pages 47 to 74 of the Directors' report for the year ended 31 March 2020.

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

KPMG
KPMG

BW Szentirmay

Partner

Melbourne

11 May 2020

Glossary of terms

AASB	Australian Accounting Standards Board
ACN	Australian company number
ACCC	Australian Competition and Consumer Commission
AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
APES	Accounting Professional and Ethical Standard
AER	Australian Energy Regulator
AGM	annual general meeting
AMI	advanced metering infrastructure
ARMC	Audit and Risk Management Committee
ASX or Australian Securities Exchange	ASX Limited or the securities exchange which it operates
ATO	Australian Taxation Office
AUD	Australian dollar
BBSW	bank bill swap rate
CAGR	compound annual growth rate
CAM	cost allocation methodology
CAPEX	capital expenditure
CER	Clean Energy Regulator
CFC	capitalised finance charges
CFV	common funding vehicle
CGU	cash-generating unit
CHF	Swiss franc
COAG	Council of Australian Governments
Corporate Restructure	The corporate restructure under which the previous Stapled Entities became wholly owned by AusNet Services Ltd
Corporations Act	<i>Corporations Act 2001</i> (Cth) of Australia
CPD	critical peak demand
CSAT	Customer Satisfaction
(Cth)	Indicates federal legislation of the Commonwealth of Australia
CY	calendar year ended 31 December
DRP	Dividend Reinvestment Plan
DUoS	distribution use of system charge
EBITDA	earnings before interest, tax, depreciation and amortisation
EBITDAaL	EBITDA after lease interest income
EDPR	Electricity Distribution Price Review
EGM	Executive General Manager
EPS	earnings per share
ESA	<i>Electricity Safety Act 1998</i> (Vic)
ESB	Energy Security Board

ESC	Essential Services Commission
ESCV	Essential Services Commission Victoria
ESV	Energy Safe Victoria
EUR	euro
Euribor	Euro Interbank Offer Rate
FAR	fixed annual remuneration
FFO	funds from operations
FX	foreign exchange
FY	financial year ended 31 March
GAAR	Gas Access Arrangement Review
GBP	pound sterling
GSL	guaranteed service level payments – penalties for unplanned outages
GST	goods and services tax
GWh	gigawatt hour, a unit of energy equal to one billion watt hours
HKD	Hong Kong dollar
HSEQ	health and safety, environment and quality
HV	high-voltage
ICR	interest cover ratio
IFRS	International Financial Reporting Standards
ISP	integrated system plan
Jemena	SGSP (Australia) Assets Pty Ltd ('SGSPAA') and its subsidiaries trading as 'Jemena' or 'Zinfra Group' (as applicable)
JPY	Japanese yen
KMP	key management personnel
KPI	key performance indicator
KPMG	the current external auditors of AusNet Services
kV	kilovolts, a unit of voltage equal to one thousand volts
LIBOR	London Interbank Offered Rate
LTI	lost time injury or long term incentive
LTIP	Long Term Incentive Plan
MD	Managing Director
Moody's	Moody's Investors Services, Inc.
MTI	medical treatment injury
MWh	megawatt hour, a unit of energy equal to one million watt hours
NED	Non-executive Director
NER	National Electricity Rules

Glossary of terms

continued

NEG	National Energy Guarantee
NEM	National Electricity Market
NGER	<i>National Greenhouse and Energy Reporting Act 2007</i> (Cth)
NOK	Norwegian kroner
NPAT	net profit after tax
OCI	other comprehensive income
OPEX	operating expenditure
PCR	Pre-Lodgement Compliance Review
PJ	petajoules, a unit of energy equal to one quadrillion (10 ¹⁵) joules
PRs	performance rights under the LTIP scheme
Power of Choice	The Australian Energy Market Commission's competitive framework designed to promote innovation and lead to investment in advanced meters that deliver services valued by consumers at a price they are willing to pay.
RAB	The Regulated Asset Base (RAB) represents the value, as assessed by the AER, of past regulated network investments. This is the value on which the AusNet Services Group can expect to earn a return over the economic life of its network assets.
REFCL	Rapid Earth Fault Current Limiter, a bushfire mitigation technology
R&CAB	Regulated and Contracted Asset Base. Includes the RAB as well as Mondo's contestable transmission assets, for example, the Victorian desalination contract.
ROIC	return on invested capital
RES	Regulated Energy Services
RIFR	recordable injury frequency rate
ROE	return on equity
SGD	Singapore dollar
Singapore Power Group	Singapore Power Limited and its subsidiaries
SPI	Singapore Power International Pte Ltd
Standard & Poor's	Standard & Poor's Rating Services, a division of the McGraw-Hill Companies, Inc.
State Grid	State Grid Corporation of China
Stapled Group	The former corporate structure of AusNet Services comprising AusNet Services (Distribution) Ltd, AusNet Services (Transmission) Ltd and AusNet Services Finance Trust as a combined entity.
STEAM pathway	Science, Technology, Engineering, Arts, Mathematics

STI	Short Term Incentive
STPIS	Service Target Performance Incentive Scheme, an incentive revenue scheme in the electricity distribution business.
TCFD	Task Force on Climate-related Disclosures
Temasek	Temasek Holdings (Private) Ltd
TRR	Transmission Revenue Reset
TSR	total shareholder return
TUoS	transmission use of system
(Vic)	Indicates state legislation of the State of Victoria
UK	United Kingdom
USA	United States of America
USD	United States dollar
WACC	weighted average cost of capital
VCE	Victorian Certificate of Education
VEDC	Victorian Electricity Distribution Code
Victorian State Government	The Government of the State of Victoria
VWAP	Volume-weighted average price, a trading benchmark calculated by adding up the dollars traded for every transaction (price multiplied by number of shares traded) and then dividing by the total shares traded for the day.

Shareholder information

The shareholder information set out below was compiled from AusNet Services' register of shareholders as at 17 April 2020.

VOTING RIGHTS

Subject to any rights or restrictions attaching to our shares, on a show of hands each shareholder present at a meeting of shareholders in person or by proxy, attorney or representative has one vote and, on a poll, has one vote for each fully paid share held.

ISSUED CAPITAL

Class	Holders	Shares
Ordinary shares	16,022	3,726,840,530

DISTRIBUTION OF SHARES

A distribution schedule of the number of holders of shares is set out below:

Range	Total holders	Shares	% of issued capital
1 – 1,000	1,989	1,047,928	0.03
1,001 – 5,000	4,573	13,280,091	0.36
5,001 – 10,000	3,314	24,674,459	0.66
10,001 – 100,000	5,869	153,931,945	4.13
100,001 and over	277	3,533,906,107	94.82
Total	16,022	3,726,840,530	100.00

The number of shareholders holding less than a marketable parcel of shares was 475, holding 21,803 shares based on the closing market price on 17 April 2020.

There is no current on-market buy-back.

Shareholder information

continued

SHAREHOLDERS

Rank	Name	No. of shares held	Percentage of issued shares
1.	SINGAPORE POWER INTERNATIONAL PTE LTD	1,159,047,406	31.10
2.	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	877,797,271	23.55
3.	STATE GRID INTERNATIONAL AUSTRALIA DEVELOPMENT COMPANY LIMITED	741,641,265	19.90
4.	J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	273,505,211	7.34
5.	CITICORP NOMINEES PTY LIMITED	240,675,223	6.46
6.	NATIONAL NOMINEES LIMITED	44,953,440	1.21
7.	BNP PARIBAS NOMINEES PTY LTD <AGENCY LENDING DRP A/C>	29,185,902	0.78
8.	BNP PARIBAS NOMS PTY LTD <DRP>	19,666,663	0.53
9.	CITICORP NOMINEES PTY LIMITED <COLONIAL FIRST STATE INV A/C>	17,791,617	0.48
10.	AUSTRALIAN EXECUTOR TRUSTEES LIMITED <IPS SUPER A/C>	13,398,045	0.36
11.	BNP PARIBAS NOMINEES PTY LTD <JERSEY ABERDEEN AIF LTD DRP>	10,592,508	0.28
12.	AMP LIFE LIMITED	4,929,651	0.13
13.	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED-GSCO ECA	4,778,315	0.13
14.	BNP PARIBAS NOMINEES PTY LTD HUB24 CUSTODIAL SERV LTD DRP	3,933,279	0.11
15.	CPU SHARE PLANS PTY LTD <AST LTI UNALLOCATED A/C>	3,827,215	0.10
16.	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2	3,331,280	0.09
17.	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED <NT-COMNWLTH SUPER CORP A/C>	2,774,910	0.07
18.	WARBONT NOMINEES PTY LTD <UNPAID ENTREPOT A/C>	2,438,843	0.07
19.	POWERWRAP LIMITED <SCHEME - IML TRADES A/C>	2,431,588	0.07
20.	SANDHURST TRUSTEES LTD <SISF A/C>	2,373,300	0.06
Total top 20 holders of fully paid ordinary shares		3,459,072,932	92.82
Total remaining holders balance		267,767,598	7.18

SUBSTANTIAL HOLDERS

The names of AusNet Services' substantial holders and the number of shares in which each has a relevant interest, as disclosed in substantial holding notices received by AusNet Services as at 17 April 2020, are listed below:

	No. of shares held	Voting power
Singapore Power International Pte Ltd and its associates	1,196,373,280	32.10%
State Grid International Development Limited and its associates	726,880,211	19.90%

EMPLOYEE INCENTIVE SCHEME ON-MARKET PURCHASES

Pursuant to AusNet Services' General Employee Exempt Share Plan, 431,452 shares were purchased on-market during the reporting period at an average price per share of \$1.89. In addition, 43,780 shares were purchased on-market by the AusNet Services employee share trust at an average price of \$1.89 per share.

Company information

FINANCIAL CALENDAR

16 July 2020

2020 Annual General Meeting

30 September 2020

2020/21 Financial Half Year end

11 November 2020

2020/21 Half Year Results announced

31 March 2021

2020/21 Financial Year end

ANNUAL GENERAL MEETING

The Annual General Meeting of AusNet Services will be held at 2.00pm Thursday 16 July 2020. Details of the meeting, including information about how to vote, will be contained in our Notice of Meeting.

SHARE REGISTRY ENQUIRIES

AusNet Services' register of shares is maintained by Computershare Investor Services Pty Limited ('Computershare'). For enquiries about AusNet Services shares, a transfer of shares or dividends, contact:

COMPUTERSHARE INVESTOR SERVICES PTY LIMITED

Yarra Falls, 452 Johnston Street
Abbotsford, Victoria 3067
GPO Box 2957
Melbourne, Victoria 3001 Australia

Telephone: 1300 368 103 (within Australia)
+61 3 9415 4229 (outside Australia)

Facsimile: +61 3 9473 2500

DIVIDENDS

Effective 1 January 2020, all AusNet Services Limited cash dividends to shareholders resident in Australia and New Zealand will be paid electronically. Visit www.computershare.com.au/easyupdate/ast and log in (you will need your SRN or HIN) to update your details.

Eligible shareholders can participate in AusNet Services Dividend Reinvestment Plan (DRP) when the plan is active. The DRP enables shareholders to subscribe for additional shares. The rate of discount, if any, applied to shares allocated under the Plan will be determined by the Board at the time each dividend is declared. Participants may change their election to participate in the DRP at any time.

SHAREHOLDER DETAILS ONLINE

Manage your shareholding online by visiting AusNet Services' share registry, Computershare. Log onto www.investorcentre.com to view your holding balance and dividend statements, to update your address (if you are registered with an SRN) or direct credit instructions, provide DRP instructions or change/add your TFN/ABN details. You may also register to receive shareholder documentation electronically including your dividend statement, notice of meeting and proxy and annual reports.

INVESTOR RELATIONS ENQUIRIES

Requests for specific information about AusNet Services can be directed to Investor Relations:

AusNet Services Investor Relations

Telephone: +61 3 9695 6000

Facsimile: +61 3 9695 6666

Email: investor.enquiries@ausnetservices.com.au

Or write to:

Investor Relations
AusNet Services
Level 31, 2 Southbank Boulevard
Southbank, Victoria 3006, Australia

STOCK EXCHANGE LISTING

The shares are listed under the name 'AusNet Services' and code 'AST' on the Australian Stock Exchange. The shares participate in the Clearing House Electronic Subregister System ('CHESS').

TAX FILE NUMBER ('TFN') INFORMATION

While it is not compulsory for shareholders to provide a TFN, AusNet Services is obliged to deduct tax from dividends to holders resident in Australia who have not supplied such information. If you have not already supplied your TFN, you may wish to do so by writing to Computershare.

CHANGE OF ADDRESS OR NAME

A shareholder should notify Computershare immediately, in writing, if there is any change in his or her registered address or name.

AUSNET SERVICES

AusNet Services Ltd (ABN 45 603 317 559)

REGISTERED OFFICE

Level 31, 2 Southbank Boulevard
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Telephone: +61 3 9695 6000
Facsimile: +61 3 9695 6666

COMPANY SECRETARY

Mr Paul Lynch

AUDITOR

KPMG
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