ASX & SGX-ST Release

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14 May 2015

TO: ASX Limited
Singapore Exchange Securities Trading Limited

Results for Announcement to the Market
Year Ended 31 March 2015

The following documents are attached:

1. ASX Appendix 4E – Final Report; and

2. Financial Report of AusNet Services (Distribution) Ltd for the period ended 31 March 2015.

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AusNet Services
AusNet Services (Distribution) Ltd
ABN 37 108 788 245

AusNet Services (Transmission) Ltd
ABN 48 116 124 362

AusNet Services Finance Trust
ARSN 116 783 914

AusNet Services (RE) Ltd
ABN 46 109 977 371

AFS Licence No. 294117 as responsible
entity for AusNet Services Finance Trust

AusNet Services (Distribution) Ltd trading as AusNet Services
ACN: 108 788 245

Appendix 4E

Final report
Period Ending 31 March 2015

1. **The current reporting period is the year ended 31 March 2015. The previous corresponding period is the year ended 31 March 2014.**

2. **Results for announcement to the market**

	31 March 2015 $M	**31 March 2014 $M**	**% change**	**Up / down**
2.1 Revenue from continuing operations	1,833.9	1,799.4	1.9	up
2.2 Profit from ordinary activities after tax attributable to stapled securityholders comprises:				
Profit from continuing operations	22.6	178.3	87.3	down
2.3 Net profit for the year attributable to stapled securityholders	22.6	178.3	87.3	down

FY15 Profit from ordinary activities after tax includes a settlement with the Australian Taxation Office (ATO) in relation to the stapled structure audit of $183.3 million, income tax expense in relation to the intellectual property dispute with the ATO of $84.1 million and AMI rebates of $22.8 million. Excluding the impact of these one-off items, profit after tax from continuing operations for the year ending 31 March 2015 would have been $312.8 million.

FY14 Profit from ordinary activities after tax includes a net charge of $86.7 million for the amount potentially payable under the Section 163AA impost dispute with the ATO, $40.4 million (net of tax) for the termination payment and restructuring provision arising from the Termination Deed entered into with Singapore Power International Pte Ltd (SPI) and SPI Management Services Pty Ltd to terminate the Management Services Agreement (MSA), the IT services agreement with Enterprise Business Services, and the IP licence agreement and $15.5 million of performance fees under the MSA. Excluding the impact of these one-off items, profit after tax from continuing operations for the year ending 31 March 2014 would have been $320.9 million.

2.4 Distributions for the financial year ended 31 March 2015:

	Cents per security
Interim distribution:	
Fully franked dividend	2.200
Interest income	1.980
Total interim distribution	4.180

	If Proposal implemented prior to payment date (a)	If Proposal not implemented prior to payment date(b)
	Cents per security	Cents per security
Final distribution:		
Dividend:		
- Franked	2.508	2.217
- Unfranked	1.672	nil
Interest income	nil	1.963
Total final distribution	4.180	4.180

(a) *AusNet Services has released a securityholder booklet in relation to the proposal for a restructure under which a new company called AusNet Services Ltd would become the single head entity of AusNet Services in place of the current triple stapled structure. The Proposal is subject to a number of conditions, including securityholder,Court and regulatory approvals. AusNet Services is currently targeting an implementation date for the Proposal of 18 June 2015 (**Implementation Date**). If the Proposal is implemented on the Implementation Date or otherwise prior to proposed payment date for the distribution of 26 June 2015 the final FY 15 distribution will comprise a dividend from AusNet Services Ltd with a franked and unfranked component.*

(b) *If the Proposal is not implemented prior to the proposed payment date for the final FY 15 distribution of 26 June 2015, the final distribution will comprise interest income and a fully franked dividend.*

2.5 The record dates for determining entitlements to the distributions:

Distribution	Record date	Payment date
Interim	25 November 2014	24 December 2014
Final	11 June 2015*	26 June 2015

If the Proposal is implemented on the Implementation Date or otherwise prior to the proposed payment date of 26 June 2015, Ineligible Foreign Securityholders (as defined in the securityholder booklet) will not receive a final FY 15 distribution from AusNet Services Ltd. Ineligible Foreign Securityholders will, however, receive an amount from the Sale Nominee representing the final FY 15 distribution. For more information, please refer to sections 1.14 and 6.3 of the securityholder booklet.

2.6 Brief explanation of revenues, profits after income tax and distributions:

Refer to the analysis contained in the Directors' report within the attached General Purpose Financial Report for AusNet Services (Distribution) Ltd.

3. Statement of comprehensive income

Refer to the statement of comprehensive income contained within the attached General Purpose Financial Report for AusNet Services (Distribution) Ltd.

4. Statement of financial position

Refer to the statement of financial position contained within the attached General Purpose Financial Report for AusNet Services (Distribution) Ltd.

5. Statement of cash flows

Refer to the statement of cash flows contained within the attached General Purpose Financial Report for AusNet Services (Distribution) Ltd.

6. Dividends and Distributions

The following distributions have been paid or are payable to securityholders:

	Cents per security	Total distribution $M	Date paid/payable
Interim Distribution paid			
Fully franked dividend	2.200	75.3	24 December 2014
Interest income	1.980	67.8	24 December 2014
Total Interim Distribution	**4.180**	**143.1**	

	If Proposal is implemented prior to payment date (a)		**If Proposal not implemented prior to payment date (b)**		
	Cents per security	**Total distribution $M**	**Cents per security**	**Total distribution $M**	**Date paid/payable**
2015:					
Final Distribution payable					
Dividend					
- Franked	2.508	86.9	2.217	76.8	26 June 2015
- Unfranked	1.672	58.0	-	-	26 June 2015
Interest income	-	-	1.963	68.1	26 June 2015
Total Final Distribution	**4.180**	**144.9**	**4.180**	**144.9**	

Total 2015 Distribution	**8.360**	**288.0**	

(a) Refer footnote (a) under 2.4.
(b) Refer footnote (b) under 2.4.

In relation to the interim distributions on 23 December 2014 of $143.1 million, $54.2 million was utilised in the allotment of new securities issued under the Distribution Reinvestment Plan.

	Cents per security	Total distribution $M	Date paid
2014:			
Final Distribution payable			
Fully franked dividend	1.393	47.2	27 June 2014
Interest income	2.379	80.6	27 June 2014
Return of capital	0.408	13.8	27 June 2014
Total Final Distribution	**4.180**	**141.6**	
Interim Distribution paid			
Fully franked dividend	1.393	47.0	23 December 2013
Interest income	2.396	80.9	23 December 2013
Return of capital	0.391	13.2	23 December 2013
Total Interim Distribution	**4.180**	**141.1**	
Total 2014 Distribution	**8.360**	**282.7**	

In relation to the interim distributions on 23 December 2013 of $141.1 million, $11.8 million was utilised in the allotment of new securities issued under the Distribution Reinvestment Plan. In relation to the final distributions on 27 June 2014 of $141.6 million, $51.4 million was utilised in the allotment of new securities issued under the Distribution Reinvestment Plan.

7. Distribution Reinvestment Plans

AusNet Services operates a Distribution Reinvestment Plan (**DRP**) that is available for participation by securityholders, or CDP account holders, with registered addresses in Australia, New Zealand, Singapore or Hong Kong.

Securityholders participating in the DRP for the 2014/15 final distribution will be issued with AusNet Services securities at a 2% discount to the issue price of AusNet Services securities established under the rules of the DRP. The issue price will be calculated as the average of the volume weighted average price (as defined in the DRP rules) (**VWAP**) of AusNet Services securities sold in ordinary market transactions on the ASX during the 5 trading days immediately after the record date for the final FY 14/15 distribution of 11 June 2015.

The deadline for the receipt of Election Notices for participation in the DRP for the 2014/15 final distribution is 5.00pm (Australian Eastern Standard Time) on 12 June 2015.

If the Proposal is implemented on the Implementation Date or otherwise prior to the proposed payment date for the distribution of 26 June 2015, securityholders participating in the DRP will receive shares in AusNet Services Ltd in relation to reinvested distributions. If the Proposal is not implemented prior to 26 June 2015, securityholders participating in the DRP will receive stapled securities in the Stapled Group in relation to reinvested distributions. For further information, please refer to sections 1.11, 7.8 and 7.14 of the Securityholder Booklet.

8. Statement of changes in equity

Refer to statement of changes in equity in the attached General Purpose Financial Report for AusNet Services (Distribution) Ltd.

9. Net tangible assets per security

	2015	2014
Net tangible assets per stapled security	**$0.82**	$0.90

10. Gain or loss of control over entities

Refer to note 26 in the attached General Purpose Financial Report for AusNet Services (Distribution) Ltd.

11. Details of associates/joint ventures

AusNet Services had no associates or joint ventures in operation at balance date.

12. Other significant information

Refer to the analysis contained in the Directors' Report within the attached General Purpose Financial Report for AusNet Services (Distribution) Ltd.

13. Foreign Entities

Not Applicable.

14. Commentary on results for the period

14.1 Earnings per security

AusNet Services (Distribution) Ltd (Company)	**31 March 2015**	31 March 2014
Earnings/(loss) per share from profit (Company)	(3.76) cents	0.10 cents
Earnings/(loss) per share from profit from continuing operations (Company)	(3.76) cents	0.10 cents
Dilution aspects	None	None

Stapled Group	**31 March 2015**	31 March 2014
Earnings per stapled security from profit	0.66 cents	5.28 cents
Earnings per stapled security from profit from continuing operations	0.66 cents	5.28 cents
Earnings per stapled security from profit (adjusted for individually material items)	9.13 cents	9.50 cents
Earnings per stapled security from profit from continuing operations (adjusted for individually material items)	9.13 cents	9.50 cents
Dilution aspects	None	None

14.2 Returns to Securityholders

Returns to Securityholders are detailed in section 6 above.

14.3 Significant features of operating performance

Refer to the analysis contained in the Directors' Report within the attached General Purpose Financial Report for AusNet Services (Distribution) Ltd.

14.4 Segment results

Refer to note 2 in the attached General Purpose Financial Report for AusNet Services (Distribution) Ltd.

14.5 Trends in performance

Refer to the analysis contained in the Directors' Report within the attached General Purpose Financial Report for AusNet Services (Distribution) Ltd.

14.6 Other factors affecting the results

Refer to the analysis contained in the Directors' Report within the attached General Purpose Financial Report for AusNet Services (Distribution) Ltd.

15 Status of audit of accounts

The financial report is based on accounts which have been audited.

Date: 13 May 2015

AusNet Services (Distribution) Ltd (formerly SP Australia Networks (Distribution) Ltd)
ACN 108 788 245

Financial Report

For the financial year ended 31 March 2015

Contents

This financial report covers the combined entity consisting of AusNet Services (Distribution) Ltd and its subsidiaries, AusNet Services (Transmission) Ltd and its subsidiaries, and AusNet Services Finance Trust. The financial report is presented in Australian dollars.

AusNet Services (Distribution) Ltd is a company limited by shares, incorporated and domiciled in Victoria, Australia. Its registered office and principal place of business is:

Level 31, 2 Southbank Boulevard
Southbank, Victoria 3006
Australia

A description of the nature of AusNet Services (Distribution) Ltd's operations and its principal activities is included in the Directors' report.

The financial report was authorised for issue by the Directors on 13 May 2015.

Directors' report

Introduction to the Directors' report

The Directors of AusNet Services (Distribution) Ltd (AusNet Services Distribution) present their report on the general purpose financial report of the company and combined entity for the financial year ended 31 March 2015.

This general purpose financial report has been prepared as a consolidation of the financial statements of AusNet Services Distribution and its subsidiaries, AusNet Services (Transmission) Ltd (AusNet Services Transmission) and its subsidiaries and AusNet Services Finance Trust as if all entities operate together. They are therefore treated as a combined entity (the Stapled Group or AusNet Services).

Pursuant to the Stapling Deed effective 21 October 2005, the Stapled Group was established for the purpose of facilitating a joint quotation of AusNet Services Distribution, AusNet Services Transmission and AusNet Services Finance Trust on the Australian Securities Exchange (ASX) and the Singapore Exchange Securities Trading Limited (SGX-ST). The Stapled Group was listed on 14 December 2005.

So long as the three entities remain jointly quoted, the number of shares in each of AusNet Services Distribution and AusNet Services Transmission and the number of units in AusNet Services Finance Trust shall be equal and shareholders and unitholders shall be identical.

AusNet Services, AusNet Services Distribution, AusNet Services Transmission and AusNet Services Finance Trust were formerly known as SP AusNet, SP Australia Networks (Distribution) Ltd, SP Australia Networks (Transmission) Ltd, and SP Australia Networks (Finance) Trust respectively up until 4 August 2014.

Restructure and simplification of the Stapled Group

AusNet Services has released a securityholder booklet for the restructure and simplification proposal (Proposal) under which the existing stapled entities would become wholly owned by a new listed entity (AusNet Services Ltd). The Proposal is subject to applicable regulatory approvals and requires the approval of securityholders and the Court. It would be implemented by way of company and trust schemes of arrangement. The securityholder meeting date has been scheduled for 29 May 2015 and, pending approval, AusNet Services is targeting an implementation date of 18 June 2015.

If the Proposal is approved and implemented:

- eligible securityholders will simply hold shares in AusNet Services Ltd (instead of their current triple-stapled security) in the same proportion as the stapled securities they currently hold*;
- there will be no capital raising or return of capital as part of the Proposal and securityholders will not be required to pay any cash consideration;
- there will be no change to the composition of the AusNet Services Board, management or the operations of AusNet Services as a result of any restructure; and
- future periodic distributions are expected to be paid entirely as dividends and AusNet Services expects that there will be a higher franked component of future distributions, but those distributions will not include any AusNet Services Finance Trust distribution components as they have historically.

* Certain foreign securityholders who AusNet Services determines it would be illegal or unduly onerous to allow to receive shares in AusNet Services Ltd under the Proposal will not receive those shares, and will instead have their investment in AusNet Services sold on market by a nominee and the proceeds of that sale remitted to them in cash. AusNet Services expects that only a small proportion of its securityholders will be ineligible.

Directors' report (continued)

Directors

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

Non-executive Directors

Ng Kee Choe (Chairman)

Ralph **Craven**

Jeremy Guy Ashcroft **Davis** AM (retired effective 17 July 2014)

Sally Marie **Farrier**

Eric **Gwee** Teck Hai (retired effective 17 July 2014)

Ho Tian Yee

Antonino (Tony) Mario **Iannello**

Tina Renna **McMeckan**

Ian Andrew **Renard** AM

Sun Jianxing

Executive Director

Nino **Ficca** (Managing Director)

Principal activities

The principal activities of AusNet Services are:

- **Electricity distribution** – delivery of electricity to approximately 679,000 consumer connection points over 80,000 square kilometres in eastern Victoria including Melbourne's outer eastern suburbs;
- **Gas distribution** – delivery of natural gas to approximately 647,000 consumer connection points over 60,000 square kilometres in central and western Victoria including some of Melbourne's western suburbs;
- **Electricity transmission** – the transmission of electricity within the state of Victoria; and
- **Select Solutions** – the provision of specialist utility related metering, data and asset management services.

The principal activities of AusNet Services are conducted through the following main operating group companies:

- AusNet Electricity Services Pty Ltd (formerly SPI Electricity Pty Ltd);
- AusNet Gas Services Pty Ltd (formerly SPI Networks (Gas) Pty Ltd);
- Select Solutions Group Pty Ltd; and
- AusNet Transmission Group Pty Ltd (formerly SPI PowerNet Pty Ltd).

Directors' report (continued)

Strategy

As a diversified energy delivery networks business, AusNet Services plays a vital role in underpinning the economic strength of Victorian communities, while contributing to the wider Australian energy market. The sustainability of its networks is key to AusNet Services' commitment to the safe, reliable and efficient supply of energy.

The energy industry and network businesses will face significant changes in the coming years. These include but are not limited to:

- an evolving regulatory framework which increases the focus on network performance and cost and capital efficiency;
- technology changes in the generation, distribution, storage and usage of energy, coupled with customer acceptance of these new technologies; and
- increasing customer influence in light of recent electricity price rises and their impact on household budgets, ensuring that both community and government focus remain on energy policy.

In response to these significant challenges, in March 2013 the AusNet Services Board approved a five year corporate strategy to deliver more value from the core networks business and to explore growth opportunities in a challenging and evolving environment. At the centre of this strategy is AusNet Services' purpose which is '*To provide our customers with superior network and energy solutions*'. This purpose is underpinned by eight strategic objectives as set out below.

Safety	***Industry leadership in safety performance***	AusNet Services' leaders are responsible for and understand how to lead safety, encouraging its people to work safely and to create safer work environments.
People	***High performing leadership, capability and culture***	AusNet Services continues to develop the right culture, skills, talent and labour productivity to support a sustainable and high performing business.
Customer	***A highly developed customer service capability***	AusNet Services continues to focus on customers through meaningful, useful and actionable engagement. The business leverages customer knowledge, experience, and service levels to deliver outcomes that align with the needs and expectations of customers, supported through regulatory advocacy.

Directors' report (continued)

Strategy (continued)

Financial	***Diversified and accretive growth***	Approximately 86 per cent of AusNet Services' revenue comes from regulated sources, and while AusNet Services remains focused on the continued growth in the regulated networks, diversified growth is also targeted through: • Unregulated Infrastructure – The development of unregulated transmission connections and other infrastructure. • Select Solutions – The continued expansion of specialist utility-related and telecommunications solutions to existing and new customers. • Energy Solutions – Seeking to develop products and services related to energy use, energy storage, energy efficiency and other niche services in response to changing customer behaviours.
	Sustainable earnings and securityholder value growth	AusNet Services aims to improve its year-on-year financial performance.
Business & Asset	***An efficient business model***	AusNet Services' operations aim to achieve excellence in both energy delivery and managing customer services, through the implementation of processes and systems which produce high quality data, efficiency, effectiveness, controllability and management capability. This objective is being delivered through a company-wide program of Business Operational Excellence, of which the most significant component is an enterprise-wide change program enabled by the replacement of multiple asset management and resource planning platforms with a single, fully integrated system.
	Safe, resilient and reliable networks	In addition to network safety and reliability across three regulated networks, AusNet Services continues to enhance and optimise its inspection, maintenance and replacement plans through advanced modelling techniques and fully integrated systems.
	Industry leadership and advocacy role in regulatory development	AusNet Services aims to be a leader in regulatory development for the energy industry, thereby enhancing business value through constructive engagement with key policy makers.

Directors' report (continued)

Key achievements

AusNet Services has just completed year two of its five year corporate strategy, which was focussed on planning for change and establishing the frameworks and platforms under which the strategy will be realised. Key achievements in the current financial year against the strategic objectives include the following:

Safety	• Continued to implement safety programs and training under Mission Zero, while delivering a small reduction in the Recordable Injury Frequency Rate to 6.7.
People	• Select Solutions division received an Aon Hewitt Best Employers Award for its employee engagement achievements, scoring an 80 per cent engagement rating.
Customer	• Two per cent improvement in customer satisfaction rating to 86 per cent, while 72 per cent of customers gave us an “excellent” or “good” rating overall. • During the financial year, more than 3,000 customers registered to use our myHomeEnergy portal to help manage their energy usage, with over 10,000 customers now registered.
Financial	• 12 month total securityholder return to 31 March 2015 of 18.5 per cent. • Distributions of 8.36 cents per stapled security, in line with guidance. • Successfully raised over $1.1 billion of debt capital at competitive prices whilst extending the tenor of our overall debt portfolio. • Settlement of the ATO intra-group financing audit provides greater tax certainty.
Business & Asset	• Provided greater business and financial certainty through the settlement of the Kilmore East bushfire class action and agreement to settle the Murrindindi bushfire class action. • Introduced a corporate restructure and simplification proposal (subject to securityholder and other approvals) that will bring a number of benefits as detailed in the securityholder booklet released on 22 April 2015. • Continued the significant investment in strengthening and extending the networks through $809 million of capital expenditure on asset replacements, safety programs, major station builds and major IT projects.

In addition to these achievements, one of the key strategic initiatives for the year was the development, build and testing of a single, fully integrated IT system, known as Program Workout. This program went live in early May 2015 and will be a key enabler in improving operational efficiency as AusNet Services focusses on embedding the systems and process changes while realising substantial benefits next year and beyond.

Advanced metering infrastructure (AMI) program update

The most significant challenge for AusNet Services remains the delivery of the AMI Program. AMI has had a negative impact on AusNet Services’ financial results through the recognition of customer rebates and asset write-offs, as well as additional spend required to ultimately deliver a compliant metering system.

In September 2014, AusNet Services announced that a technical review of the solution had been completed and a plan had been developed to stabilise the existing end-to-end metering system and to complete the network coverage. AusNet Services believes that this approach is prudent and will yield a workable and cost-effective solution on an ongoing basis.

Since September 2014, AusNet Services has worked to appoint and mobilise key vendors as well as undertake detailed planning and design works to ensure that the system issues are addressed, and the solution is delivered, in a co-ordinated manner across multiple applications. In addition, the implementation of some immediate improvements has enabled additional conversions of some meters to take place, with approximately 420,000 meters converted as at 31 March 2015.

Directors' report (continued)

Key achievements (continued)

AMI program update (continued)

In addition to IT stabilisation works, AusNet Services will introduce a wireless mesh communications network, similar to the other Victorian distribution businesses, to service approximately 270,000 meters of the 714,000 total meter fleet. This level of coverage has increased since September 2014, with AusNet Services recently making the decision to replace an additional number of WiMAX communication modules with mesh. While the WiMAX network will continue to be the primary communication technology, AusNet Services believes that the wider mesh coverage is a prudent way to reduce the overall delivery risk, effectively mitigate the issues with trying to increase the capacity of certain existing systems, and provide greater support to achieving a compliant and sustainable solution.

Based on the work undertaken to date, the estimated cost of completing the network coverage and the AMI program, including IT stabilisation and replacement works, has increased to $220 million. This is higher than the $175 million announced in September 2014 primarily as a result of replacement expenditure for the additional mesh coverage and an increase in foreign exchange costs.

AusNet Services still expects to complete work on its core systems by the end of 2016, although it is anticipated that some meters will not be converted to remotely provide meter data to market until early 2017.

Refer to the 'Material risks and uncertainties' section below for further details regarding the AMI Program.

Review of operations for the year ended 31 March 2015

AusNet Services derives most of its earnings from three regulated energy network businesses, which include Victoria's high voltage electricity transmission network, an electricity distribution network in eastern Victoria and a gas distribution network in western Victoria.

$M	31 March 2015	31 March 2014	Movement	%
Revenue	1,833.9	1,799.4	34.5	1.9%
EBITDA	1,047.2	1,017.4	29.8	2.9%
NPAT	22.6	178.3	(155.7)	(87.3%)
Adjusted EBITDA[1, 3]	1,079.7	1,097.3	(17.6)	(1.6%)
Adjusted NPAT[2, 3]	312.8	320.9	(8.1)	(2.5%)

Notes:

1. Adjusted EBITDA excludes the recognition of a provision for AMI customer rebates of $32.5 million for the year ended 31 March 2015 and $50 million payable for the termination of the Management Services Agreement (MSA), $22.2 million of performance fees under the MSA and $7.7 million in restructuring costs associated with the Termination Deed for the year ended 31 March 2014.

2. As well as the after-tax impact of the items listed for adjusted EBITDA above, Adjusted NPAT also excludes recognition of $183.3 million in income tax expense for the settlement with the ATO in relation to the intra-group financing audit for the year ended 31 March 2015; excludes $84.1 million recognition of net exposure relating to Intellectual Property dispute with the ATO for the period ended 31 March 2015 and; excludes a net charge of $86.7 million for the amount potentially payable in respect of the Section 163AA dispute for the year ended 31 March 2014.

3. Adjusted EBITDA and Adjusted NPAT are non-IFRS measures that have not been subject to audit or review.

A summary of AusNet Services' revenues and results by operating segment for the financial year ended 31 March 2015 is set out below:

Review of operations for the year ended 31 March 2015 (continued)

Electricity distribution business

	31 March 2015	31 March 2014	Movement	%
Segment revenue ($M)	879.6	815.1	64.5	7.9%
Segment result – EBITDA ($M)	453.7	451.6	2.1	0.5%
Volume (GWh)	7,361	7,483	(122)	(1.6%)
Connections	679,213	668,603	10,610	1.6%
Capital expenditure ($M)	486.9	568.6	(81.7)	(14.4%)
Adjusted segment result ($M)[1]	486.2	465.3	20.9	4.5%

Notes

1. Adjusted segment result excludes $32.5 million of AMI rebates for 31 March 2015 and $13.7 million of performance fees for 31 March 2014. Adjusted segment result is a non-IFRS measure that has not been subject to audit or review.

Despite the slight decline in volumes distributed, AusNet Services' electricity distribution business achieved an increase in revenue primarily driven by regulated price increases for both electricity distribution and AMI revenues. The electricity distribution price increase is due to a combination of regulated price path, as well as higher revenues under incentive schemes, partially offset by a price reduction for the pass-through of transmission use of system charges.

An increase in EBITDA has been achieved despite $60.6 million in AMI charges relating to customer rebates ($32.5 million) and write-offs of assets ($28.1 million) and $11.1 million of higher transmission use of system charges which will be recovered in next year's revenues. The prior year included $13.7 million of SPI Management Services performance fees.

Of the total electricity distribution capital expenditure of $486.9 million, $119.3 million was spent on asset replacement while a further $114.3 million relates to various safety programs, including those highlighted in the Victorian Bushfire Royal Commission. The decrease in capital expenditure from the previous year is due to AMI, with completion of the meter and communication rollouts principally occurring in the previous year. Refer to the 'AMI program risks' section within 'Material risks and uncertainties' below for further details.

Gas distribution business

	31 March 2015	31 March 2014	Movement	%
Segment revenue ($M)	187.3	219.5	(32.2)	(14.7%)
Segment result – EBITDA ($M)	142.0	168.1	(26.1)	(15.5%)
Volume (PJ)	64.2	67.0	(2.8)	(4.2%)
Connections	647,536	633,184	14,352	2.3%
Capital expenditure ($M)	99.0	112.2	(13.2)	(11.8%)

The reduction in gas distribution segment revenue is largely the result of price reductions following a lower weighted average cost of capital (WACC) in the latest gas regulatory determination, with a 15 per cent price reduction on 1 July 2013, and a further 4 per cent price reduction on 1 January 2014 driving regulated revenues down $19.2 million. In addition, customer contributions reduced $13.3 million due to the prior year recognition of $20.9 million of gifted gas distribution network assets as part of the Regional Rail Link project.

Directors' report (continued)

Review of operations for the year ended 31 March 2015 (continued)

Gas distribution business (continued)

Lower industrial volumes contributed to almost 80 per cent of the volume decline. Weather conditions accounted for the remainder of the decline as weather normalised residential consumption increased 1.4 per cent.

The gas distribution business contributed $142 million to EBITDA for the year, a decrease of $26.1 million over the previous year primarily as a result of lower revenues, partially offset by prior year expenses containing a $7.9 million increase in the environmental provision for the remediation of contaminated former gas sites.

AusNet Services remains committed to allocating its resources to ensure a safe and reliable supply of natural gas to existing customers and bringing more gas to Victorians through efficient investment. In addition to ongoing expansion of the network, AusNet Services has agreed to extend its gas network to several towns identified in the Victorian Government's Energy for the Regions program. To date, AusNet Services has an agreement with Regional Development Victoria for the supply and reticulation of natural gas to Huntly, Avoca, Bannockburn and Winchelsea with Huntly completed during the financial year and work underway in the other three towns.

Electricity transmission business

	31 March 2015	31 March 2014	Movement	%
Segment revenue ($M)	619.8	628.3	(8.5)	(1.3%)
Segment result – EBITDA ($M)	434.5	436.9	(2.4)	(0.6%)
Capital expenditure ($M)	212.3	232.7	(20.4)	(8.8%)

The 1.3 per cent decrease in electricity transmission revenues is as a result of the reduction in regulatory WACC arising from the Transmission Revenue Reset (TRR) Final Determination for the 2014-17 period, which commenced on 1 April 2014.

The electricity transmission business contributed $434.5 million to EBITDA for the year, a decrease of $2.4 million over the previous year. The impact of lower revenues was offset by the removal of Management Services performance fees in the current year.

The decline in capital expenditure is a result of the completion of several major station upgrades. The TRR provides funding for key transmission projects, particularly the replacement and refurbishment of several major CBD terminal stations, including Richmond and West Melbourne, which underpin electricity supply to the Melbourne central business district. In addition, AusNet Services is undertaking an upgrade of the Brunswick terminal station.

Select Solutions business

	31 March 2015	31 March 2014	Movement	%
Segment revenue ($M)	158.9	150.7	8.2	5.4%
Segment result – EBITDA ($M)	17.0	18.5	(1.5)	(8.1%)

Select Solutions provides asset intelligence and end to end metering services. Select Solutions' customers are primarily businesses operating in the essential infrastructure sector such as electricity, water and gas utility owners, (including Jemena, which is considered a related party as it is controlled by State Grid Corporation of China) and telecommunications companies.

Select Solutions revenues increased by 5.4 per cent largely due to Geomatic Technologies (GT), which was acquired in February 2014. Select Solutions contributed $17 million to EBITDA for the year, a decrease of $1.5 million on the prior period primarily due to a change in revenue recognition treatment in communications revenues, resulting in a $3.8 million adjustment, partially offset by the GT contribution.

Directors' report (continued)

Financial position as at 31 March 2015

Total equity of the Stapled Group was $3,248.8 million as at 31 March 2015, a decrease of $195.8 million compared to the previous financial year. Total securityholders' equity includes 100 per cent of the ownership interests in AusNet Services Transmission and AusNet Services Finance Trust, as they are owned by securityholders directly. Significantly impacting total equity during the year was the recognition of $183.3 million of income tax expense arising from the settlement with the ATO on the intra-group financing audit, and $84.1 million of income tax expense recognised in relation to the intellectual property tax dispute.

Current liabilities exceed current assets by $18.8 million at 31 March 2015, an improvement of $407.9 million compared to the prior year. The financial report has been prepared on a going concern basis, which contemplates the continuity of normal trading operations. The Stapled Group is, and is expected to continue, trading profitably, generating positive operating cash flows and successfully refinancing maturing debt. In addition, at 31 March 2015, the Stapled Group has available a total of $300 million of undrawn but committed non-current bank debt facilities, $64 million of undrawn but committed current bank debt facilities and $883.1 million of cash.

Non-current assets have increased by $646.8 million compared to prior year, largely due to the $809.4 million of capital expenditure invested into the asset base and the improved fair value of derivative financial instruments.

Non-current liabilities increased by $1,250.5 million as AusNet Services raised additional debt capital to fund its capex programs and refinance debt maturing in the next six months. In addition, the depreciation of the Australian dollar has resulted in an increase in the value of borrowings (offset by an equal increase in the value of derivative assets).

Capital management

AusNet Services manages its capital structure to ensure that it continues as a going concern while maximising the return to securityholders as well as providing the flexibility to fund organic growth and other investment opportunities. An appropriate capital structure is also maintained to ensure an efficient cost of capital is available to AusNet Services. Through its cash flows from operations and by maintaining an appropriate and prudent mix of debt and equity, AusNet Services ensures that it achieves its targeted credit metrics that support an 'A' range credit rating.

Debt raising

AusNet Services' common or central funding vehicle (CFV) operates through AusNet Services Holdings Pty Ltd (formerly SPI Electricity & Gas Australia Holdings Pty Ltd), a subsidiary of AusNet Services Distribution. AusNet Services has access to funds through the CFV.

In line with AusNet Services' Treasury Risk Policy, AusNet Services maintains a diversified debt portfolio by maturity and source. AusNet Services' A- credit rating from Standard and Poor's and A3 from Moody's Investor Services contributed to the successful completion of bond issues during the current financial year, being:

- a NOK 900 million fifteen-year Norwegian kroner bond issue to raise $160 million in June 2014;
- a $125 million ten-year Australian bond issue in June 2014; and
- a EUR 560 million twelve-year bond issue to raise approximately $825 million in February 2015.

Directors' report (continued)

Capital management (continued)

Distributions

Distributions paid to securityholders during the financial year were as follows:

	Final 2014 distribution		Interim 2015 distribution	
	Cents per security	Total distribution $M	Cents per security	Total distribution $M
Fully franked dividend paid by AusNet Services Transmission	1.393	47.2	2.200	75.3
Interest income paid by AusNet Services Finance Trust	2.379	80.6	1.980	67.8
Return of capital paid by AusNet Services Finance Trust	0.408	13.8	-	-
	4.180	**141.6**	**4.180**	**143.1**

Since the end of the financial year, the Directors have approved a final distribution for 2015 of $144.9 million (4.18 cents per stapled security) to be paid on 26 June 2015 comprised as follows:

	Final 2015 distribution	
	Cents per security	Total distribution $M
Fully franked dividend payable by AusNet Services Transmission	2.217	76.8
Interest income payable by AusNet Services Finance Trust	1.963	68.1
	4.180	**144.9**

If the corporate restructure is in place prior to distribution payment date, this distribution will be paid to AusNet Services Ltd. AusNet Services Ltd will then pay a dividend to securityholders. Refer to the ‘Matters subsequent to the end of the financial year’ section for further details.

AusNet Services will continue to determine future distribution amounts from operating cash flows after servicing all of its maintenance capital expenditure and a portion of its growth capital expenditure. For the 2016 financial year, AusNet Services expects to lift distributions to 8.53 cents per security. In addition, AusNet Services expects the interim 2016 distribution to be franked at 75 per cent in the event that the corporate restructure is implemented.

Distribution Reinvestment Plan (DRP)

In relation to the final 2014 distribution paid on 27 June 2014, $51.4 million was utilised in the allotment of new securities issued under the DRP, representing a take up rate of approximately 36 per cent. In relation to the interim 2015 distribution paid on 24 December 2014, $54.2 million was utilised in the allotment of new securities issued under the DRP, representing a take up rate of approximately 38 per cent.

The DRP will be in operation for the final 2015 distribution at a two per cent discount to the average of the volume weighted average price.

Directors' report (continued)

Material risks and uncertainties

AusNet Services is committed to understanding and effectively managing risk to provide greater certainty and confidence for its securityholders, employees, customers, suppliers and communities in which it operates. AusNet Services maintains oversight of its material business risks (financial and non-financial) at an enterprise-wide level and reports regularly to the Audit and Risk Management Committee and the Board of Directors on the effectiveness of the management of these risks. AusNet Services is cognisant of the following principal risks which may materially impact the execution and achievement of its business strategy and financial prospects.

(a) AMI program risks

Cost recovery

The AMI Cost Recovery Order in Council (CROIC) is the framework under which AusNet Services seeks regulatory recovery for its spend on the AMI Program. The CROIC allows for the recovery of prudent costs included in the scope of implementing the AMI Program and is for the period up to 31 December 2015. Any spend incurred in a calendar year that is above the Australian Energy Regulator (AER) approved budget may be submitted to the AER for recovery via an Excess Expenditure Application. Beyond this date, regulated metering business capital and operating costs are recovered through the normal distribution business price review process.

As noted in the ‘AMI Program update’ section of this report, AusNet Services has encountered periods of significant instability in its AMI systems performance as the number of meters connected to its AMI systems increased. In light of these issues, AusNet Services is currently executing a plan and replacement works to stabilise existing systems and complete the AMI Program. The total estimated cost of these works is $220 million. As with all large-scale and complex projects, there is a risk that further expenditure may be required or that the project will not remediate all issues with system performance.

AusNet Services estimates that the total amount of current and forecast expenditure subject to future regulatory approval up to 31 December 2015 under the CROIC, compared to the current AER approved budget, is $204 million. Of this amount, $82 million was incurred in calendar year 2014. In addition, $120 million of the future expenditure noted above to complete the AMI program will fall under the 2016-2020 Electricity Distribution Price Review period.

There is a risk that some or all of the additional expenditure incurred or to be incurred by AusNet Services in 2014 and 2015 may not be recovered through an Excess Expenditure Application under the CROIC. The AER has discretion whether or not to approve any such applications for recovery. In addition, there is a risk that the AER will not allow all of AusNet Services’ metering business capital and operating costs during the 2016-2020 Electricity Distribution Price Review period to be recovered.

Electricity distribution licence

The Essential Services Commission (ESC) concluded its audit of distribution businesses’ compliance with the best endeavours obligation under the CROIC in November 2014. The ESC found that AusNet Services “has not demonstrated that it used best endeavours, to the extent practicable, to meet the AMI rollout target, and has not demonstrated that it maintained an effective strategy to identify and manage risks.” The ESC has indicated that it will continue to monitor AusNet Services’ progress and require regular reporting. The ESC has noted that it did not assess the efficiency and prudency of any AMI expenditure.

If the ESC considered AusNet Services to be in breach of its distribution licence obligations, financial penalties could be applied. Further, if the ESC considered the breach sufficiently serious, it could ultimately lead to a loss of AusNet Services’ electricity distribution licence if other enforcement actions available to the ESC had not satisfactorily rectified the breach.

Any such actions could adversely affect AusNet Services’ financial performance and position.

Directors' report (continued)

Material risks and uncertainties (continued)

(b) Taxation risks

As a large taxpayer with a stapled structure and two tax consolidated groups, the ATO regularly reviews the various tax positions adopted by AusNet Services. There is the risk that changes in tax law, or changes in the way tax laws are interpreted, may materially impact the tax liabilities of the Stapled Group or the tax losses currently available to offset future taxable profits. 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.

In March 2015, the Stapled Group and the ATO executed a Settlement Deed to settle all matters concerning intra-group financing arrangements and rights to future income issues. This has impacted the Stapled Group as follows:

- a $25 million payment to the ATO comprising a primary tax payment of $23.5 million and an interest payment (deductible) of $1.5 million, which was paid on 9 April 2015;
- cancellation of $506.5 million of carried-forward tax losses. Of this, $393.2 million were previously recognised in the statement of financial position and as such have been written off; and
- ceasing taking interest deductions in respect of AusNet Services Finance Trust loans from 1 April 2014.

While this settlement provides tax certainty, with the ATO concluding all audit activity for years up to and including 31 March 2014, AusNet Services presently has two significant unresolved issues with the ATO that, if they were to conclude unfavourably to AusNet Services, would result in a significant outflow of resources. The status of each of these matters is summarised below.

Section 163AA impost

On 7 April 2014 the Full Court of the Federal Court of Australia delivered judgment against AusNet Services in an appeal against disputed tax amended assessments relating to deductions claimed for amounts imposed under Section 163AA of the Electricity Industry Act (1993) (Vic).

The total after tax disputed amount is $89.7 million as at 31 March 2015 (representing $54 million of primary tax, plus a tax-effected interest component of $35.7 million). This amount (less the $3 million of interest accrued during the 2015 financial year) was recognised as a tax charge in the income statement for the year ended 31 March 2014. Of this total disputed amount, AusNet Services paid $30.6 million to the ATO in October 2011.

On 9 April 2015 an appeal was heard by the High Court of Australia and a decision is expected before 30 June 2015.

Intellectual property

On 25 March 2014 the Federal Court of Australia delivered judgment in favour of AusNet Services in relation to intellectual property deductions claimed in the 1998 to 2011 years, inclusive. The disputed taxes amount to $93.5 million as at 31 March 2015, as detailed below:

	Pre-consolidation years $M	Post-consolidation years $M	Total $M
Primary tax	18.7	8.7	**27.4**
Interest	21.4	2.3	**23.7**
Future deductions	-	40.1	**40.1**
Penalties	2.3	-	**2.3**
Gross exposure	**42.4**	**51.1**	**93.5**

Of this total gross exposure, AusNet Services paid $17.1 million to the ATO in October 2011.

Directors' report (continued)

Material risks and uncertainties (continued)

(b) Taxation risks (continued)

Intellectual property (continued)

The ATO appeal was heard in the Full Court of the Federal Court in November 2014. On 6 May 2015, the Full Court allowed the ATO appeal in respect of the pre tax consolidation years, being 1998 to October 2005. The Federal Court's decision to remit the $2.3 million penalty imposed in respect of this period was not overturned. In relation to the post tax consolidation years (being October 2005 to 2011), the Full Court ordered that the matter be remitted back to the primary judge of the Federal Court for further hearing and determination.

In light of this judgment from the Full Court, and the significant uncertainty that has arisen, AusNet Services has recognised an $84.1 million tax charge for the year ended 31 March 2015. This represents the net exposure of the total dispute, after taking into account the deductibility of the interest component and excluding the $2.3 million of penalties.

(c) Regulatory risks

Price determinations

The energy industry in Australia is highly regulated. The regulated component of AusNet Services' revenues (approximately 86% of AusNet Services' revenues for the year ended 31 March 2015 were regulated) will be 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 5 years, although with respect to the latest transmission revenue determination, the applicable pricing period is 3 years (with the next control period expected to be at least 5 years). The upcoming regulatory reset dates for AusNet Services' electricity transmission network, electricity distribution network and gas distribution network are 1 April 2017, 1 January 2016 and 1 January 2018, 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 AusNet Services' costs, this may adversely affect the financial performance and position of AusNet Services. In addition, AusNet Services is exposed to cost changes within a regulatory control period and bears the risk of any shortfall in allowances for costs provided by regulatory determinations. Costs can change materially within a regulatory control period due to, among other things, changes in the costs of labour, equipment or capital inputs (including the cost of finance). In some circumstances, where costs are outside AusNet Services' control, the regulatory regime offers cost pass-through protection. However, this is generally limited to costs incurred as a result of a change of exogenous circumstances (e.g. change in law, natural disaster or changes in occupational health and safety or environmental obligations) and the change in costs is often required to satisfy a materiality threshold. It is also possible to re-open a price determination, but this can only occur where the determination is affected by a material error or deficiency. As such, AusNet Services faces exposure to changes in its costs which could adversely affect its financial performance and position.

AusNet Services carefully manages these risks in a number of ways. Prior to the commencement of a regulatory period, AusNet Services will 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 AusNet Services continues to maintain safe, resilient and reliable networks and that the costs to be incurred are efficient and prudent. This information is submitted to the AER as part of the determination process, and where appropriate the views of industry and other external experts is sought to include in the submission. During the regulatory period AusNet Services continuously monitors and manages its costs through processes and systems which produce high quality data, efficiency, effectiveness and controllability.

Regulatory reform

The Australian Energy Market Commission (AEMC) has completed a rules change process in respect of the National Electricity Rules provisions on WACC and other aspects of the economic regulatory framework.

The rule changes, as made, among other things establish a new rate of return framework that is common to electricity distribution, electricity transmission and gas distribution, which requires the regulator to make the best possible estimate of the rate of return at the time a regulatory determination is made and to take into account market circumstances, estimation methods, financial models and other relevant information.

Directors' report (continued)

Material risks and uncertainties (continued)

(c) Regulatory risks (continued)

Regulatory reform (continued)

This framework provides the AER with greater discretion on the approach for setting WACC.

In addition, these rule changes provide for new tools, such as capital expenditure sharing schemes and ex-post efficiency reviews, so the regulator can incentivise network service providers to invest capital efficiently. The regulator can also apply the tools, in particular 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 also subject to benchmarking comparisons to set efficient levels going forward.

The AER has now completed a process to establish the necessary guidelines. The AER's WACC guideline decision released on 17 December 2013 continued the pattern of WACC reductions by regulators since the energy businesses were privatised in Victoria in 1994. In particular, the non-diversifiable risk (beta) assumed for the network businesses underpinning the cost of equity has been reduced and the tax allowance has been reduced. However, other methodological changes are likely to promote stability in the cost of capital in the long term. The assumptions and methodologies set out in the WACC guidelines may be subject to appeals to the Australian Competition Tribunal at the time of individual price reviews, which may negatively affect AusNet Services' financial performance and position.

The rules changes require the AER to conduct a review of the WACC guidelines every 3 years.

The AER's new WACC guidelines will first apply to AusNet Services under the Victorian electricity distribution reset applicable from 1 January 2016. Once established, the application of these guidelines may have an adverse impact on AusNet Services in future regulatory determinations for its regulated gas distribution and electricity transmission and distribution networks.

A number of other regulatory reviews are in progress or have recently been completed. The regulatory framework within which AusNet Services operates continues to evolve. Generally speaking, regulators have been seeking to expand incentive and penalty regimes focused on network performance. Regulators are also seeking more information regarding operating and capital costs and are becoming more willing to make their own assessments about the requirements of regulated businesses in respect of matters such as asset augmentation, replacement, maintenance and operation.

These reviews and others could give rise to changes in the regulatory and statutory framework that could in time affect AusNet Services' revenues and could have a negative impact on net profit after tax and cash flows.

In March 2015, the AEMC released draft changes to the National Electricity Rules and National Energy Retail Rules to remove the networks' effective metering monopoly. The proposals increase competition between retailers, networks and others to deliver new services via advanced metering to consumers who want to actively manage their electricity use. If adopted, the rules are proposed to commence from 1 July 2017.

(d) Network risks

AusNet Services' 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 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 AusNet Services' equipment may cause supply interruptions or physical damage.

Any service disruption may cause loss or damage to customers, who may seek to recover damages from AusNet Services, and this could harm the business and reputation of AusNet Services. AusNet Services' emergency response, crisis management and business continuity management system, known as Strategic Plan for the Integration of Response and Contingency Systems, is the approved methodology to guide response and recovery activities, however it may not be able to effectively protect AusNet Services' business and operations from these events.

Directors' report (continued)

Material risks and uncertainties (continued)

(d) Network risks (continued)

AusNet Services is 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 extensively 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 AusNet Services' zone substations and terminal stations have property cover to insure against failure, but incidents outside the boundaries of AusNet Services' 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 AusNet Services' financial performance and position.

Bushfire litigation update

AusNet Services was a defendant in litigation brought in connection with the 7 February 2009 bushfires located at Beechworth, Kilmore East, and Murrindindi, respectively. The Beechworth class action was settled in March 2012.

On 22 December 2014, the Supreme Court of Victoria formally approved the settlement deed for the Kilmore East bushfire class action. Under the terms of the settlement, the parties involved in the litigation have paid approximately $494.7 million with AusNet Services contributing $378.6 million which was paid in full by AusNet Services' liability insurers.

On 6 February 2015, AusNet Services announced that the parties to the Murrindindi bushfire class action had agreed to settle the action. The settlement agreement is subject to the approval of the Supreme Court of Victoria. Under the terms of the settlement, the parties involved in the litigation have agreed to pay $300 million with AusNet Services contributing $260.9 million which will be paid in full by AusNet Services' liability insurers. This amount has been recognised in the financial statements for the year ended 31 March 2015 as both a liability and a corresponding asset to be received from insurers.

In all three matters settlement was reached without admission of liability by AusNet Services or any other party.

(e) Funding and market risks

AusNet Services relies on access to financial markets as a significant source of liquidity for capital requirements not satisfied by operating cash flows. AusNet Services' access to financial markets could be adversely impacted by various factors, such as a material adverse change in AusNet Services' business or a reduction in its credit rating. The inability to raise capital on favourable terms, particularly during times of uncertainty in the financial markets, could impact AusNet Services' ability to sustain and grow its businesses, which are capital intensive, and would likely increase its capital costs.

Furthermore, AusNet Services has a large amount of debt, with a net debt to Asset Base ratio at 31 March 2015 of 67.5 per cent. The degree to which AusNet Services may be leveraged in the future could affect AusNet Services' ability to service its debt and other obligations, to pay distributions to securityholders, to make capital investments, to take advantage of certain business opportunities, to respond to competitive pressures or to obtain additional financing. In addition, AusNet Services is exposed to a number of market risks associated with this debt, including interest rate risk.

AusNet Services effectively manages these risks in accordance with its Treasury Risk Policy which is approved by the Board and reviewed at least annually. Under this policy, AusNet Services aims to have a diverse funding mix in terms of source and tenure and proactively monitors and manages its credit metrics, in order to maintain its 'A' range credit rating and ensure continued access to various markets and to limit the funding requirement for any given year. In addition, through the use of derivative financial instruments AusNet Services aims to hedge 90 to 100 per cent of its interest rate risk.

Directors' report (continued)

Material risks and uncertainties (continued)

(f) Information and communication technology risks

The drive to reduce carbon emissions, customers' needs for higher levels of reliability and the reduction in the cost of digital technology have resulted in a greater role for ICT in the management and operations of utility networks. An example of this greater role includes the implementation of AMI in the electricity distribution business and other "Smart Network" technology to improve electricity supply reliability. This increased focus on the role ICT plays in the management and operations of utility networks will require the introduction of new technology. In the event there is any significant delay in the development of such new technology, this may negatively impact AusNet Services' revenue or require unforeseen capital investment to replace obsolete technology.

Another example is the current implementation of a new, organisation-wide, enterprise resource planning and enterprise asset management solution. The purpose of the solution is to deliver efficiencies, savings and opportunities, including improved processes and planning and the consolidation of certain systems across the business. However, as with all new business solutions, there are risks associated with solution design, implementation, budgeting, planning and integration and future maintenance, upgrades and support. The crystalisation of any such risks could adversely impact on the effectiveness and cost of such a solution and business continuity.

To mitigate this risk, AusNet Services has established a dedicated program, including a governance framework and a cross-functional team, to ensure the business needs are met and the program is delivered successfully.

AusNet Services' financial performance and position may also be adversely affected by the requirements for greater ICT investment if the AER does not recognise these increased costs.

Environmental regulation and climate change

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

Under the *National Greenhouse and Energy Reporting (NGER) Act* 2007, corporations that meet or exceed thresholds are required to report greenhouse gas emissions and energy usage by 31 October each year. AusNet Services meets these thresholds and has lodged its current year's NGER reporting with the Clean Energy Regulator for the period from 1 July 2013 to 30 June 2014.

On 17 July 2014, the Federal Government approved the repeal of the carbon pricing mechanism, applicable from 1 July 2014.

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 Stapled Group that occurred during the year under review.

Directors' report (continued)

Matters subsequent to the end of the financial year

Restructure and simplification of the Stapled Group

AusNet Services has released a securityholder booklet for a restructure and simplification proposal (Proposal) under which the existing stapled entities would become wholly owned by a new listed entity (AusNet Services Ltd). The Proposal is subject to applicable regulatory approvals and requires the approval of securityholders at the securityholder meeting on 29 May 2015. The Proposal would be implemented by way of company and trust schemes of arrangement. AusNet Services is targeting an implementation date of 18 June 2015.

Distribution

Since the end of the financial year, the Directors have approved a final distribution for 2015 of $144.9 million (4.18 cents per stapled security) to be paid on 26 June 2015. If the restructure is implemented prior to the distribution payment date, as is currently anticipated (subject to Court and securityholder approval), the final distribution to securityholders will be comprised as follows:

	Cents per security	Total distribution $M
Franked dividend payable by AusNet Services Ltd	2.508	86.9
Unfranked dividend payable by AusNet Services Ltd	1.672	58.0
	4.180	**144.9**

If the restructure is not implemented prior to the distribution payment date, the final distribution to securityholders will be comprised as follows:

	Cents per security	Total distribution $M
Fully franked dividend payable by AusNet Services Transmission	2.217	76.8
Interest income payable by AusNet Services Finance Trust	1.963	68.1
	4.180	**144.9**

Intellectual property tax dispute

On 6 May 2015, the Full Court of the Federal Court allowed the ATO appeal in relation to the intellectual property tax dispute for the pre tax consolidation years, being 1998 to October 2005. The Federal Court's decision to remit the $2.3 million penalty imposed in respect of this period was not overturned. In relation to the post tax consolidation years (being October 2005 to 2011), the Full Court ordered that the matter be remitted back to the primary judge of the Federal Court for further hearing and determination.

Bushfire litigation

On 6 February 2015, AusNet Services and the other parties to the Murrindindi Class Action agreed to settle the action. The settlement is without admission of liability by AusNet Services or any other party. As at 31 March 2015, AusNet Services recognised this settlement in the financial statements as both a liability and a corresponding asset to be received from insurers. The settlement agreement is subject to the approval of the Supreme Court of Victoria.

With the exception of the matters outlined above, the Directors are not aware of any circumstances that have arisen since 31 March 2015 that have significantly affected or may significantly affect the operations, and results of those operations or the state of affairs, of the Stapled Group in financial years subsequent to 31 March 2015.

Directors' report (continued)

Information on Directors

Ng Kee Choe – *Chairman – Non-executive*

Bachelor of Science (Honours), University of Singapore

Experience and expertise

Mr Ng serves as Chairman of CapitaLand Ltd. He is also President-Commissioner of PT Bank Danamon Indonesia, Tbk. He is a Director of Fullerton Financial Holdings Pte Ltd. He is a member of the International Advisory Council of China Development Bank and Chairman of Tanah Merah Country Club. Mr Ng was formerly the Chairman and Director of Singapore Power Limited, CapitaMalls Asia Limited and NTUC Income Insurance Co-Operative Limited. He served as a Director of Singapore Airport Terminal Services Limited and Singapore Exchange Limited. He was also Vice-Chairman and Director of DBS Group Holdings, retiring from his executive position in 2003 after 33 years' service.

Other current listed company directorships

PT Bank Danamon Indonesia, Tbk (2004 to date) (Jakarta Stock Exchange listed entity)
CapitaLand Limited (2010 to date) (SGX-ST listed entity)

Former listed company directorships in last 3 years

Singapore Airport Terminal Services Ltd (2000 to 2012) (SGX-ST listed entity)
Singapore Exchange Ltd (2003 to 2014) (SGX-ST listed entity)
CapitaMalls Asia Limited (2013 to 2014) (SGX-ST and Hong Kong Stock Exchange Listed entity)

Date of initial appointment

AusNet Services Transmission - 26 October 2005
AusNet Services Distribution - 31 May 2005
Responsible Entity - 9 September 2005
AusNet Services Ltd – 14 April 2015

Special responsibilities

Chairman of the AusNet Services Board, Chairman of the Nomination Committee and Chairman of the Issuing Committee.

Nino Ficca – *Managing Director*

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

Experience and expertise

Mr Ficca has over 30 years' experience in the energy industry, including numerous senior management roles with AusNet Transmission Group Pty Ltd (formerly SPI PowerNet Pty Ltd) including as Managing Director since 2003. Mr Ficca is a Director of Energy Networks Association Limited and a member of the National Energy Market Operations Committee. He is Chair of the Deakin University Engineering Advisory Board. Mr Ficca recently resigned as a Director of SPI Management Services Pty Ltd. He was also formerly Deputy Chairman and Director of the Energy Supply Association of Australia.

Other current listed company directorships

None

Former listed company directorships in last 3 years

None

Date of initial appointment

AusNet Services Transmission - 7 September 2005
AusNet Services Distribution - 31 May 2005
Responsible Entity - 31 May 2005
AusNet Services Ltd – 11 December 2014

Special responsibilities

Managing Director and member of the Bushfire Litigation Committee and the Issuing Committee.

Directors' report (continued)

Information on Directors (continued)

Ralph Craven – *Non-executive Director*

Bachelor of Engineering (Electrical - 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

Ralph Craven has broad experience in energy, resources and infrastructure having worked in these sectors for over 35 years. His professional background encompasses electricity and gas businesses, mining, commodities trading, and the management of large scale system operations at the national level and the delivery of major infrastructure projects. Dr Craven is currently a Director of Senex Energy Limited and Windlab Limited. He is a Director of the International Electrotechnology Commission (IEC) and Chair of the IEC National Committee of Australia. Other recent directorships include being Chair of Invion Limited, Chair of the Audit Committee of Mitchell Services Limited and Chair of Genex Power Limited. He was formerly Chair of Ergon Energy Corporation Limited, Tully Sugar Limited and Deputy Chair of Arrow Energy Ltd. 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 (2011 to date)

Former listed company directorships in last 3 years

Invion Limited (2011 to April 2015)
Mitchell Services Limited (2011 to November 2014)

Date of initial appointment

AusNet Services Transmission – 24 January 2014
AusNet Services Distribution - 24 January 2014
Responsible Entity - 24 January 2014
AusNet Services Ltd – 14 April 2015

Special responsibilities

Member of the Audit and Risk Management Committee, the Compliance Committee and the Bushfire Litigation Committee.

Sally Marie Farrier – *Independent Non-executive Director*

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

Experience and expertise

Ms Farrier is currently a Director of Meridian Energy Limited and a founding Director of Farrier Swier Consulting Pty Limited. Past directorships include Manidis Roberts Pty Limited, Hydro Tasmania and Western Power. In addition, Ms Farrier has served as a National Water Commissioner, and in Victoria, she was a Member of the Victorian Water Trust Advisory Council. She is a Member of the Australian Institute of Company Directors and a Fellow of the Financial Services Institute of Australasia.

Other current listed company directorships

Meridian Energy Limited (2012 to date) (New Zealand Stock Exchange Listed Company)

Former listed company directorships in last 3 years

None

Date of initial appointment

AusNet Services Transmission – 24 January 2014, AusNet Services Distribution - 24 January 2014
Responsible Entity - 24 January 2014, AusNet Services Ltd – 14 April 2015

Special responsibilities

Member of the Audit and Risk Committee and the Compliance Committee.

Directors' report (continued)

Information on Directors (continued)

Ho Tian Yee – *Non-executive Director*

Bachelor of Arts (Economics), Portsmouth University, UK

Experience and expertise

Mr Ho is currently the Managing Director and principal shareholder of Pacific Asset Management (S) Pte Ltd, and an investment advisor to Blue Edge Advisors Pte Ltd. Mr Ho was previously the General Manager and Managing Director of Bankers Trust Company, Singapore. He currently serves as a non-executive director of DBS Group Holdings Ltd, DBS Bank Ltd and Fullerton Funds Management Company Limited. He is also a Board member of Singapore Power Limited.

Other current listed company directorships

DBS Group Holdings Ltd (2011 to date) (SGX-ST listed company)
DBS Bank Ltd (2011 to date) (SGX-ST listed company)

Former listed company directorships in last 3 years

Singapore Exchange Ltd (1999 to 2013) (SGX-ST listed company)

Date of initial appointment

AusNet Services Transmission – 1 September 2008
AusNet Services Distribution – 1 September 2008
Responsible Entity – 1 September 2008
AusNet Services Ltd – 14 April 2015

Special responsibilities

Member of the Nomination Committee, the Remuneration Committee and the Issuing Committee.

Antonino (Tony) Mario Iannello – *Independent Non-executive Director*

Bachelor of Commerce, University of Western Australia
Advanced Management Programme, Harvard Business School, USA

Experience and expertise

Mr Iannello is Chairman of Empire Oil and Gas NL, HBF Health Ltd and D'Orsogna Ltd. He is also a director of ERM Power Ltd and Water Corporation of WA. Mr Iannello was formerly Chairman of and MG Kailis Group of Companies, Aviva Corporation Ltd and Energia Minerals Ltd. Mr Iannello was Managing Director of Western Power Corporation and previously he held a number of senior executive roles at the Bank of Western Australia.

Other current listed company directorships

ERM Power Ltd (2010 to date)
Empire Oil and Gas NL (2013 to date)

Former listed company directorships in last 3 years

Energia Minerals Ltd (2010 to 2014)

Date of initial appointment

AusNet Services Transmission – 6 June 2006
AusNet Services Distribution – 6 June 2006
Responsible Entity – 6 June 2006
AusNet Services Ltd – 14 April 2015

Special responsibilities

Chairman of the Audit and Risk Management Committee and member of the Nomination Committee, the Bushfire Litigation Committee and the Issuing Committee.

Directors' report (continued)

Information on Directors (continued)

Tina Renna McMeckan – *Independent Non-executive Director*

Bachelor of Liberal Arts &.Science, San Diego State University, California, USA
Master of Business Administration, University of Melbourne

Experience and expertise

Ms McMeckan is a Director of the Global Carbon Capture and Storage Institute, Circadian Technologies Ltd and the Cooperative Research Centre for Spatial Information. She is a former Chair of the Centre for Eye Research Australia and a former Director of Metlink Victoria Pty Ltd, Viscorp Limited and the National Board of Norton Rose law firm. Ms McMeckan was previously an executive manager with GPU PowerNet and the SECV Energy Traders, and a project manager with the Victorian Department of Treasury and Finance on gas industry reform.

Other current listed company directorships

Circadian Technologies Limited (2008 to date)

Former listed company directorships in last 3 years

None

Date of initial appointment

AusNet Services Transmission – 9 August 2010
AusNet Services Distribution – 9 August 2010
Responsible Entity – 9 August 2010
AusNet Services Ltd – 14 April 2015

Special responsibilities

Chairman of the Compliance Committee and a member of the Remuneration Committee and the Audit and Risk Management Committee.

Ian Andrew Renard AM – *Independent Non-executive Director*

Bachelor of Arts, University of Melbourne
Master of Laws, University of Melbourne
Doctor of Laws (Hon), University of Melbourne

Experience and expertise

Mr Renard is a Director of Hillview Quarries Pty Ltd and a trustee of the R E Ross Trust. Mr Renard was formerly a Director of a number of public listed companies. He served as Chancellor of the University of Melbourne from 2005 to 2009, and was formerly a partner of the law firm Arthur Robinson & Hedderwicks, including a term as the firm’s full-time Managing Partner.

Other current listed company directorships

None

Former listed company directorships in last 3 years

CSL Ltd (1998 to 2013)

Date of initial appointment

AusNet Services Transmission - 26 October 2005
AusNet Services Distribution - 31 May 2005
Responsible Entity - 9 September 2005
AusNet Services Ltd – 14 April 2015

Special responsibilities

Chairman of the Remuneration Committee and the Bushfire Litigation Committee and member of the Nomination Committee.

Directors' report (continued)

Information on Directors (continued)

Sun Jianxing - *Non-executive Director*

Bachelor of Engineering, Northeast Dianli University, China

Experience and expertise

Mr Sun is a Non-executive Director of ElectraNet and currently holds the role of Head of State Grid Corporation of China Australia Representative Office. His previous roles include Deputy CEO of State Grid Energy Development Company Ltd, Deputy Director General of Materials & Equipment Supplying Department, State Grid Corporation of China, Chief Engineer of State Grid Shenzhen Energy Developments Ltd and Division Chief of Department of International Affairs, State Grid Corporation of China. In his early years, Mr Sun also worked as a Senior Engineer at the China General Institute for Electric Power Planning and Designing.

Other current listed company directorships

None

Former listed company directorships in last 3 years

None

Date of initial appointment

AusNet Services Transmission – 24 January 2014
AusNet Services Distribution - 24 January 2014
Responsible Entity - 24 January 2014
AusNet Services Ltd – 14 April 2015

Special responsibilities

Member of the Nomination Committee and the Remuneration Committee.

Company Secretary

Susan Elizabeth Taylor

Bachelor of Laws, University of Melbourne
Bachelor of Commerce, University of Melbourne
Graduate Diploma in Corporations and Securities Law, University of Melbourne

Ms Taylor has been Company Secretary of AusNet Services Distribution, AusNet Services Transmission and the Responsible Entity since 6 October 2008 and Company Secretary of AusNet Services Ltd from 11 December 2014. She has over 25 years' experience in energy transactional and regulatory law. She was formerly a partner at the Australian law firm Freehills and Senior Attorney with the U.S. Federal Energy Regulatory Commission, with a mergers and acquisitions, corporations and competition law background.

Directors' report (continued)

Meetings of Directors

The number of meetings of the Board of Directors of AusNet Services Distribution, AusNet Services Transmission and the Responsible Entity held during the year ended 31 March 2015, and the number of meetings attended by each Director, are set out in the following table. All meetings were held jointly.

	Board of AusNet Services Distribution		**Board of AusNet Services Transmission**		**Board of Responsible Entity**	
	A	**B**	**A**	**B**	**A**	**B**
Ng Kee Choe	13	14	13	14	13	14
Nino **Ficca**	13	14	13	14	13	14
Jeremy **Davis**[1]	5	5	5	5	5	5
Eric **Gwee**[1]	3	5	3	5	3	5
Ho Tian Yee	11	14	11	14	11	14
Tony **Iannello**	13	14	13	14	13	14
Tina **McMeckan**	14	14	14	14	14	14
Ian **Renard**	14	14	14	14	14	14
Sun Jianxing	10	14	10	14	10	14
Ralph **Craven**	14	14	14	14	14	14
Sally **Farrier**	13	14	13	14	13	14

1 Mr Davis and Mr Gwee retired as Non-Executive Directors effective 17 July 2014.

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

The number of meetings of each standing Board committee of AusNet Services Distribution, AusNet Services Transmission and the Responsible Entity held during the year ended 31 March 2015, and the number of meetings attended by each Director, are set out in the following table.

	Audit and Risk Management Committee		**Compliance Committee**		**Nomination Committee**		**Remuneration Committee**	
	A	**B**	**A**	**B**	**A**	**B**	**A**	**B**
Ng Kee Choe	**	**	**	**	3	3	**	**
Nino **Ficca**	**	**	**	**	**	**	**	**
Jeremy **Davis**[1]	1	1	**	**	**	**	**	**
Eric **Gwee**[1]	0	1	**	**	**	**	0	1
Ho Tian Yee	**	**	**	**	3	3	3	5
Tony **Iannello**	6	6	**	**	3	3	**	**
Tina **McMeckan**	6	6	4	4	**	**	5	5
Ian **Renard**	**	**	**	**	3	3	5	5
Sun Jianxing	**	**	**	**	2	3	5	5
Ralph **Craven**	6	6	4	4	**	**	**	**
Sally **Farrier**	6	6	4	4	**	**	**	**

1 Mr Davis and Mr Gwee retired as Non-Executive Directors effective 17 July 2014.

A = Number of meetings attended
B = Number of meetings held during the time the Director held office
**** = Not a member of the relevant committee**

Directors' report (continued)

Meetings of Directors (continued)

The number of meetings of the Bushfire Litigation Committee and the Issuing Committee held during the year ended 31 March 2015, and the number of meetings attended by each Director, are set out in the following table.

	Bushfire Litigation Committee		**Issuing Committee**	
	A	**B**	**A**	**B**
Ng Kee Choe	**	**	1	1
Nino **Ficca**	7	8	1	1
Jeremy **Davis**[1]	2	2	**	**
Ralph **Craven**	7	8	**	**
Ho Tian Yee	**	**	1	1
Tony **Iannello**	8	8	0	1
Ian **Renard**	8	8	**	**

1 Mr Davis retired as a Non-Executive Director effective 17 July 2014.

A = Number of meetings attended
B = Number of meetings held during the time the Director held office
**** = Not a member of the relevant committee**

Directors' report (continued)

Remuneration report (audited)

Introduction to remuneration report

The remuneration report for the year ended 31 March 2015 outlines the remuneration arrangements of the company and the AusNet Services Group in accordance with the requirements of the *Corporations Act 2001*(Cth) and its regulations. This information has been audited as required by section 308 (3C) of the Corporations Act.

The remuneration report details the remuneration arrangements for Key Management Personnel (KMP). KMP are those persons who have authority and responsibility for planning, directing and controlling the major activities of the company and the AusNet Services Group directly or indirectly, including any Director of the parent company.

In performing its role, the Board and Remuneration Committee may directly commission and receive information and advice from independent external advisers to ensure remuneration recommendations in relation to KMP are free from undue influence by management.

In March 2010, the Remuneration Committee appointed PwC as its remuneration adviser. This appointment was formalised in August 2011 following changes to the Corporations Act in relation to the appointment of remuneration advisers. In August 2014, the Remuneration Committee re-appointed PwC as its remuneration advisor for a further 12 months.

No remuneration recommendations were provided by PwC to the Remuneration Committee or Board during the reporting period. Advice was provided to the Remuneration Committee by PwC during the reporting period which outlined the current overall market conditions and external pay practices amongst a selected peer comparator group. This advice included an analysis of existing levels of fixed and performance remuneration of AusNet Services' KMP and executives and assisted the Board in reviewing and determining overall remuneration outcomes for the KMP and executives for the reporting period.

Details of key management personnel

The Directors and other KMP of AusNet Services are engaged to provide services to the AusNet Services Group and are not exclusive to any particular entity within AusNet Services. Accordingly, this report includes information that is common to AusNet Services Distribution, AusNet Services Transmission (together 'the Companies') and the Responsible Entity. The remuneration amounts reported represent the total remuneration received by KMP during the year for services to the AusNet Services Group, and have not been apportioned between particular entities within the AusNet Services Group.

The persons listed below were Directors of AusNet Services for the whole of the financial year and up to the date of this report unless otherwise noted. There have been no additional appointments or resignations of Directors throughout the reporting period.

Name	Position
Ng Kee Choe	Non-executive Chairman
Nino **Ficca**	Managing Director
Ralph **Craven**	Non-executive Director
Jeremy **Davis**	Non-executive Director (retired 17 July 2014)
Sally **Farrier**	Non-executive Director
Eric **Gwee**	Non-executive Director (retired 17 July 2014)
Ho Tian Yee	Non-executive Director
Tony **Iannello**	Non-executive Director
Sun Jianxing	Non-executive Director
Tina **McMeckan**	Non-executive Director
Ian **Renard**	Non-executive Director

Directors' report (continued)

Remuneration report (audited) (continued)

The persons listed below were KMP of AusNet Services during the financial year ended 31 March 2015.

Name	Position
Nino **Ficca**	Managing Director
John **Azaris**	General Manager Service Delivery
Chad **Hymas**	General Manager Strategy & Business Development
John **Kelso**	General Manager Select Solutions
Adam **Newman**	Chief Financial Officer
Alistair **Parker**	General Manager Asset Management
Mario **Tieppo**	Chief Information Officer

On 31 March 2014, AusNet Services, Singapore Power and SPI Management Services entered into a Termination Deed, pursuant to which they agreed to terminate the Management Services Agreement with effect from 31 March 2014. As a result of this termination, KMP and other employees who were previously employed by SPI Management Services were offered, and accepted, employment with AusNet Services, under either SPI Electricity Pty Ltd or SPI PowerNet Pty Ltd, on the same terms as their existing remuneration arrangements, including the preservation of all existing entitlements and participation in incentive arrangements effective 1 April 2014.

Stapled Group performance

AusNet Services' executive remuneration is directly linked to the performance of the Stapled Group across a range of measures. The Short-Term Incentive (STI) is focussed on achieving operational targets and short-term profitability and the Long-Term Incentive (LTI) is focussed on achieving long-term growth and retaining talented executives.

The table below shows AusNet Services' consolidated operating revenue and net profit after tax for the current reporting period and previous years and the effect of AusNet Services' performance on securityholder value.

	2011	2012	2013	2014	**2015**
Revenue	$1,468.0m	$1,535.4m	$1,639.5m	$1,799.4m	**$1,833.9m**
NPAT from continuing operations	$252.9m	$255.0m	$273.5m	$178.3m[1]	**$22.6m**[2]
Closing security price as at 31 March	$0.87	$1.075	$1.195	$1.31	**$1.46**
Distributions in respect of financial year (cents per stapled security)	8.00	8.00	8.20	8.36	**8.36**

[1] NPAT includes a net charge of $86.7 million for the amount potentially payable in respect of the Section 163AA dispute, $50.0 million payable for the termination of the Management Services Agreement (MSA) and $7.7 million in restructuring costs associated with the Termination Deed.

[2] NPAT includes the recognition of $183.3 million in income tax expense for the settlement with the Australian Taxation Office (ATO) in relation to the intra-group financing audit, the recognition of $84.1 million net exposure in relation to the intellectual property tax dispute with the ATO and the recognition of a provision for Advanced Metering Infrastructure (AMI) customer rebates of $22.8 million (after tax).

Directors' report (continued)

Remuneration report (audited) (continued)

Principles used to determine the nature and amount of remuneration

Non-executive Directors (NEDs)

NED fee element	Commentary
Fees	The remuneration of Non-executive Directors consists of Directors' fees and committee fees. The Board's policy has been that fee levels are set having regard to independent performance advice and fees paid by comparable companies, and that fees paid are not linked to the performance of AusNet Services in order to maintain objectivity and independence. The level of fees paid has not been altered since April 2013. The Board has deferred any decision to review the fees paid to Non-executive Directors pending resolution of material litigation (concerning bushfire liability) and the restructure of AusNet Services to be voted upon by securityholders on 29 May 2015. In accordance with the constitutions of AusNet Services Distribution, AusNet Services Transmission and the Responsible Entity, Non-executive Directors may also be paid additional fees for special duties or exertions.
Total fee pool	The constitutions of AusNet Services Distribution, AusNet Services Transmission and the Responsible Entity provide that Non-executive Directors are entitled to such remuneration for their services as the Board decides, but the total amount provided to all Non-executive Directors (including any additional fees for special duties or exertions) must not exceed in aggregate in any financial year the amount approved by securityholders in a general meeting. The securityholders of AusNet Services Distribution and AusNet Services Transmission approved a total remuneration pool for Non-executive Directors of $2,000,000 per year at the Annual General Meeting of AusNet Services held on 19 July 2012.
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 to Non-executive Directors are inclusive of superannuation contributions made on behalf of the Non-executive Directors in accordance with AusNet Services' statutory superannuation obligations.
Review of fee levels and approach to Non-executive Director fees	Each year, the Remuneration Committee reviews the fees payable to Non-executive Directors taking into account market rates and the time commitment and responsibilities involved in carrying out their duties. The Board will continue to review its approach to Non-executive Director remuneration to ensure it remains in line with general industry practice and principles of good corporate governance.

Directors' report (continued)

Remuneration report (audited) (continued)

Non-executive Directors (NEDs) (continued)

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 2015 are set out in the table below. It is not possible to allocate fees to individual entities within the AusNet Services Group.

Role	**Fee**
Board Chairman [1]	$330,000
Board Directors	$121,000
Audit and Risk Management Committee Chairman	$30,000
Audit and Risk Management Committee Members	$18,000
Compliance Committee Chairman	$21,600
Compliance Committee Members	$12,000
Remuneration Committee Chairman	$24,000
Remuneration Committee Members	$12,000
Nomination Committee Chairman	$15,000
Nomination Committee Members	$12,000
Issuing Committee Members	$12,000

1 The Board Chairman is currently Chairman of the Nomination and Issuing Committees. As his Board fee is all-inclusive, no additional Nomination or Issuing Committee Chairman's fee is currently paid.

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

Managing Director and Senior Executives

The key objective of AusNet Services' policy for Managing Director and senior executive remuneration is to manage a total reward framework designed to:

- focus on creating value for securityholders by rewarding executives based on enhancement of sustainable securityholder value;
- create an environment that will attract appropriate talent and where people can be motivated with energy and passion to deliver superior performance;
- recognise capabilities and promote opportunities for career and professional development;
- provide rewards, benefits and conditions that are competitive in the market in which AusNet Services operates; and
- provide fair and consistent rewards across AusNet Services that support corporate values and principles.

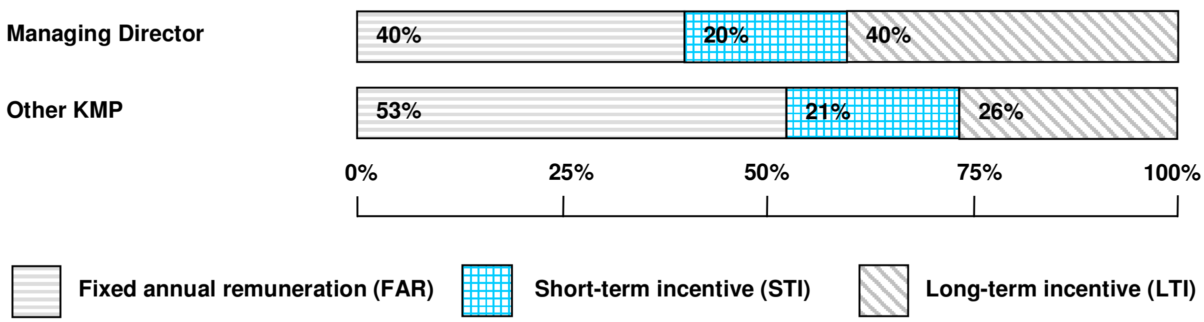
Directors' report (continued)

Remuneration report (audited) (continued)

Structure of total reward

The reward principles set out the relevant elements of remuneration to make up 'total reward'. For the majority of senior executives and AusNet Services employees, total reward consists of fixed remuneration and 'at risk' remuneration through a Short-Term Incentive (STI) plan. A Long-Term Incentive (LTI) plan is included in the remuneration structure for the Managing Director, senior executives and other employees who can influence long-term securityholder value. An appropriate mix of these components is determined for each level of management and employees.

The potential reward mix for the Managing Director and Other KMP for the reporting period, expressed as a percentage of total on-target reward, is shown in the following table:



Fixed annual remuneration

Fixed annual remuneration (FAR) represents the fixed component of executive remuneration and consists of a mix of cash, superannuation, prescribed benefits and salary-sacrificed items such as motor vehicles and fringe benefits tax. Market data is sourced from external remuneration advisers who provide detailed analysis of market practice for the Remuneration Committee to consider in the Committee's decision making process. FAR is reviewed annually against market rates for comparable roles. There are no guaranteed FAR increases in any senior executive's contract of employment.

Directors' report (continued)

Remuneration report (audited) (continued)

Short-term incentive

The key design aspects of the STI plan are outlined below:

Key design aspect	Commentary
Eligibility	Managing Director, other senior executives and permanent employees on individual contracts of employment. Generally, senior executives must complete the business year to qualify for any STI payments. In some circumstances the Board, in its discretion, may determine that a pro-rata STI payment be awarded to an executive.
Target STI amount	A target STI amount, expressed as a percentage of the senior executive's FAR, is specified for each senior executive. However, the amount of STI payable is dependent on the: • extent to which AusNet Services has achieved or outperformed the corporate Key Performance Indicators (KPIs); and • extent to which the senior executive has achieved or outperformed his or her individual KPIs. The target STI for the Managing Director is 50% of FAR. The target STI for other senior executives is 40% of FAR.
Performance criteria	Based on corporate financial and non-financial measures as well as stretch individual performance hurdles. The key corporate KPIs set for the year ended 31 March 2015 included targets relating to: • employee, contractor and network safety; • earnings before interest, taxation, depreciation and amortisation; • return on equity; • capital efficiency; • business efficiency initiatives, network performance and reliability; and • employee retention. By linking individual rewards to the achievement of overall corporate targets, these KPIs align the interests of employees and managers with those of AusNet Services. The Managing Director's stretch individual performance scorecard contained a range of measures designed to contribute value to the business and included: • safety leadership and strategy implementation; • financial KPI's including credit rating KPI's • Business Excellence and performance efficiency KPI's; • people management and leadership; and • customer and community. The performance assessment of the Managing Director's stretch individual performance scorecard is conducted by the Chairman and the Remuneration Committee Chairman, and reviewed by the Board prior to finalisation and any award being granted.
Performance period	12 months to 31 March 2015.
Delivery mechanism	100% cash payment. The Board retains the right to vary any STI payment at its discretion.

Directors' report (continued)

Remuneration report (audited) (continued)

Long-term incentive

The key design aspects of the LTI plan are outlined below:

<table>
<tr><th>Key design aspect</th><th>Commentary</th></tr>
<tr><td>Eligibility</td><td>Managing Director and other senior executives.

The Board may in its discretion invite additional employees who are in a position to influence long-term securityholder value to participate in the LTI plan.</td></tr>
<tr><td>Purpose of the LTI plan</td><td>The LTI plan rewards participants for increasing long-term securityholder value.</td></tr>
<tr><td>Target LTI amount</td><td>The LTI Award is calculated as a percentage of the participant’s FAR as at the test date.

The quantum available to participants expressed as a percentage of FAR as at the performance test date, are:

• Managing Director – 75% based on the general senior executive performance measures of Total Securityholder Return (TSR) and Earnings Per Security (EPS), with a further 25% for the achievement of stretch targets related to Return on Invested Capital (ROIC) and Interest Cover Ratio (ICR).

• Other senior executives – 50%

• Other participants – between 15% and 25%</td></tr>
<tr><td>Performance period</td><td>Performance is assessed over a three-year period and the LTI plan does not allow for retesting of performance measures in subsequent years.</td></tr>
<tr><td>Performance measures</td><td>Relative TSR (for 50% of the Award) and growth in EPS (for the other 50% of the Award).

The Board and Remuneration Committee believe that it is important to assess executive performance against both relative and absolute hurdles linked to securityholder value. With the exception of the Managing Director, where an additional 25% LTI opportunity was introduced from 1 April 2011, accompanied by new performance indicators of ROIC and ICR, the same performance measures have been used for senior executive LTI since 1 April 2006.

TSR: The comparator group used for the TSR performance measure consists of the companies included in the S&P/ASX 200 index. In assessing whether the performance hurdles have been met, AusNet Services receives independent data which provides both AusNet Services’ TSR growth from the commencement of each grant and that of the companies in the comparator group. The level of TSR growth achieved by AusNet Services is given a percentile ranking having regard to its performance compared with the performance of other companies in the comparator group. The vesting scale for the TSR performance measure is shown below:
<table>
<tr><th>AusNet Services’ TSR
Percentile Ranking</th><th>Percentage of TSR
Award that vests</th></tr>
<tr><td>Below 50.1</td><td>0%</td></tr>
<tr><td>50.1</td><td>35%</td></tr>
<tr><td>Between 50.1 and 74.9</td><td>Progressive vesting on a straight-line basis from greater than 35% to less than 100%</td></tr>
<tr><td>75 or above</td><td>100%</td></tr>
</table></td></tr>
</table>

Directors' report (continued)

Remuneration report (audited) (continued)

Long-term incentive (continued)

Key design aspect	Commentary
Performance measures (continued)	**EPS:** The EPS growth measure is based on AusNet Services achieving a nominal compound annual growth (CAGR) of 5% per annum over the three-year period. A sliding scale applies as follows:

Compound annual growth rate	Percentage of EPS Award that vests
< 2.5% per annum	0%
Between 2.5% and 7.5% per annum	Linear scale from 50% to 150%
> 7.5% per annum	150%

ROIC: The ROIC measure applies to the Managing Director only and is designed to measure how effective AusNet Services uses funds (borrowed and owned) invested in its operations.

ROIC equals (NPAT + Finance Cost adjusted for Tax) / (Average Equity + Average Debt)

The target for this measure has been set as the average over the 3 year performance period, with the award calculated as follows:

AusNet Services' ROIC	Percentage of ROIC Award that vests
Below threshold	0%
Between threshold and target	Linear scale from 50% to 100%
Above target to stretch target	Linear scale from 100% to 125%
Above stretch target	125%

ICR: The ICR applies to the Managing Director only and is a key financial metric which provides an indication of AusNet Services' ability to meet ongoing interest bills and therefore service debt.

ICR equals (Funds Flow from Operations + Finance Expenses) / Finance Expenses

The target for this measure has been set as the average over the 3 year performance period, with the award calculated as follows:

AusNet Services' ICR	Percentage of ICR Award that vests
Below threshold	0%
Between threshold and target	Linear scale from 50% to 100%
Above target to stretch target	Linear scales from 100% to 125%
Above stretch target	125%

In order for the Managing Director to qualify for an award under both the ROIC and ICR measures, a safety performance hurdle of zero fatalities for AusNet Services employees in the 12 month period prior to vesting must be achieved.

Directors' report (continued)

Remuneration report (audited) (continued)

Long-term incentive (continued)

Key design aspect	Commentary
Delivery mechanism	Once the performance criteria have been satisfied, participants receive a cash award. The Board retains the right to vary any LTI payment at its discretion. Participants are then required (under the Plan Rules) to use the after tax cash proceeds of this Award to purchase AusNet Services stapled securities on-market. These purchases must be conducted during an approved trading window and the stapled securities must be held for at least 12 months. Reasonable brokerage costs incurred by the participants are reimbursed. Participants are incentivised to achieve performance targets over a three-year timeframe, and are also required to hold the AusNet Services securities acquired with their Award payment for at least 12 months, thereby extending the long-term nature of the LTI plan.
Clawback arrangements	Where, in the opinion of the Board, the performance measures applicable to an award have been satisfied as a result of the fraud, dishonesty or breach of obligations of the participant and, in the opinion of the Board, the performance measures would not otherwise have been satisfied, the Board may determine that the performance measures are not satisfied and may, subject to applicable laws, determine that any award paid in such circumstances be repaid by the participant to AusNet Services.

Long-term incentive plan from 1 April 2015

AusNet Services has recently adopted a new equity based long-term incentive plan, to operate for offers made to employees from 1 April 2015. The equity based long-term incentive plan has been designed with an aim to align the interests of participating employees with the interests of AusNet Services Securityholders. No equity based performance rights have been granted under this plan as at the date of this Remuneration Report. No Director (except for the Managing Director) will be entitled to participate in this new long-term incentive plan.

Loans to Directors and senior executives

No loans have been made by AusNet Services to any Directors or senior executives.

Details of remuneration

Remuneration details of each Director and KMP of AusNet Services are set out in the following tables.

Directors' report (continued)

Remuneration report (audited) (continued)

Total remuneration for Non-executive Directors for the year ended 31 March 2014 and 31 March 2015

		Short-term		Post-employment	Total
Non-executive Directors	**Year**	**Cash salary and fees**	**Other short term benefits**[1]	**Superannuation**[2]	
Ng Kee Choe (Chairman)	**2015**	**301,542**	**-**	**28,458**	**330,000**
	2014	302,233	-	27,767	330,000
Ralph **Craven** [3]	**2015**	**157,704**	**-**	**14,896**	**172,600**
	2014	25,375	-	2,347	27,722
Jeremy **Davis**	**2015**	**38,059**	**-**	**3,536**	**41,595**
	2014	136,278	-	12,519	148,797
Sally **Farrier**	**2015**	**137,978**	**-**	**13,022**	**151,000**
	2014	25,375	-	2,347	27,722
Eric **Gwee**	**2015**	**45,186**	**-**	**-**	**45,186**
	2014	160,797	-	-	160,797
Ho Tian Yee	**2015**	**143,461**	**-**	**13,539**	**157,000**
	2014	143,783	-	13,217	157,000
Tony **Iannello** [3]	**2015**	**179,635**	**-**	**16,965**	**196,600**
	2014	176,745	-	16,255	193,000
George **Lefroy**	2014	51,335	-	4,665	56,000
Tina **McMeckan**	**2015**	**157,716**	**-**	**14,884**	**172,600**
	2014	151,010	-	13,882	164,892
Sun Jianxing	**2015**	**132,496**	**-**	**12,504**	**145,000**
	2014	24,430	-	2,260	26,690
Ian **Renard** [3]	**2015**	**176,338**	**-**	**16,662**	**193,000**
	2014	184,218	-	16,941	201,159
Total for Non-executive Directors	**2015**	**1,470,115**	**-**	**134,466**	**1,604,581**
	2014	1,381,579	-	112,200	1,493,779

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 AusNet Services' 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 Received exertion payments for the year ended 31 March 2015 in relation to services provided on the Bushfire Litigation Committee up to 31 December 2014.

Directors' report (continued)

Remuneration report (audited) (continued)

Total remuneration for key management personnel for the year ended 31 March 2014 and 31 March 2015

		Short-term			Post-employment	Equity based payments [3]	Other long-term benefits [4,5]	Total
	Year	**Cash salary and fees [5]**	**Cash bonus [1]**	**Other short-term benefits [2,5]**	**Super-annuation**			
Nino **Ficca**	**2015**	**819,097**	**234,916**	**85,219**	**99,845**	**393,534**	**62,108**	**1,694,719**
	2014	805,587	320,000	87,922	92,250	619,027	66,775	1,991,561
John **Azaris**	**2015**	**317,182**	**74,634**	**33,650**	**43,378**	**98,514**	**19,830**	**587,188**
	2014	329,076	102,400	37,648	42,214	126,660	10,016	648,014
Chad **Hymas**	**2015**	**277,283**	**60,763**	**35,163**	**25,000**	**83,275**	**13,538**	**495,022**
	2014	258,669	86,400	30,384	25,000	66,397	7,512	474,362
John **Kelso**	**2015**	**315,488**	**84,470**	**35,247**	**33,402**	**95,168**	**27,805**	**591,580**
	2014	299,795	90,144	37,003	31,233	126,524	52,711	637,410
Adam **Newman**	**2015**	**586,686**	**144,659**	**57,887**	**25,000**	**183,324**	**16,847**	**1,014,403**
	2014	579,310	180,000	54,747	25,000	199,797	15,642	1,054,496
Alistair **Parker**	**2015**	**323,343**	**76,393**	**34,868**	**25,000**	**102,407**	**12,074**	**574,085**
	2014	325,862	90,000	35,923	25,000	82,996	9,385	569,166
Ash **Peck** [6]	2014	225,974	-	27,757	22,361	(100,948)	(22,929)	152,215
Mario **Tieppo**	**2015**	**369,253**	**89,021**	**38,694**	**25,000**	**140,653**	**9,956**	**672,577**
	2014	106,322	39,605	11,421	7,759	38,886	3,055	207,048
Total KMP	**2015**	**3,008,332**	**764,856**	**320,728**	**276,625**	**1,096,875**	**162,158**	**5,629,574**
	2014	2,930,595	908,549	322,805	270,817	1,159,339	142,167	5,734,272

1 2015 cash bonuses include bonuses in respect of performance for the year ended 31 March 2015. These amounts have been approved and will be payable in June 2015.

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 be payable 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 paid under these Awards will not be known until the end of the performance period. Refer to the table below under the heading of key management personnel – long-term incentive for the maximum amounts payable at the end of three years.

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 above.

6 Mr Peck ceased to be KMP on 6 December 2013. His remuneration up to this date has been included in the table above.

Remuneration report (audited) (continued)

Remuneration and Other Terms of Employment

Remuneration and other terms of employment for the Managing Director and other KMP are set out below.

Managing Director	
Term of agreement	Permanent, subject to one month's notice of termination by either party.
Fixed remuneration	Fixed remuneration includes base salary and superannuation. As at 31 March 2015, fixed annual remuneration was $1,045,000. Fixed remuneration is reviewed annually by the Remuneration Committee and the Board.
Short-term incentive	Annual short-term incentive of 50% of FAR for on-target performance.
Long-term incentive	Long-term incentive of 75% of FAR for on-target performance, based on the general senior executive performance measures of TSR and EPS, and a further 25% for the achievement of stretch targets related to ROIC and ICR. Annual invitation to participate with three-year performance period and no retesting of performance measures in subsequent years.
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.

In addition, the Managing Director participates in the AusNet Services Retention Plan. Under this plan, the Managing Director is entitled to receive up to 100% of FAR, contingent upon a change of control event occurring (as defined under the Corporations Act and ASX Listing Rules) and subject to continued employment up to 12 months following the change of control event. The Retention Plan is in place until 16 September 2015. The Board has absolute and unfettered discretion to act or refrain from acting under or in connection with the Retention Plan and in the exercise of any power or discretion under the Plan.

Other KMP

The major provisions contained in the services agreements of the other KMP listed are substantially the same as those that apply to the Managing Director although participation levels for STI, LTI and Retention Plan vary.

Key management personnel cash bonuses – short-term incentive

The percentage of the available bonus that was paid, or that vested, in the financial years ended 31 March 2014 and 31 March 2015, and the percentage that was forfeited because the senior executive did not meet the service or performance criteria, are set out below.

	Cash Bonus (2015) [1]			**Cash Bonus (2014)**		
	Payable ($)	**Percentage of available bonus**		**Paid ($)**	**Percentage of available bonus**	
		Payable (%)	**Not Payable (%)**		**Paid (%)**	**Not Paid (%)**
Nino **Ficca**	**234,916**	**45.0**	**55.0**	320,000	64.0	36.0
John **Azaris**	**74,634**	**45.0**	**55.0**	102,400	64.0	36.0
Chad **Hymas**	**60,763**	**47.8**	**52.2**	86,400	72.0	28.0
John **Kelso**	**84,470**	**54.9**	**45.1**	90,144	62.6	37.4
Adam **Newman**	**144,659**	**55.6**	**44.4**	180,000	72.0	28.0
Alistair **Parker**	**76,393**	**48.5**	**51.5**	90,000	60.0	40.0
Mario **Tieppo**	**89,021**	**55.6**	**44.4**	39,605	80.0	20.0

1 Bonuses for performance for the year ended 31 March 2015 have been approved and will be payable in June 2015.

Directors' report (continued)

Remuneration report (audited) (continued)

Key management personnel – long-term incentive (equity based payments)

The AusNet Services Board approved a LTI plan for the Managing Director and senior executives that came into effect from 1 April 2006. The following table shows the value of cash grants subject to future performance testing, percentage payable or forfeited and future financial years that grants may vest and be paid. The grants made in 2013 and 2014 are still in progress and, as such, no percentage of these grants have been paid or forfeited as at the date of this report.

	Date of grant	Percentage of maximum grant payable (%) [1]	Percentage of maximum grant forfeited (%)	Vesting date	Maximum total value of grant ($) [2]
Nino **Ficca**	1 April 2012	32.6%	67.4%	31 March 2015	1,306,250
John **Azaris** [4]	1 April 2012	26.8%	73.2%	31 March 2015	259,375
Chad **Hymas** [4]	1 April 2012	26.8%	73.2%	31 March 2015	99,375
John **Kelso**	1 April 2012	26.8%	73.2%	31 March 2015	240,625
Adam **Newman**	4 March 2013	26.8%	73.2%	31 March 2015	281,206
Alistair **Parker** [4]	1 April 2012	26.8%	73.2%	31 March 2015	123,125
Mario **Tieppo** [3]	9 December 2013	26.8%	73.2%	31 March 2015	109,150
Total granted 1 April 2012					**2,419,106**
Nino **Ficca**	1 April 2013	-	-	31 March 2016	1,355,234
John **Azaris**	1 April 2013	-	-	31 March 2016	269,102
Chad **Hymas**	1 April 2013	-	-	31 March 2016	206,203
John **Kelso**	1 April 2013	-	-	31 March 2016	249,648
Adam **Newman**	1 April 2013	-	-	31 March 2016	421,484
Alistair **Parker**	1 April 2013	-	-	31 March 2016	255,484
Mario **Tieppo** [3]	9 December 2013	-	-	31 March 2016	199,719
Total granted 1 April 2013					**2,956,874**
Nino **Ficca**	1 April 2014	-	-	31 March 2017	1,406,056
John **Azaris** [4]	1 April 2014	-	-	31 March 2017	279,193
Chad **Hymas** [4]	1 April 2014	-	-	31 March 2017	213,936
John **Kelso**	1 April 2014	-	-	31 March 2017	259,010
Adam **Newman**	1 April 2014	-	-	31 March 2017	437,290
Alistair **Parker** [4]	1 April 2014	-	-	31 March 2017	265,065
Mario **Tieppo** [3]	1 April 2014	-	-	31 March 2017	269,102
Total granted 1 April 2014					**3,129,652**

1 These grants have been approved and will be payable in June 2015. In determining LTI's for the 1 April 2012 grant, the Board has not exercised any discretion in relation to the performance measures and outcomes payable under the LTI Plan.

2 For the grant of 1 April 2012, the amounts payable equated to 26.8% of the maximum LTI, except for Mr Ficca for whom the amount payable equated to 32.6% of the maximum LTI. For the grants of 1 April 2013 and 1 April 2014, the amounts are based on maximum performance in relation to TSR, EPS, ROIC and ICR at the end of the three-year performance period described above and assumes prevailing FARs increase by 3.75% per annum.

3 Mr Tieppo commenced as KMP from 9 December 2013. As part of his contract of employment, Mr Tieppo has been granted pro-rata participation in the 1 April 2012 and 1 April 2013 tranches of the Company's LTI plan, which are due to be tested on 31 March 2015 and 31 March 2016 respectively. The maximum total value of grant disclosed above is based on this pro-rata entitlement.

4 Mr Azaris, Mr Hymas and Mr Parker commenced as KMP from 1 April 2013. The LTI participation and maximum grant payable disclosed above also include those LTI's that were granted prior to their commencement as KMP.

Directors' report (continued)

Remuneration report (audited) (continued)

Securityholdings of KMP

The KMP of AusNet Services have disclosed relevant interests in stapled securities as at 31 March 2015 as follows:

Name	Number of stapled securities at 1 April 2014	Granted during the year as compensation (i)	Acquisitions/ (disposal)	Number of stapled securities at 31 March 2015
Non-executive Directors				
Ng Kee Choe [1]	195,883	-	-	195,883
Ralph **Craven**	-	-	-	-
Jeremy **Davis** [4]	120,750	-	-	120,750
Sally **Farrier**	-	-	-	-
Eric **Gwee** [1, 4]	153,591	-	-	153,591
Ho Tian Yee	-	-	-	-
Tony **Iannello** [3]	190,976	-	-	190,976
Sun Jianxing	-	-	-	-
Tina **McMeckan** [5]	90,000	-	-	90,000
Ian **Renard**	84,898	-	-	84,898
Executives				
Nino **Ficca** [2]	1,268,183	195,000	-	1,463,183
John **Azaris**	132,600	39,000	(110,000)	61,600
Chad **Hymas**	80,192	15,050	5,664	100,906
John **Kelso**	72,937	35,500	527	108,964
Adam **Newman**	20,000	30,000	-	50,000
Alistair **Parker**	31,000	19,250	2,621	52,871
Mario **Tieppo**	-	4,000	-	4,000

1 Securities held by The Central Depository (Pte) Limited. Mr Gwee retired as a Director of AusNet Services on 17 July 2014.

2 319,850 securities held by immediate family members of Mr Ficca and 1,143,333 securities held by Mr and Mrs Ficca as Trustees for the Ficca Investment Trust.

3 87,500 securities held jointly by Mr Iannello and immediate family members of Mr Iannello through a Superannuation Plan and 103,476 securities held by immediate family members of Mr Iannello as trustee for the ADI Investment Trust.

4 Mr Davis and Mr Gwee retired as Directors of AusNet Services on 17 July 2014. The number of stapled securities disclosed at 31 March 2015 represents the number held at the date that Mr Davis and Mr Gwee ceased to be KMP.

5 Securities held by McMeckan Superannuation Pty Ltd as Trustee for the McMeckan Family Super Fund.

(i) includes securities purchased under AusNet Services' Long-term Incentive Plan

Indemnification and insurance of officers and auditors

The constitutions of AusNet Services Distribution, AusNet Services Transmission and the Responsible Entity each provide for the company to indemnify each current and former Director, executive officer (as defined in the constitutions), 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 constitutions) incurred by the Officer as an officer of the company or of a related body corporate.

The constitutions also provide for AusNet Services Distribution, AusNet Services Transmission and the Responsible Entity, 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 constitutions) incurred by the Officer as an officer of the company or of a related body corporate.

AusNet Services Distribution, AusNet Services Transmission and the Responsible Entity may enter into a deed with any Officer to give effect to the rights conferred by the constitutions as described above.

The companies have executed protection deeds in favour of each of the Directors, the Company Secretary and certain general managers on substantially the same terms as provided in the constitutions. 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, the Stapled Group paid a premium to insure the Directors and Company Secretaries of the Australian-based combined entities and the general managers of each of the divisions 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 the Stapled Group in regard to insurance cover provided to the auditor of the Stapled Group, KPMG. The auditor is not indemnified and no insurance cover is provided to the auditor.

Non-audit services

AusNet Services 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 and/or combined entity 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 22 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 43.

Directors' report (continued)

Rounding of amounts

AusNet Services Distribution is a company of a kind referred to in Class Order 98/100, 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 Class Order to the nearest hundred thousand dollars unless otherwise stated.

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

Ng Kee Choe
Chairman

Nino Ficca
Managing Director

Melbourne
13 May 2015

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

To: the directors of AusNet Services (Distribution) Ltd, AusNet Services (Transmission) Ltd and the Responsible Entity of AusNet Services Finance Trust, AusNet Services (RE) Ltd

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 31 March 2015 there have been:

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

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

KPMG

KPMG

Michael Bray
Partner

Melbourne

13 May 2015

Combined income statement
For the year ended 31 March 2015

	Notes	2015 $M	2014 $M
Revenue	3	**1,833.9**	1,799.4
Expenses, excluding finance costs and termination expenses	4	**(1,165.9)**	(1,094.0)
Termination expenses	4	**-**	(57.7)
Profit from operating activities		**668.0**	647.7
Finance income	5	**26.7**	24.7
Finance costs	5	**(340.3)**	(367.0)
Net finance costs		**(313.6)**	(342.3)
Profit before income tax		**354.4**	305.4
Income tax expense	6	**(331.8)**	(127.1)
Profit for the year		**22.6**	178.3
Attributable to:			
AusNet Services Distribution		**(128.7)**	3.4
AusNet Services Transmission and AusNet Services Finance Trust		**151.3**	174.9
Profit for the year		**22.6**	178.3
Earnings per share attributable to the ordinary equityholders of AusNet Services Distribution			
Basic and diluted (loss)/earnings per share (cents per share)*	8	**(3.76)**	0.10

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

* Basic and diluted earnings per stapled security of the Stapled Group for the year ended 31 March 2015 was 0.66 cents per security (2014: 5.28 cents). Refer to note 8.

Combined statement of comprehensive income

For the year ended 31 March 2015

	Notes	2015 $M	2014 $M
Profit for the year		**22.6**	178.3
Other comprehensive income			
Items that will not be reclassified to profit or loss in subsequent periods			
Movement in defined benefit fund	18	**(36.6)**	37.8
Income tax on movement in defined benefit fund	6(d)	**11.0**	(11.3)
		(25.6)	26.5
Items that may be reclassified to profit or loss in subsequent periods			
Movement in hedge reserve		**(19.5)**	85.3
Income tax on movement in hedge reserve	6(d)	**5.9**	(25.6)
	19(c)	**(13.6)**	59.7
Other comprehensive income for the year, net of income tax		**(39.2)**	86.2
Total comprehensive income for the year		**(16.6)**	264.5
Attributable to:			
AusNet Services Distribution		**(158.9)**	80.2
AusNet Services Transmission and AusNet Services Finance Trust		**142.3**	184.3
Total comprehensive income for the year		**(16.6)**	264.5

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

Combined statement of financial position

As at 31 March 2015

	Notes	2015 $M	2014 $M
ASSETS			
Current assets			
Cash and cash equivalents		**883.1**	409.8
Receivables	9	**488.9**	281.7
Inventories	10	**37.5**	42.3
Derivative financial instruments	19(c)	**129.3**	0.1
Other assets	11	**24.3**	25.0
Total current assets		**1,563.1**	758.9
Non-current assets			
Receivables	9	**207.2**	215.3
Inventories	10	**19.4**	17.6
Property, plant and equipment	12	**9,341.9**	8,944.3
Intangible assets	13	**392.9**	392.8
Derivative financial instruments	19(c)	**535.2**	264.2
Tax receivable	23(b)	**-**	17.1
Other assets	11	**3.6**	2.1
Total non-current assets		**10,500.2**	9,853.4
Total assets		**12,063.3**	10,612.3
LIABILITIES			
Current liabilities			
Payables and other liabilities	14	**497.7**	272.3
Current tax payable	6(c)	**138.6**	69.7
Borrowings	15	**776.7**	673.6
Provisions	16	**122.3**	99.3
Derivative financial instruments	19(c)	**46.6**	70.7
Total current liabilities		**1,581.9**	1,185.6
Non-current liabilities			
Payables and other liabilities	14	**28.1**	11.4
Non-current tax payable	6(c)	**5.4**	-
Borrowings	15	**6,439.4**	5,395.6
Provisions	16	**78.5**	35.0
Derivative financial instruments	19(c)	**209.1**	235.4
Deferred tax liabilities	6(e)	**472.1**	304.7
Total non-current liabilities		**7,232.6**	5,982.1
Total liabilities		**8,814.5**	7,167.7
Net assets		**3,248.8**	3,444.6
EQUITY			
Equityholders of AusNet Services Distribution			
Contributed equity	17	**0.5**	0.5
Reserves		**(70.7)**	(57.0)
Retained profits		**567.9**	713.1
		497.7	656.6
Equityholders of AusNet Services Transmission and AusNet Services Finance Trust		**2,751.1**	2,788.0
Total equity		**3,248.8**	3,444.6

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

Combined statement of changes in equity

For the year ended 31 March 2015

	Notes	Contributed equity $M	Issued units $M	Hedge reserve (i) $M	Retained profits $M	Fair value adjustment on stapling (ii) $M	Other equity component (iii) $M	Total equity $M
31 March 2015								
AusNet Services Distribution								
Balance as at 1 April 2014		0.5	-	(57.0)	713.1	-	-	656.6
Total comprehensive income for the year								
Loss for the year		-	-	-	(128.7)	-	-	(128.7)
Other comprehensive income		-	-	(13.7)	(16.5)	-	-	(30.2)
Total comprehensive income for the year		**-**	**-**	**(13.7)**	**(145.2)**	**-**	**-**	**(158.9)**
Balance as at 31 March 2015		**0.5**	**-**	**(70.7)**	**567.9**	**-**	**-**	**497.7**
AusNet Services Transmission and AusNet Services Finance Trust								
Balance as at 1 April 2014		650.1	2,714.3	-	467.3	51.4	(1,095.1)	2,788.0
Total comprehensive income for the year								
Profit for the year		-	-	-	151.3	-	-	151.3
Other comprehensive income		-	-	0.1	(9.1)	-	-	(9.0)
Total comprehensive income for the year		**-**	**-**	**0.1**	**142.2**	**-**	**-**	**142.3**
Transactions with owners, recorded directly in equity								
Distributions paid	7	-	(13.8)	-	(270.9)	-	-	(284.7)
Distribution Reinvestment Plan (net of transaction costs)	7	-	105.5	-	-	-	-	105.5
Total transactions with owners		**-**	**91.7**	**-**	**(270.9)**	**-**	**-**	**(179.2)**
Balance as at 31 March 2015		**650.1**	**2,806.0**	**0.1**	**338.6**	**51.4**	**(1,095.1)**	**2,751.1**
Total stapled securityholders' equity as at 31 March 2015		**650.6**	**2,806.0**	**(70.6)**	**906.5**	**51.4**	**(1,095.1)**	**3,248.8**

Combined statement of changes in equity

For the year ended 31 March 2015

	Notes	Contributed equity $M	Issued units $M	Hedge reserve (i) $M	Retained profits $M	Fair value adjustment on stapling (ii) $M	Other equity component (iii) $M	Total equity $M
31 March 2014								
AusNet Services Distribution								
Balance as at 1 April 2013		0.5	-	(116.7)	692.6	-	-	576.4
Total comprehensive income for the year								
Profit for the year		-	-	-	3.4	-	-	3.4
Other comprehensive income		-	-	59.7	17.1	-	-	76.8
Total comprehensive income for the year		**-**	**-**	**59.7**	**20.5**	**-**	**-**	**80.2**
Balance as at 31 March 2014		**0.5**	**-**	**(57.0)**	**713.1**	**-**	**-**	**656.6**
AusNet Services Transmission and AusNet Services Finance Trust								
Balance as at 1 April 2013		650.1	2,708.2	-	546.1	51.4	(1,095.1)	2,860.7
Total comprehensive income for the year								
Profit for the year		-	-	-	174.9	-	-	174.9
Other comprehensive income		-	-	-	9.4	-	-	9.4
Total comprehensive income for the year		**-**	**-**	**-**	**184.3**	**-**	**-**	**184.3**
Transactions with owners, recorded directly in equity								
Distributions paid	7	-	(16.0)	-	(263.1)	-	-	(279.1)
Distribution Reinvestment Plan (net of transaction costs)	7	-	22.1	-	-	-	-	22.1
Total transactions with owners		**-**	**6.1**	**-**	**(263.1)**	**-**	**-**	**(257.0)**
Balance as at 31 March 2014		**650.1**	**2,714.3**	**-**	**467.3**	**51.4**	**(1,095.1)**	**2,788.0**
Total stapled securityholders' equity as at 31 March 2014		**650.6**	**2,714.3**	**(57.0)**	**1,180.4**	**51.4**	**(1,095.1)**	**3,444.6**

Combined statement of changes in equity

For the year ended 31 March 2015

(i) 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 (refer note 1(l)).

(ii) This amount represents the fair value uplift to the assets of the AusNet Services Transmission Group on the date of stapling (refer note 1(b)(i)). The fair value uplift was applied to easements which are considered to have an indefinite useful life.

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

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

Combined statement of cash flows

For the year ended 31 March 2015

	Notes	2015 $M	2014 $M
Cash flows from operating activities			
Receipts from customers (inclusive of goods and services tax)		**2,068.6**	2,000.3
Payments to suppliers and employees (inclusive of goods and services tax)		**(904.8)**	(897.3)
Payment of MSA termination fee (inclusive of goods and services tax) (i)		**(39.3)**	-
Income tax paid		**(54.5)**	(35.4)
Finance income received		**23.8**	23.1
Finance costs paid		**(326.2)**	(360.5)
Net cash inflow from operating activities	28	**767.6**	730.2
Cash flows from investing activities			
Payments for property, plant and equipment		**(800.5)**	(925.2)
Proceeds from sale of property, plant and equipment		**5.7**	0.8
Payments for acquisition of a subsidiary (net of cash acquired)		**(0.4)**	(24.2)
Receipts from desalination licence receivable	9	**8.8**	8.8
Net cash outflow from investing activities		**(786.4)**	(939.8)
Cash flows from financing activities			
Distributions paid (ii)	7	**(179.2)**	(257.0)
Proceeds from borrowings		**1,830.3**	2,162.6
Repayment of borrowings		**(1,159.0)**	(1,827.2)
Net cash inflow from financing activities		**492.1**	78.4
Net increase/(decrease) in cash held		**473.3**	(131.2)
Cash and cash equivalents at the beginning of the year		**409.8**	541.0
Cash and cash equivalents at the end of the year		**883.1**	409.8

(i) Settlement of fees for the termination of the Management Services Agreements (MSAs) with SPI Management Services Pty Ltd (SPIMS) and Enterprise Business Services (Australia) Pty Ltd (EBS) (a subsidiary of SPIMS) which were recognised in the year ended 31 March 2014. The net payment represents the termination fee of $50 million plus recoverable GST, offset by SPIMS employee provisions transferred to AusNet Services of $15.7 million.

(ii) Amounts shown represent distributions paid of $284.7 million (2014: $279.1 million) offset by proceeds from the Distribution Reinvestment Plan of $105.6 million (2014: $22.2 million), less transaction costs.

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

Notes to the combined financial statements

31 March 2015

Contents

Note 1 Summary of significant accounting policies

The principal accounting policies adopted in the preparation of the financial report are set out below.

(a) Basis of preparation

The combined general purpose financial report, prepared by a for-profit entity for the year ended 31 March 2015, represents the combined financial statements of the Stapled Group, which comprises AusNet Services (Distribution) Ltd (AusNet Services Distribution) and its subsidiaries, AusNet Services (Transmission) Ltd (AusNet Services Transmission) and its subsidiaries, and AusNet Services Finance Trust. The Stapled Group is also referred to as AusNet Services.

Pursuant to the Stapling Deed effective 21 October 2005, a Stapled Group was established for the purpose of facilitating a joint quotation of AusNet Services Distribution, AusNet Services Transmission and AusNet Services Finance Trust on the Australian Securities Exchange and the Singapore Exchange Securities Trading Limited. The Stapled Group was listed on 14 December 2005. The combined financial statements are presented in accordance with class order 13/1050, issued by the Australian Securities and Investment Commission.

So long as the three entities remain jointly quoted, the number of shares in each of AusNet Services Distribution and AusNet Services Transmission and the number of units in AusNet Services Finance Trust shall be equal and shareholders and unitholders shall be identical.

AusNet Services, AusNet Services Distribution, AusNet Services Transmission and AusNet Services Finance Trust were formerly known as SP AusNet, SP Australia Networks (Distribution) Ltd, SP Australia Networks (Transmission) Ltd, and SP Australia Networks (Finance) Trust respectively up until 4 August 2014.

The combined general purpose 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). The combined financial statements and notes also comply with International Financial Reporting Standards and interpretations adopted by the International Accounting Standards Board. This general purpose financial report is presented in Australian dollars.

The financial statements were approved by the Board of Directors on 13 May 2015.

The Stapled Group's current liabilities exceed current assets by $18.8 million at 31 March 2015. The financial report has been prepared on a going concern basis, which contemplates the continuity of normal trading operations. The Stapled Group is, and is expected to continue, trading profitably, generating positive operating cash flows and successfully refinancing maturing debt. In addition, at 31 March 2015, the Stapled Group has available a total of $300 million of undrawn but committed non-current bank debt facilities, $64 million of undrawn but committed current bank debt facilities and $883.1 million of cash.

(i) Historical cost convention

The financial statements have been prepared under the historical cost convention, except for certain financial assets and liabilities (including derivative financial instruments) measured at fair value.

(ii) 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 Stapled Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 20.

(b) Principles of consolidation

(i) Stapling

For statutory reporting purposes AusNet Services Distribution was identified as the acquirer in the Stapled Group based on the size of its net assets and its operations. Accordingly, it presents the combined financial report of the Stapled Group. As at the date of the stapling arrangement, the carrying amounts of the assets and liabilities of AusNet Services Distribution were consolidated with the fair values of the identifiable assets, liabilities and contingent liabilities of AusNet Services Transmission and AusNet Services Finance Trust.

Note 1 Summary of significant accounting policies (continued)

(b) Principles of consolidation (continued)

(i) Stapling (continued)

As the business combination has been effected by contract alone, the total ownership interest in AusNet Services Transmission and AusNet Services Finance Trust is presented as a separate line item in the combined financial statements of AusNet Services Distribution, notwithstanding that by virtue of the stapling arrangement AusNet Services Distribution, AusNet Services Transmission and AusNet Services Finance Trust have common equityholders (securityholders) with the effect that total equity of the Stapled Group belongs to those securityholders. The retained profits of AusNet Services Transmission and the unitholders' funds of AusNet Services Finance Trust are available for distribution directly to securityholders.

(ii) Subsidiaries

Subsidiaries are entities controlled by the Stapled Group. Control exists when the Stapled 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 Stapled Group and are deconsolidated from the date that control ceases.

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

(c) Segment reporting

An operating segment is a component of the Stapled 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.

(d) Foreign currency translation

All foreign currency transactions are accounted for using the exchange rate at the date of the transaction. At balance date, monetary items denominated in foreign currencies 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.

(e) Revenue recognition

Revenue is measured at the fair value of the consideration received net of the amount of Goods and Services Tax (GST) payable to the taxation authority. Revenue is recognised for the major business activities as follows:

(i) Transmission regulated revenue

Transmission regulated revenue is revenue earned from the transmission of electricity and related services and is recognised as the services are rendered.

(ii) Distribution regulated revenue

Distribution regulated revenue is revenue earned from the distribution of electricity and gas and related services and is recognised as the services are rendered.

(iii) Service revenue

Service revenue is recognised as the services are rendered. This includes revenue earned from specialist utility related solutions, in particular metering, monitoring and asset inspection services as well as the operation and maintenance services provided in connection with the desalination electricity transmission assets.

Note 1 Summary of significant accounting policies (continued)

(e) Revenue recognition (continued)

(iv) Contributions from customers for capital works

Non-refundable contributions received from customers towards the cost of extending or modifying the networks are generally recognised as revenue and an asset respectively once control is gained of the contribution or asset and the customer is connected to the network. For unregulated customer projects, contributions received are recognised as revenue on a straight-line basis over the term of the connection agreement. 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 AusNet Services gains 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.

(v) Government grants

Government grants are recognised initially as deferred income at fair value when there is reasonable assurance that they will be received and AusNet Services will comply with the conditions associated with the grant, and are then recognised in the income statement as other income on a systematic basis over the useful life of the assets associated with the grant.

(f) Income tax

(i) 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).

(ii) Deferred tax

Deferred tax is accounted for using the balance sheet liability method in respect of differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items.

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, however, 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 the Stapled Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Stapled Group intends to settle its tax assets and liabilities on a net basis.

(iii) Tax expense

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.

Note 1 Summary of significant accounting policies (continued)

(f) Income tax (continued)

(iv) Tax consolidation

AusNet Services Distribution and AusNet Services Transmission are the head entities in two separate tax consolidated groups comprising each of these entities and their wholly-owned subsidiaries.

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

The members of each 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. The members of each tax consolidated group have also entered into valid tax sharing agreements 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.

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

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

(g) Leases

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

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

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

(h) Business combinations

The acquisition method of accounting is used for all business combinations, regardless of whether equity instruments or other assets are acquired. Cost is determined as the fair value of the assets given, shares issued or liabilities incurred or assumed at the date of exchange as well as the fair value of any contingent consideration. Any subsequent changes in contingent consideration are recognised in the income statement.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at fair value at the acquisition date, irrespective of the extent of any non-controlling interest. All potential intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair value can be measured reliably. Transaction costs in relation to business combinations are expensed as incurred.

Where settlement of any part of the cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity’s incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Note 1 Summary of significant accounting policies (continued)

(i) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, cash at bank and investments in money market instruments. Bank overdrafts are repayable on demand and form an integral part of the Stapled Group's cash management, therefore these are included as a component of cash and cash equivalents for the purpose of the combined statement of cash flows.

(j) Receivables

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

Collectability of receivables is reviewed on an ongoing basis. Debts that are known to be uncollectable are written off. An allowance for impairment is established when there is objective evidence that the Stapled Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The change in the amount of the allowance is recognised in the income statement.

(k) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is based on a weighted average and includes expenditure incurred in acquiring the inventories and bringing them to their existing condition and location.

(l) Derivative financial instruments

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. The Stapled Group designates certain derivative financial instruments as either hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedges) or hedges of highly probable forecast transactions (cash flow hedges).

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.

To ensure derivative financial instruments qualify for hedge accounting the Stapled Group documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedge transactions. The Stapled Group also documents its 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.

The Stapled Group classifies its 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.

(i) Fair value hedge

Changes in the fair value of derivative financial instruments that are designated and qualify as fair value hedges are 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.

(ii) Cash flow hedge

The effective portion of changes in the fair value of derivative financial instruments that are designated and qualify as cash flow hedges are recognised directly in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Note 1 Summary of significant accounting policies (continued)

(l) Derivative financial instruments (continued)

Amounts accumulated in the hedge reserve are recycled in the income statement in the periods when the hedged item will affect the income statement (generally when the forecast transaction that is hedged takes place). However, when the forecast transaction that is hedged results in the recognition of a non-financial asset, the gains and losses previously deferred in the hedge reserve are transferred from the hedge reserve and included in the measurement of the initial cost or carrying amount of the asset.

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. 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.

(m) Property, plant and equipment

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 the Stapled Group gains 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 the Stapled Group and the cost of the item can be measured reliably.

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

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

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

The expected average useful lives of major asset classes are as follows:

	Years
Distribution network (gas)	15-80
Buildings	40-99
Transmission network	15-70
Distribution network (electricity)	5-70
Other general assets	3-10
Motor vehicles and heavy machinery	3-12
Computer equipment and software	3-5
Land and easements	Indefinite

Note 1 Summary of significant accounting policies (continued)

(n) Intangible assets

(i) Distribution licences

The distribution licences held entitle certain subsidiaries to distribute electricity and gas within the subsidiary's 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.

(ii) Goodwill

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

If, after reassessment, the Stapled Group's 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 the acquirer's 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 (refer note 1(o)).

(iii) Other intangible assets

Other intangible assets that are acquired by the Stapled Group and that have a finite useful life are measured at cost less accumulated amortisation and accumulated impairment losses.

(o) Impairment of non-financial assets

At each reporting date, the Stapled Group reviews the carrying amounts of its 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, the Stapled Group estimates 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.

(p) Trade and other payables

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

Note 1 Summary of significant accounting policies (continued)

(q) 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 (refer note 1(l)).

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

(r) Net financing costs

Finance income comprises interest income on funds invested and the return on the desalination licence receivable (refer to note 9). Interest income is recognised as it accrues, taking into account the effective yield on the financial asset.

Finance costs comprise interest expense on borrowings, foreign exchange gains/losses, gains/losses on hedging instruments that are recognised in the income statement, unwinding of discount on provisions and the net interest cost in respect of defined benefit obligations. 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.

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 5.8 per cent (2014: 7.1 per cent) applicable to the Stapled Group's outstanding borrowings during the period.

(s) Provisions

Provisions are recognised when the Stapled Group has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount of the provision can be measured reliably. Provisions are not recognised for future operating losses.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that recovery will be received and the amount of the receivable can be measured reliably.

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

(t) Employee benefits

(i) Wages and salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months of the reporting date are recognised in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable.

(ii) Long service leave

The liability for long service leave is recognised in the provision for employee benefits and is measured at the present value of expected future payments to be made in respect of 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 government guaranteed bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Note 1 Summary of significant accounting policies (continued)

(t) Employee benefits (continued)

(iii) Defined contribution superannuation funds

Contributions made to defined contribution superannuation funds are expensed when the liability is incurred. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available. The Stapled Group's obligation in respect of these funds is limited to the contributions to the fund.

(iv) Defined benefit superannuation funds

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

The discount rate is the yield at the balance date on government bonds that have maturity dates approximating the terms of the Stapled Group's 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 Stapled 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.

(u) Contributed equity

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.

(v) Earnings per share

(i) Basic earnings per share and basic earnings per stapled security

Basic earnings per share is calculated by dividing the profit attributable to members of the Stapled Group, excluding any non-controlling interest and costs of servicing equity other than distributions, by the weighted average number of shares of AusNet Services Distribution outstanding during the financial year.

Because 100 per cent of the profits of AusNet Services Transmission and AusNet Services Finance Trust are included in non-controlling interest, but are available to the securityholders, an alternative presentation of earnings per stapled security for the Stapled Group is also presented which includes earnings attributable to non-controlling interest.

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest or other financing costs associated with dilutive potential shares and includes these dilutive potential shares in the weighted average number of shares outstanding used in the calculation.

Note 1 Summary of significant accounting policies (continued)

(w) New accounting standards not yet adopted

The following accounting standards, amendments to accounting standards and interpretations have been identified as those which may impact the Stapled Group in the period of initial adoption. They were available for early adoption for the Stapled Group's annual reporting period beginning 1 April 2014, but have not been applied in preparing this financial report:

- AASB 9 *Financial Instruments* replaces the existing guidance in AASB 139 *Financial Instruments: Recognition and Measurement*. AASB 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment of financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from AASB 139. AASB 9 is effective for annual reporting periods beginning on or after 1 April 2018, with early adoption permitted. While the impact of this standard has yet to be quantified by the Stapled Group, it is expected to reduce the circumstances under which AusNet Services recognises hedge ineffectiveness, or discontinues hedge accounting and recognises a de-designation gain or loss. This arises because this standard allows synthetic debt positions to be treated as hedged items, and it also amends the basis by which hedge effectiveness is measured.
- AASB 15 *Revenue from Contracts with Customers* establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including AASB 118 *Revenue*, AASB 111 *Construction Contracts* and associated Interpretations. AASB 15 is effective for annual reporting periods beginning on or after 1 April 2017, with early adoption permitted. The impact of this standard has yet to be quantified by the Group.

There are also other amendments and revisions to accounting standards that have not been early adopted. These changes are not expected to result in any material changes to the Stapled Group’s financial performance or financial position.

(x) Rounding of amounts

The Stapled Group is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the 'rounding off' of amounts in the financial report. Amounts in the financial report have been rounded off to the nearest hundred thousand dollars, unless otherwise stated.

Note 2 Segment information

(a) Description of reportable segments

The Stapled 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. The Stapled Group charges retailers and some large customers regulated rates for the use of the electricity distribution network. The electricity distribution segment does not purchase or sell electricity. The Stapled Group's electricity distribution network covers eastern Victoria including the eastern metropolitan region of Melbourne.

(ii) Gas distribution

The gas distribution network carries natural gas to commercial and residential end users. The Stapled Group charges retailers and some large customers regulated rates for the use of the gas distribution network. The gas distribution segment does not purchase or sell gas. The Stapled Group's gas distribution network covers central and western Victoria.

(iii) Electricity transmission

The Stapled Group owns and manages the vast majority of the electricity transmission network in Victoria. The Stapled Group's electricity transmission network consists of the transmission lines and towers which carry electricity at high voltages from power stations to electricity distributors around Victoria forming the backbone of the Victorian electricity network. The network is centrally located amongst the five eastern states of Australia that form the National Electricity Market, and provides key links between the electricity transmission networks of Victoria, South Australia, New South Wales and Tasmania. The Stapled Group charges the Australian Energy Market Operator (AEMO), distribution network service providers and electricity generators for connections and use of the electricity transmission network.

The electricity transmission segment includes both regulated and unregulated electricity transmission assets and revenues. The electricity transmission segment does not purchase or sell electricity.

(iv) Select Solutions

Select Solutions provides asset intelligence and end-to-end metering services, to external parties as well as to all other segments of AusNet Services. Select Solutions' customers are primarily businesses operating in the essential infrastructure sector such as electricity, water and gas utility owners and telecommunications companies.

Note 2 Segment information (continued)

(b) Reportable segment financial information

2015	Electricity distribution $M	Gas distribution $M	Electricity transmission $M	Select Solutions (iii) $M	Un-allocated expenses (iv) $M	Inter-segment eliminations $M	Combined $M
Regulated revenue	839.0	174.1	583.9	-	-	(11.7)	1,585.3
Customer contributions	33.3	12.3	-	-	-	-	45.6
Service revenue	-	-	12.7	138.2	-	-	150.9
Other revenue	7.3	0.9	23.2	20.7	-	-	52.1
Total segment revenue	**879.6**	**187.3**	**619.8**	**158.9**	**-**	**(11.7)**	**1,833.9**
Segment expense before depreciation and amortisation (i)	(425.9)	(45.3)	(185.3)	(141.9)	-	11.7	(786.7)
Segment result - EBITDA (ii)	**453.7**	**142.0**	**434.5**	**17.0**	**-**	**-**	**1,047.2**
Depreciation and amortisation	(218.8)	(59.1)	(95.9)	(5.4)	-	-	(379.2)
Net finance costs							(313.6)
Income tax expense							(331.8)
Profit for the year							**22.6**
Capital expenditure	486.9	99.0	212.3	11.2	-	-	809.4
2014							
Regulated revenue	783.9	193.3	593.7	-	-	(14.2)	1,556.7
Customer contributions	25.8	25.6	-	-	-	-	51.4
Service revenue	-	-	11.7	131.9	-	-	143.6
Other revenue	5.4	0.6	22.9	18.8	-	-	47.7
Total segment revenue	**815.1**	**219.5**	**628.3**	**150.7**	**-**	**(14.2)**	**1,799.4**
Segment expense before depreciation and amortisation	(363.5)	(51.4)	(191.4)	(132.2)	(57.7)	14.2	(782.0)
Segment result - EBITDA (ii)	**451.6**	**168.1**	**436.9**	**18.5**	**(57.7)**	**-**	**1,017.4**
Depreciation and amortisation	(213.9)	(56.0)	(95.9)	(3.9)	-	-	(369.7)
Net finance costs							(342.3)
Income tax expense							(127.1)
Profit for the year							**178.3**
Capital expenditure	568.6	112.2	232.7	36.5	-	-	950.0

(i) Electricity distribution segment includes $32.5 million of Advanced Metering Infrastructure (AMI) customer rebates, and a $28.1 million write-off of AMI communication card assets in the year ended 31 March 2015.

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

Note 2 Segment information (continued)

(b) Reportable segment financial information (continued)

(iii) Capital expenditure for Select Solutions of $36.5 million in the previous financial year includes $27.2 million for the acquisition of the Geomatic Technologies business.

The segment financial information for Select Solutions reported in note 2(b) only includes revenues and expenses associated with external parties. All expenses incurred by Select Solutions for AusNet Services' other segments are allocated to those segments.

(iv) Unallocated expenses in the previous financial year represents the MSA termination fee, as well as restructure costs associated with the internalisation of services previously provided by EBS.

(c) Notes to and forming part of the segment information

(i) Accounting policies

Segment information is prepared in conformity with the accounting policies of the Stapled Group as disclosed in note 1 and AASB 8 *Operating Segments*.

Segment revenues and expenses are those that are directly attributable to a segment and the relevant portion that can be allocated to the segment on a reasonable basis. The Cost Allocation Methodology as approved by the Australian Energy Regulator (AER) is used as the basis for allocating expenses to the relevant segment.

(ii) Inter-segment transfers

Segment revenues, expenses and results include transmission network connection charges between the electricity distribution and electricity transmission segments. The prices for such transfers are regulated and are eliminated on consolidation.

Note 3 Revenue

	2015	2014
	$M	$M
Revenue		
Regulated revenue	**1,585.3**	1,556.7
Customer contributions	**45.6**	51.4
Service revenue	**150.9**	143.6
Other revenue	**52.1**	47.7
Total revenue	**1,833.9**	1,799.4

Regulated revenue includes revenue earned from the distribution of electricity and gas and transmission of electricity in accordance with the relevant regulatory determination, as well as revenue earned from alternative control services (distribution), and negotiated and prescribed projects (transmission).

Note 4 Expenses

	Notes	2015 $M	2014 $M
Expenses, excluding finance costs, included in the income statement:			
Use of system and associated charges		**95.8**	86.3
Easement tax		**103.4**	103.4
Employee benefits			
Employee benefits expenses (iii)		**162.1**	124.9
Defined benefit superannuation expenses	18	**7.5**	7.1
Defined contribution superannuation expenses		**17.4**	13.9
Maintenance		**95.0**	95.5
Information technology and communication costs (iii)		**23.5**	41.4
Operating lease rental expenses		**19.0**	13.6
Administrative expenses		**47.4**	49.8
Materials		**54.9**	51.8
Flame logo fee	25(d)	**0.5**	1.0
Management services charge (iii)	25(d)	**-**	19.6
Performance fees	25(d)	**-**	22.2
Other operating expenses		**92.6**	85.7
Depreciation and amortisation		**379.2**	369.7
Net loss on disposal of property, plant and equipment		**7.0**	8.1
AMI customer rebates (i)		**32.5**	-
AMI asset write-off (ii)		**28.1**	-
Total expenses, excluding finance costs and termination expenses		**1,165.9**	1,094.0
Termination fee		**-**	50.0
Restructuring expenses		**-**	7.7
Total expenses, excluding finance costs		**1,165.9**	1,151.7

(i) Under the Victorian Government's customer rebate policy, AusNet Services is required to pay a fixed amount of $125 per customer as a one-off lump sum for premises that did not have a smart meter installed that communicated remotely with the market by 31 March 2015. Based on the current status of the program and the eligibility criteria under the policy, a $32.5 million provision has been raised at 31 March 2015 for the cost of this obligation, including associated administration costs.

(ii) A write-off of $28.1 million has been recognised in relation to WiMax and 3G communication cards for smart meters that will no longer be used under AusNet Services' current program. Of this balance, $20.6 million relates to property, plant and equipment while the remaining $7.5 million relates to inventory.

(iii) Following termination of the MSA in March 2014, management personnel previously included in the management services charge are now directly employed by AusNet Services and included within labour expenses. In addition, following the internalisation of EBS, service charges previously captured in Information technology and communications costs are now included within labour expenses.

Note 5 Net finance costs

	Notes	2015 $M	2014 $M
Finance income			
Investment income		**12.8**	10.3
Return on desalination licence receivable		**13.9**	14.4
Total finance income		**26.7**	24.7
Finance costs			
Interest expense		**349.6**	382.5
Other finance charges - cash		**3.1**	3.1
Other finance charges - non-cash		**5.2**	5.4
Loss on accounting for hedge relationships	19(c)	**4.5**	3.7
Unwind of discount on provisions		**2.4**	0.5
Defined benefit net interest expense		**-**	1.0
Capitalised finance charges		**(24.5)**	(29.2)
Total finance costs		**340.3**	367.0
Net finance costs		**313.6**	342.3

Note 6 Income tax and deferred tax

(a) Income tax expense

	Notes	2015 $M	2014 $M
Current tax		**151.4**	124.5
Prior year (over)/under provision - current tax		**(3.9)**	1.3
Deferred tax	6(f)(i)	**182.8**	3.7
Prior year under/(over) provision - deferred tax		**1.5**	(2.4)
		331.8	127.1

Note 6 Income tax and deferred tax (continued)

(b) Numerical reconciliation of income tax expense to prima facie tax payable

	2015	2014
	$M	$M
Profit before income tax expense	**354.4**	305.4
Tax at the Australian tax rate of 30% (2014: 30%)	**106.3**	91.6
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
Non-assessable interest income (i)	**-**	(48.5)
ATO settlement primary tax cash payment (i)	**24.6**	-
ATO settlement - cancellation of tax losses (i)	**118.0**	-
Net tax and interest on section 163AA impost dispute (ii)	**3.0**	86.7
Net tax and interest on intellectual property dispute (iii)	**84.1**	-
Prior year (over)/under provision	**(2.4)**	(1.1)
Sundry items	**(1.8)**	(1.6)
Income tax expense	**331.8**	127.1

The Stapled Group's effective tax rate for the year ended 31 March 2015 was approximately 93.6 per cent (2014: 41.6 per cent). The divergence in the effective tax rate, from the prima facie tax rate of 30 per cent, was mainly caused by the following:

(i) On 22 October 2014, the Stapled Group and the Australian Taxation Office (ATO) reached an in-principle, non-binding agreement to settle all matters concerning intra-group financing arrangements and rights to future income issues. Following execution of a binding settlement deed on 4 March 2015, the Stapled Group has:

- made a primary tax payment of $23.5 million and an interest payment (deductible) of $1.5 million on 9 April 2015;
- cancelled $506.5 million of carried-forward tax losses. Of this, $393.2 million were previously recognised in the statement of financial position and as such have been written off; and
- ceased taking interest deductions in respect of AusNet Services Finance Trust loans from 1 April 2014.

This settlement provides tax certainty, with the ATO concluding all audit activity for years up to and including 31 March 2014.

(ii) Recognition during the previous period of $100.8 million for the amount potentially payable under the Section 163AA impost dispute. This is offset by the deductibility of the general interest component which results in a $14.1 million tax credit. In the current year, a general interest charge of $3 million was recognised. Refer to note 23(a).

(iii) In light of the judgment received from the Full Court of the Federal Court on 6 May 2015 (refer to note 23(b)), and the significant uncertainty that has arisen, AusNet Services has recognised an $84.1 million tax charge, consisting of the following components:

- a write-off of the $40.1 million deferred tax asset for intellectual property – copyright;
- a write-off of the $17.1 million non-current tax receivable initially recognised on the part-payment of the dispute; and
- recognition of a $26.9 million tax liability, being the net cash exposure after taking into account the deductibility of the interest payment. Of this amount, $21.5 million has been classified as current (relating to the pre tax consolidation years), and $5.4 million has been classified as non-current (relating to the post tax consolidation years).

Note 6 Income tax and deferred tax (continued)

(c) Reconciliation of tax payable

	2015 $M	2014 $M
Current tax payable		
Net amount potentially payable under Section 163AA impost dispute	**59.1**	56.1
ATO settlement primary tax payment for intra-group financing arrangements	**24.6**	-
Net amount potentially payable under intellectual property tax dispute - current	**21.5**	-
Other current tax payable	**33.4**	13.6
Total current tax payable	**138.6**	69.7
Non-current tax payable		
Net amount potentially payable under intellectual property tax dispute - non-current	**5.4**	-
Total non-current tax payable	**5.4**	-
Total tax payable	**144.0**	69.7

(d) Amounts recognised directly in other comprehensive income

	2015 $M	2014 $M
Aggregate deferred tax arising in the year recognised in other comprehensive income:		
Hedge reserve - cash flow hedges	**(5.9)**	25.6
Remeasurement of defined benefit obligation	**(11.0)**	11.3
Net deferred tax recognised in other comprehensive income	**(16.9)**	36.9

(e) Recognised deferred tax assets and liabilities

	Deferred tax assets		Deferred tax liabilities	
	2015 $M	2014 $M	2015 $M	2014 $M
Employee benefits	**25.6**	19.9	**-**	-
Other accruals and provisions	**37.8**	31.9	**-**	-
Intellectual property - copyright	**-**	40.1	**-**	-
Derivative financial instruments and fair value adjustments on borrowings	**38.3**	31.1	**-**	-
Tax losses (i)	**228.3**	316.0	**-**	-
Defined benefit funds	**11.9**	-	**-**	(0.2)
Intangibles	**-**	-	**(4.7)**	(4.8)
Desalination licence receivable	**-**	-	**(10.1)**	(5.7)
Property, plant and equipment	**-**	-	**(796.4)**	(729.6)
Other	**-**	-	**(2.8)**	(3.4)
Deferred tax assets/(liabilities)	**341.9**	439.0	**(814.0)**	(743.7)
Set-off of tax	**(341.9)**	(439.0)	**341.9**	439.0
Net deferred tax assets/(liabilities)	**-**	-	**(472.1)**	(304.7)

(i) Of these tax losses, $153 million are expected to be cancelled if AusNet Services' restructure and simplification proposal is approved and implemented.

Note 6 Income tax and deferred tax (continued)

(f) Movement in temporary differences during the year

	2015	2014
	$M	$M
Net deferred tax assets/(liabilities)		
Opening balance at 1 April	**(304.7)**	(266.5)
(Charged)/credited to the income statement (i)	**(182.8)**	(3.7)
Credited/(debited) to other comprehensive income	**16.9**	(36.9)
Net prior year over/(under) provision	**(1.5)**	2.4
Closing balance at 31 March	**(472.1)**	(304.7)

(i) Deferred tax (income)/expense recognised in the income statement in respect of each type of temporary difference is as follows:

	Charged/(credited) to the income statement	
	2015	2014
	$M	$M
Employee benefits	**(5.7)**	0.2
Other accruals and provisions	**(5.9)**	(15.5)
Intellectual property - copyright	**40.1**	1.0
Derivative financial instruments and fair value adjustments on borrowings	**(1.3)**	(1.1)
Tax losses	**87.7**	(47.7)
Intangibles	**(0.1)**	(0.1)
Defined benefit funds	**(1.1)**	(0.8)
Desalination licence receivable	**4.4**	4.4
Property, plant and equipment	**65.3**	63.8
Other	**(0.6)**	(0.5)
Total charged/(credited) to the income statement	**182.8**	3.7

Note 7 Distributions

The following distributions were approved and paid by AusNet Services to stapled securityholders during the current financial year:

	Paid by	Date paid	Cents per security	Total distribution $M
Distributions				
Fully franked dividend	AusNet Services Transmission	27 June 2014	1.393	47.2
Interest income	AusNet Services Finance Trust	27 June 2014	2.379	80.6
Return of capital	AusNet Services Finance Trust	27 June 2014	0.408	13.8
Fully franked dividend	AusNet Services Transmission	24 December 2014	2.200	75.3
Interest income	AusNet Services Finance Trust	24 December 2014	1.980	67.8
Total distributions			**8.360**	**284.7**

The following distributions were approved and paid by AusNet Services to stapled securityholders during the previous financial year:

	Paid by	Date paid	Cents per security	Total distribution $M
Distributions				
Fully franked dividend	AusNet Services Transmission	28 June 2013	1.367	46.0
Interest income	AusNet Services Finance Trust	28 June 2013	2.649	89.2
Return of capital	AusNet Services Finance Trust	28 June 2013	0.084	2.8
Fully franked dividend	AusNet Services Transmission	23 December 2013	1.393	47.0
Interest income	AusNet Services Finance Trust	23 December 2013	2.396	80.9
Return of capital	AusNet Services Finance Trust	23 December 2013	0.391	13.2
Total distributions			**8.280**	**279.1**

In relation to the distributions paid in the current financial year of $284.7 million (2014: $279.1 million), $105.6 million (2014: $22.2 million) less transaction costs was utilised in the allotment of new securities issued under the Distribution Reinvestment Plan (DRP).

(a) Franking account

	2015 $M	2014 $M
30 per cent franking credits available to shareholders for subsequent financial years	**107.8**	59.9

The above available amounts are based on the balance of the dividend franking account at year end adjusted for franking credits that will arise from the payment of current tax liabilities, excluding the $59.1 million tax potentially payable under the Section 163AA impost dispute and the $26.9 million potentially payable under the intellectual property dispute. Included within the franking account is $47.7 million (2014: $45.7 million) arising from the tax payments made to the ATO in relation to the Section 163AA impost and intellectual property matters (refer to note 23(a) and (b)). If the Stapled Group is successful in the legal proceedings against the ATO, this amount will be reversed, resulting in lower franking credits being available.

The ability to utilise the franking credits is dependent upon there being sufficient net assets for the payment of dividends, the dividend payment being fair and reasonable to shareholders, and the dividend payment not materially prejudicing AusNet Services' ability to pay its creditors. In accordance with the tax consolidation legislation, AusNet Services Distribution and AusNet Services Transmission as the respective head entities in the tax consolidated groups have available $0.1 million and $107.7 million (2014: $0.1 million and $59.8 million) of franking credits respectively. For the final 2015 final distribution, the additional franking credits from the tax payments under the ATO disputes will not be utilised.

Note 8 Earnings per stapled security

(a) Basic earnings per stapled security

As the stapling is a business combination by contract alone, the total ownership interest in AusNet Services Transmission and AusNet Services Finance Trust is presented as non-controlling interest in the combined financial statements of AusNet Services Distribution.

By virtue of the stapling arrangement, AusNet Services Distribution, AusNet Services Transmission and AusNet Services Finance Trust have common equityholders (the securityholders) with the effect that total equity belongs to the securityholders. Therefore an alternative measure of earnings per stapled security has been calculated which includes non-controlling interest and hence the earnings of AusNet Services Transmission and AusNet Services Finance Trust.

	2015	2014
Profit attributable to the ordinary securityholders of the Stapled Group ($M)	**22.6**	178.3
Weighted average number of securities (million)	**3,427**	3,377
Earnings per stapled security (cents)	**0.66**	5.28

(b) Diluted earnings per stapled security

There were no factors causing a dilution of either the profit or loss attributable to ordinary securityholders or the weighted average number of ordinary securities outstanding. Accordingly, basic and diluted earnings per stapled security are the same.

(c) Basic and diluted earnings per share for AusNet Services Distribution

	2015	2014
(Loss)/profit attributable to the ordinary equityholders of AusNet Services Distribution ($M)	**(128.7)**	3.4
Weighted average number of shares (million)	**3,427**	3,377
(Loss)/earnings per share (cents)	**(3.76)**	0.10

Note 9 Receivables

	Notes	2015 $M	2014 $M
Current receivables			
Accounts receivable		**36.0**	141.8
Related party receivables	25(e)	**9.2**	11.5
Desalination licence receivable (i)		**10.2**	10.2
Murrindindi bushfire settlement – reimbursement from insurers (ii)		**260.9**	-
		316.3	163.5
Accrued revenue		**167.5**	116.2
Other receivables		**0.5**	0.2
Interest receivable		**4.6**	1.8
Total current receivables		**488.9**	281.7
Non-current receivables			
Desalination licence receivable (i)		**207.2**	215.3
Total non-current receivables		**207.2**	215.3
Total receivables (iii)		**696.1**	497.0

(i) In December 2012, AusNet Services 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, AusNet Services also 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 (2014: $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 by AusNet Services from the Victorian State Government.

At the end of the agreements, AusNet Services is 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 to AusNet Services, along with the reimbursement of necessary costs incurred in order to effect the termination.

(ii) This amount was received subsequent to 31 March 2015 and was used to settle AusNet Services' obligation under the settlement. Refer to note 14.

(iii) The fair value of total receivables as at 31 March 2015 was $696.1 million (2014: $497.0 million).

(a) Terms and conditions of accounts receivable

Accounts receivable are non-interest bearing and the average credit period on sales of transmission, distribution and specialist utility services is ten business days. An allowance has been made for estimated unrecoverable amounts, determined by reference to past default experience of individual debtors.

All debts greater than 90 days are provided for in full, except where past experience of individual debtors provides evidence that another amount, if any, is more appropriate.

Collateral in the form of bank guarantees, letters of credit and deposits are obtained from certain counterparties where appropriate. The amounts called upon during the current and previous financial years were insignificant.

Note 9 Receivables (continued)

(b) Ageing of accounts receivable

The ageing of accounts receivable as at reporting date was:

	2015 Gross $M	**2015 Allowance $M**	2014 Gross $M	2014 Allowance $M
Not past due	**25.9**	**-**	132.8	-
0 - 30 days	**6.2**	**-**	6.2	-
31 - 60 days	**2.7**	**-**	1.1	-
61 - 90 days	**0.7**	**-**	0.3	-
Greater than 90 days	**0.5**	**-**	1.4	-
Total	**36.0**	**-**	141.8	-

Of those debts that are past due, the majority are receivable from high credit quality counterparties. Receivables relating to regulated revenue streams (which account for approximately 86.4 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. 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.

(c) Reconciliation of movement in allowance for impairment loss

The movement in the allowance for impairment loss in respect of accounts receivable was as follows:

	2015 $M	2014 $M
Opening balance	**-**	0.1
Additional allowance recognised/(written back)	**0.2**	0.2
Amounts utilised	**(0.2)**	(0.3)
Closing balance	**-**	-

Note 10 Inventories

	2015 $M	2014 $M
Current inventories		
Construction, maintenance stocks and general purpose materials - at cost	**45.0**	42.3
Inventory write-off	**(7.5)**	-
Total current inventories	**37.5**	42.3
Non-current inventories		
Construction, maintenance stocks and general purpose materials - at cost	**19.4**	17.6
Total non-current inventories	**19.4**	17.6
Total inventories	**56.9**	59.9

Note 11 Other assets

	Notes	2015 $M	2014 $M
Current other assets			
Prepayments		**24.3**	25.0
Total current other assets		**24.3**	25.0
Non-current other assets			
Prepayments		**3.0**	-
Other assets		**0.6**	0.5
Defined benefit surplus	18	**-**	1.6
Total non-current other assets		**3.6**	2.1
Total other assets		**27.9**	27.1

Note 12 Property, plant and equipment

	Freehold land	Buildings	Easements	Transmission network	Electricity distribution network	Gas distribution network	Other plant and equipment	Capital work in progress	Total
	$M	$M	$M	$M	$M	$M	$M	$M	$M
2015									
Carrying amount at 1 April 2014	253.8	229.1	1,218.8	1,771.9	3,192.4	1,359.2	409.6	509.5	**8,944.3**
Additions	-	-	-	-	-	-	0.7	808.7	**809.4**
Transfers	-	48.5	0.4	144.6	456.7	109.7	50.9	(810.8)	**-**
Write-offs (i)	-	-	-	-	(20.6)	-	-	-	**(20.6)**
Disposals	(2.6)	(0.4)	-	(2.5)	(3.1)	(2.6)	(1.5)	-	**(12.7)**
Depreciation expense	-	(9.0)	-	(74.3)	(144.5)	(37.7)	(113.0)	-	**(378.5)**
Carrying amount at 31 March 2015	**251.2**	**268.2**	**1,219.2**	**1,839.7**	**3,480.9**	**1,428.6**	**346.7**	**507.4**	**9,341.9**
Cost	251.2	328.5	1,219.2	2,413.6	4,581.8	1,769.8	895.8	507.4	**11,967.3**
Accumulated depreciation	-	(60.3)	-	(573.9)	(1,100.9)	(341.2)	(549.1)	-	**(2,625.4)**
Carrying amount at 31 March 2015	**251.2**	**268.2**	**1,219.2**	**1,839.7**	**3,480.9**	**1,428.6**	**346.7**	**507.4**	**9,341.9**

(i) Relates to AMI communications cards, Refer to note 4(ii) for further details.

Note 12 Property, plant and equipment (continued)

	Freehold land	Buildings	Easements	Transmission network	Electricity distribution network	Gas distribution network	Other plant and equipment	Capital work in progress	Total
	$M	$M	$M	$M	$M	$M	$M	$M	$M
2014									
Carrying amount at 1 April 2013	253.0	201.3	1,218.7	1,687.8	2,897.6	1,326.5	291.7	521.3	**8,397.9**
Additions	-	-	-	-	-	-	-	922.8	**922.8**
Acquisition through business combination	-	-	-	-	-	-	1.5	-	**1.5**
Transfers	0.8	35.9	0.1	158.8	447.5	69.4	222.1	(934.6)	**-**
Disposals	-	(0.1)	-	(1.5)	(5.3)	(0.8)	(1.2)	-	**(8.9)**
Depreciation expense	-	(8.0)	-	(73.2)	(147.4)	(35.9)	(104.5)	-	**(369.0)**
Carrying amount at 31 March 2014	**253.8**	**229.1**	**1,218.8**	**1,771.9**	**3,192.4**	**1,359.2**	**409.6**	**509.5**	**8,944.3**
Cost	253.8	280.8	1,218.8	2,276.9	4,150.5	1,664.5	858.2	509.5	**11,213.0**
Accumulated depreciation	-	(51.7)	-	(505.0)	(958.1)	(305.3)	(448.6)	-	**(2,268.7)**
Carrying amount at 31 March 2014	**253.8**	**229.1**	**1,218.8**	**1,771.9**	**3,192.4**	**1,359.2**	**409.6**	**509.5**	**8,944.3**

Note 13 Intangible assets

	2015 $M	2014 $M
Distribution licences (i)		
Opening net book amount - distribution licences	**354.5**	354.5
Closing net book amount - distribution licences	**354.5**	354.5
Goodwill		
Opening net book amount - goodwill	**36.5**	12.1
Acquisition of business (ii)	**(0.7)**	24.4
Closing net book amount - goodwill	**35.8**	36.5
Other intangible assets		
Opening net book amount - other intangible assets	**1.8**	2.5
Acquisition of business (ii)	**1.5**	-
Amortisation	**(0.7)**	(0.7)
Closing net book amount - other intangible assets	**2.6**	1.8
Total intangible assets	**392.9**	392.8

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

- the licences have been issued in perpetuity provided the licensee complies with certain licence requirements;
- the Stapled Group monitors its performance against those licence requirements and ensures that they are met; and
- the Stapled Group intends to, and is able to continue to maintain the network for the foreseeable future.

(ii) Goodwill on the acquisition of Geomatic Technologies was recognised based on the provisional values of the net assets acquired at the time of acquisition. Following the completion of purchase price accounting, the balance of other intangible assets was increased by $1.5 million. The goodwill balance has been adjusted to reflect the final opening balances (net of tax).

Note 14 Payables and other liabilities

	Notes	2015 $M	2014 $M
Current payables and other liabilities			
Trade payables and accruals		**158.1**	151.0
Accrued interest		**41.3**	33.4
Customer deposits		**15.0**	25.2
Deferred revenue		**9.8**	3.2
Related party payables	25(e)	**12.6**	59.5
Murrindindi bushfire settlement (i)		**260.9**	-
Total current payables and other liabilities		**497.7**	272.3
Non-current payables and other liabilities			
Deferred revenue		**28.1**	11.4
Total non-current payables and other liabilities		**28.1**	11.4
Total payables and other liabilities		**525.8**	283.7

Note 14 Payables and other liabilities (continued)

(i) On 6 February 2015, AusNet Services announced that the parties to the Murrindindi bushfire class action had agreed to settle the action. This settlement was reached without admission of liability by AusNet Services or any other party. The settlement agreement is subject to the approval of the Supreme Court of Victoria. Under the terms of the settlement, the parties involved in the litigation have agreed to pay $300 million with AusNet Services contributing $260.9 million which will be paid in full by AusNet Services' liability insurers. This amount has been recognised in the financial statements for the year ended 31 March 2015 as both a liability and a corresponding asset to be received from insurers.

Note 15 Borrowings

	Maturity date	2015 $M	2014 $M
Current borrowings			
Commercial paper	Various	**94.6**	89.5
Swiss franc (CHF) senior notes (i)	Sep 2015	**646.1**	-
Bank debt facilities	Oct 2015	**36.0**	252.7
US dollar (USD) senior notes (i)		**-**	331.4
Total current borrowings		**776.7**	673.6
Non-current borrowings			
US dollar (USD) senior notes (i)	2016	**518.5**	433.1
Bank debt facilities	2017-2019	**472.1**	296.2
Swiss francs (CHF) senior notes (i)	2017-2019	**718.6**	1,233.6
Domestic medium term notes	2017-2024	**1,414.2**	1,211.1
Pound sterling (GBP) senior notes (i)	2018	**540.9**	520.6
Floating rate notes	2020	**99.7**	99.7
Euro (EUR) senior notes (i)	2020-2027	**2,076.1**	1,257.8
Hong Kong dollar senior notes (i)	2020-2028	**376.6**	289.1
Japanese yen (JPY) senior notes (i)	2024	**55.9**	54.4
Norwegian kroner (NOK) senior notes (i)	2029	**166.8**	-
Total non-current borrowings		**6,439.4**	5,395.6
Total borrowings (ii)		**7,216.1**	6,069.2

(i) The carrying value of foreign currency borrowings is translated at spot rate as at balance sheet date. The foreign currency risk associated with these borrowings is hedged through the use of cross-currency swaps. Refer to note 19.

(ii) The fair value of total borrowings as at 31 March 2015 was $7,817.7 million (2014: $6,535.2 million). Given lower floating market interest rates as at 31 March 2015 compared to the fixed rates on certain borrowings, and the impact of a significant depreciation of the AUD on foreign-denominated borrowings, the total carrying value of borrowings is lower than the total fair value. Refer to note 1(q) for details on how the carrying value of borrowings is determined.

(a) Other bank guarantees

Certain entities are required to provide bank guarantees in the form of tender bid bonds or performance bonds for contractual obligations. The subsidiaries have guarantee facilities with a number of institutions amounting to $15 million, of which $4.7 million was provided to third parties at 31 March 2015 (2014: $2.2 million).

Note 16 Provisions

	Notes	2015 $M	2014 $M
Current provisions			
Employee benefits (i)		**77.5**	60.6
Environmental provision (ii)		**0.6**	0.6
Customer rebates (iii)		**6.7**	7.6
Sundry provisions (iv)		**4.0**	8.5
Restructuring provision (v)		**1.0**	7.7
SPIMS employee provisions (vi)		**-**	14.3
AMI customer rebates provision (vii)		**32.5**	-
Total current provisions		**122.3**	99.3
Non-current provisions			
Employee benefits (i)		**8.0**	6.7
Environmental provision (ii)		**28.3**	25.9
Sundry provisions (iv)		**2.6**	-
Defined benefit funds	18	**39.6**	1.0
SPIMS employee provisions (vi)		**-**	1.4
Total non-current provisions		**78.5**	35.0
Total provisions		**200.8**	134.3

Movements in each class of provision during the year, other than employee benefits, are set out below:

	Environmental provision (ii) $M	**Customer rebates** (iii) $M	**Sundry provisions** (iv) $M	**Restructuring provision** (v) $M	**AMI customer rebates provision** (vii) $M
Balance at 1 April 2014	26.5	7.6	8.5	7.7	-
Additional provisions recognised	-	14.1	1.4	-	32.5
Provisions written back	-	-	(0.7)	(2.9)	-
Unwind of discount	2.4	-	-	-	-
Amounts utilised	-	(15.0)	(2.6)	(3.8)	-
Balance at 31 March 2015	**28.9**	**6.7**	**6.6**	**1.0**	**32.5**
Current	0.6	6.7	4.0	1.0	32.5
Non-current	28.3	-	2.6	-	-
Total	**28.9**	**6.7**	**6.6**	**1.0**	**32.5**

(i) Employee benefits provisions represent provisions for annual and long service leave for AusNet Services employees and provisions for employee bonuses. This includes former SPIMS and EBS employees who became AusNet Services employees on 1 April 2014 and 1 July 2014 respectively following agreement to terminate the MSA and unwind the shared information technology services on 31 March 2014.

(ii) 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.

Note 16 Provisions (continued)

(iii) The provision for customer rebates represents an assessment of the rebates payable to the customer for costs incurred by the customer in the construction of low voltage and high voltage infrastructure for turnkey projects in the electricity distribution network.

(iv) Sundry provisions include uninsured losses, make good provisions for premises and unaccounted for gas.

(v) The restructuring provision represents outstanding amounts in relation to the restructure and internalisation of EBS following the agreement to unwind the shared information technology services on 31 March 2014.

(vi) The SPIMS employee entitlement provision represents the balance of SPIMS employee entitlements transferred to AusNet Services as at 31 March 2014 following the termination of the MSA. The balances are now contained within the employee entitlements provisions.

(vii) Refer to note 4(i) for further detail on the AMI customer rebates provision recognised during the year.

Note 17 Equity

	Notes	**2015 Shares**	2014 Shares
Share capital			
Ordinary shares - fully paid (million)	(a), (b)	**3,466.9**	3,386.6

(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 Distribution 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.

(b) Movements in ordinary share capital

Date	**Details**	**Notes**	**Number of shares**	**$M**(i)
1 April 2014	Opening balance		3,386,607,080	0.5
27 June 2104	Distribution Reinvestment Plan	(ii)	38,637,082	-
24 December 2014	Distribution Reinvestment Plan	(ii)	41,668,847	-
31 March 2015	Closing balance		3,466,913,009	0.5
1 April 2013	Opening balance		3,367,543,113	0.5
28 June 2013	Distribution Reinvestment Plan	(iii)	8,782,410	-
23 December 2013	Distribution Reinvestment Plan	(iii)	10,281,557	-
31 March 2014	Closing balance		3,386,607,080	0.5

Note 17 Equity (continued)

(b) Movements in ordinary share capital (continued)

(i) With respect to the allocation of the proceeds in the form of shares in AusNet Services Transmission and AusNet Services Distribution and units in AusNet Services Finance Trust, all amounts were allocated to the units in AusNet Services Finance Trust with the shares in AusNet Services Transmission and AusNet Services Distribution being issued at nominal consideration.

(ii) On 27 June 2014 and on 24 December 2014, 38.6 million and 41.7 million new stapled securities were issued under the DRP respectively. The new securities were issued at a price of $1.33 per security and $1.30 per security respectively, providing approximately $51.4 million and $54.2 million respectively.

(iii) On 28 June 2013 and on 23 December 2013, 8.8 million and 10.3 million new stapled securities were issued under the DRP respectively. The new securities were issued at a price of $1.18 per security and $1.15 per security respectively, providing approximately $10.4 million and $11.8 million respectively.

(c) Capital management

The Board's policy is to target an 'A' range credit rating and a capital structure appropriate to generate desired shareholder returns, and to ensure a low cost of capital is available to the entity.

An important credit metric which assists management to monitor AusNet Services' capital structure is the net debt to Asset Base ratio, determined as indebtedness as a percentage of the Asset Base. Indebtedness is debt at face value (net of cash), excluding any derivative financial instruments. The Asset Base 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. RAB includes the value of regulated network assets as well as network assets that will become regulated at the next regulatory period; and
- The value of unregulated network assets whose revenues and return are set through a negotiated or competitive process rather than through regulation, including 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. AusNet Services targets a net debt to Asset Base ratio of less than 75 per cent.

The net debt to Asset Base ratio as at reporting date was as follows:

	2015	2014
	%	%
Net debt to Asset Base	**67.5**	68.6

The terms of certain financing arrangements contain financial covenants that require maintenance of specified interest coverage ratios and gearing ratios. In addition, certain arrangements contain provisions that are specifically affected by changes in credit ratings, change of control and/or ownership and cross default provisions.

AusNet Services monitors and reports compliance with its financial covenants on a monthly basis. There have been no breaches during the year.

The Responsible Entity of AusNet Services Finance Trust is the holder of an Australian Financial Services Licence. In accordance with the licence requirements, the Responsible Entity must maintain a minimum capital balance of $10 million. In this regard, capital consists of the ordinary shares and retained profits.

Note 18 Defined benefit obligations

	2015	2014
	$M	$M
Total amounts included in the statement of financial position in respect of the defined benefit plans are as follows:		
Present value of defined benefit obligations	**(338.5)**	(248.0)
Fair value of plan assets	**298.9**	248.6
Net (liability)/asset arising from defined benefit obligations	**(39.6)**	0.6
Amounts recognised in the income statement in respect of the defined benefit plans are as follows:		
Current service cost	**7.5**	7.1
Net interest cost on defined benefit obligation	**-**	1.0
Total	**7.5**	8.1
Remeasurement (losses)/gains recognised during the year in other comprehensive income	**(36.6)**	37.8

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

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

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

The Stapled Group expects to make contributions of $4.3 million to the defined benefit plans during the next financial year. The Target Funding method is used to determine the contribution rates. Under the Target Funding method, the employer contribution rate is set at a level which is expected to result in the plans' assets equalling 105 per cent of the plans' liabilities within five years.

The defined benefit superannuation plans expose the Stapled Group to additional actuarial, interest rate and market risk.

Mercer Investment Nominees Limited performed actuarial valuations of the funds as at 31 March 2015 and 31 March 2014.

Note 18 Defined benefit obligations (continued)

(a) Movement in defined benefit obligation

	2015 $M	2014 $M
Movements in the present value of the defined benefit obligations were as follows:		
Opening defined benefit obligation	**248.0**	256.0
Current service cost	**7.5**	7.1
Interest cost	**11.4**	9.0
Contributions by plan participants	**2.7**	2.4
Actuarial loss/(gain)	**60.8**	(15.7)
Benefits, taxes and premiums paid	**(20.2)**	(10.8)
Transfers in (i)	**28.3**	-
Closing defined benefit obligations	**338.5**	248.0
Movements in the fair value of plan assets were as follows:		
Opening fair value of plan assets	**248.6**	221.3
Interest income	**11.4**	8.0
Actual return on fund assets less interest income	**24.2**	22.1
Contributions from the employer	**4.8**	5.6
Contributions by plan participants	**2.7**	2.4
Benefits, taxes and premiums paid	**(20.2)**	(10.8)
Transfers in (i)	**27.4**	-
Closing fair value of plan assets	**298.9**	248.6

The actual return on plan assets was a gain of $35.6 million (2014: gain of $30.1 million).

(i) Transfers in represent the transfer of employees formerly under the SPIMS defined benefit plan into the Stapled Group's plans.

(b) Analysis of plan assets

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

	2015 %	2014 %
Investments quoted in active markets:		
Australian equities	**31**	31
International equities	**24**	25
Fixed interest securities	**11**	11
Unquoted investments:		
Property	**9**	9
Growth alternative	**7**	8
Defensive alternative	**10**	7
Cash	**8**	9
	100	100

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

Note 18 Defined benefit obligations (continued)

(c) Actuarial assumptions

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

	Defined benefit expense		Defined benefit obligation	
	2015	2014	**2015**	2014
	%	%	**%**	%
Key assumptions				
Discount rate	**4.30**	3.70	**2.70**	4.30
Expected salary increase rate	**4.50**	4.50	**4.50**	4.50

As at 31 March 2015, the weighted average duration of the defined benefit obligation was 9 years (2014: 10 years).

(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:

Defined benefit obligation

	Increase	Decrease
	$M	**$M**
Discount rate (0.5 per cent movement)	**(18.9)**	**20.5**
Expected salary increase rate (0.5 per cent movement)	**15.3**	**(14.4)**

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

Note 19 Financial risk management

The Stapled Group's activities expose it to a number of financial risks, including changes in interest rates and foreign currency exchange rates, liquidity risk and credit risk. The Stapled Group manages its exposure to these risks in accordance with its Treasury Risk Policy which is approved by the Board. The policy is reviewed annually or more regularly if required by a significant change in the Stapled Group's operations. Any material changes are submitted to the Board for approval.

The objective of the Treasury Risk Policy is to document the Stapled Group's 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 the Stapled Group is exposed and the objective of and techniques for managing the risk, including identifying and reporting risks to management and the Board.

Treasury evaluates and hedges financial risks in close co-operation with the Stapled 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, use of derivative financial instruments and investing excess liquidity.

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

- The AusNet Services 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 AusNet Services 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 AusNet Services 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 Stapled Group's credit strength, such as the percentage of debt to the value of the RAB at balance date.

Together these policies provide a financial risk management framework which supports the Stapled Group's 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 AusNet Services' activities are each described below, together with details of AusNet Services' policies for managing the risk.

Note 19 Financial risk management (continued)

(a) Interest rate risk

Interest rate risk is the risk of suffering a financial loss due to an adverse movement in interest rates. AusNet Services is exposed to the risk of movements in interest rates on its borrowings.

In addition, AusNet Services' regulated revenues for the transmission and distribution businesses are directly impacted by changes in interest rates at each of their price review periods. This is a result of the 'building block' approach where interest rates are considered in the determination of the regulatory weighted average cost of capital and consequently regulated revenues. The current price review period is five years for gas and electricity distribution and three years for electricity transmission.

The objective of hedging activities carried out by the Stapled Group in relation to interest rate risk is to minimise the exposure to changes in interest rates by matching the actual cost of debt with the cost of debt assumed by the regulator when setting the rate of return for the relevant regulated business. 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 over its regulatory period. AusNet Services therefore considers net interest rate exposure, after hedging activities, to be minimal for the Stapled Group. The percentage of fixed rate debt to total debt (on a net debt basis) as at 31 March 2015 was 98.5 per cent (2014: 94.1 per cent).

The Stapled Group utilises interest rate swaps to manage its exposure to cash flow interest rate risk and achieve the targeted proportion of fixed rates on its debt portfolio. Under interest rate swaps, the Stapled Group agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the Stapled Group to mitigate the risk of changing interest rates on debt held.

As at reporting date, the Stapled Group 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.

	2015	2014
	$M	$M
Financial assets		
Fixed rate instruments	**810.9**	406.7
Financial liabilities (i)		
Fixed rate instruments	**(5,808.8)**	(5,291.3)
Floating rate instruments	**(896.7)**	(737.4)

(i) 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 price review periods of the regulated businesses in order to achieve the objective of matching the actual cost of debt with the assumed cost of debt for each regulated price review period.

Note 19 Financial risk management (continued)

(a) Interest rate risk (continued)

The Stapled Group's exposure to changes in interest rates is limited to debt denominated in Australian dollars due to the Stapled Group's 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 by 1.50 per cent and decreased by 1.50 per cent as at 31 March 2015 (2014: increased by 2.77 per cent and decreased by 2.63 per cent), with all other variables held constant, post-tax profit and equity would have increased/(decreased) as follows:

	Net profit after tax $M	Equity after tax (hedge reserve) $M
2015		
Increase in Australian interest rates with all other variables held constant	**24.3**	**221.9**
Decrease in Australian interest rates with all other variables held constant	**(19.5)**	**(271.0)**
2014		
Increase in Australian interest rates with all other variables held constant	18.6	256.9
Decrease in Australian interest rates with all other variables held constant	(19.7)	(319.8)

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. Management considers that past movements are a transparent basis for determining reasonably possible movements in interest rates.

Due to the Stapled Group's interest rate risk management policies, the exposure to cash flow and foreign currency interest rate risk 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 is due to the valuation change of derivative financial instruments in cash flow hedges. This amount in the hedge reserve is transferred to the income statement when the underlying hedged transaction affects income in order to reflect the hedged position.

(b) Currency risk

The Stapled Group is 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 AusNet Services' currency risk management program is to eliminate material foreign exchange risk by utilising various hedging techniques as approved by the Board. AusNet Services therefore considers its currency risk exposure to be minimal.

The Stapled Group is subject to the following currency exposures:

- United States dollars (USD);
- Pound sterling (GBP);
- Swiss francs (CHF);
- Hong Kong dollars (HKD);
- Japanese yen (JPY);
- Euro (EUR); and
- Norwegian krone (NOK).

Note 19 Financial risk management (continued)

(b) Currency risk (continued)

The Stapled Group enters into cross-currency swaps to manage exposures from foreign currency loans. It is the policy of the Stapled Group to cover 100 per cent of the cash flow exposure generated by these loans.

The Stapled Group also enters into forward foreign currency contracts to hedge the exchange rate risk in relation to specific purchase orders. It is the policy of the Stapled Group to fully hedge currency exposures above a Board approved threshold once the exposure is confirmed. The derivative financial instrument used to hedge the exposure is entered into when there is a high degree of certainty as to the nature of the exposure, including currency, amount and delivery date so as to ensure a high level of effectiveness in cash flow hedging.

As at reporting date, if the Australian dollar had moved against each of the currencies, 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)
	$M	**$M**
2015		
Increase in foreign exchange rates for all currency exposures	**(1.4)**	**(33.6)**
Decrease in foreign exchange rates for all currency exposures	**0.6**	**52.8**
2014		
Increase in foreign exchange rates for all currency exposures	(1.7)	(35.2)
Decrease in foreign exchange rates for all currency exposures	5.5	51.8

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 spot exchange rate data over the previous five years, with all other variables held constant. Management considers that past movements are a transparent basis for determining reasonably possible movements in exchange rates. As at 31 March 2015, the movements in foreign exchange rates used in the table above are as follows:

- United States dollars (USD) - 17 cents (2014: 21 cents)
- Pound sterling (GBP) - 11 pence (2014: 10 pence)
- Swiss francs (CHF) - 15 Swiss centime (2014: 17 Swiss centime)
- Hong Kong dollars (HKD) - 1.29 HK dollar (2014: 1.651 HK dollar)
- Japanese yen (JPY) – 11.18 Japanese yen (2014: 19.66 yen)
- Euro (EUR) - 14 Euro cents (2014: 14 Euro cents)
- Norwegian krone (NOK) - 65 Norwegian ore

The impact on the hedge reserve is due to the valuation change of derivative financial instruments in cash flow hedges. This amount in the hedge reserve is transferred to the income statement when the underlying hedged transaction affects income in order to reflect the hedged position.

Exchange rate risk arising from foreign currency denominated borrowings is managed using cross-currency swaps at 100 per cent of borrowed funds at inception date. The residual exposure to exchange rate movements disclosed in the sensitivity table above for post-tax profit only arises from trade payables and cash denominated in foreign currency, which are immaterial to the Stapled Group.

Note 19 Financial risk management (continued)

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

The Stapled Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign currency risk, as detailed below:

	Interest rate swaps	Forward foreign currency contracts	Cross-currency swaps	Total net derivative financial instruments
2015	**$M**	**$M**	**$M**	**$M**
Current assets	-	0.5	128.8	129.3
Non-current assets	135.5	-	399.7	535.2
Current liabilities	(46.5)	(0.1)	-	(46.6)
Non-current liabilities	(192.2)	-	(16.9)	(209.1)
Total derivative financial instruments	**(103.2)**	**0.4**	**511.6**	**408.8**
Consists of:				
- fair value hedges (i)	94.1	-	229.6	323.7
- cash flow hedges (ii)	(197.3)	0.4	282.0	85.1
Total derivative financial instruments	**(103.2)**	**0.4**	**511.6**	**408.8**
2014				
Current assets	-	0.1	-	0.1
Non-current assets	78.5	-	185.7	264.2
Current liabilities	(1.5)	(0.1)	(69.1)	(70.7)
Non-current liabilities	(132.2)	-	(103.2)	(235.4)
Total derivative financial instruments	**(55.2)**	**-**	**13.4**	**(41.8)**
Consists of:				
- fair value hedges (i)	9.8	-	(107.8)	(98.0)
- cash flow hedges (ii)	(65.0)	-	121.2	56.2
Total derivative financial instruments	**(55.2)**	**-**	**13.4**	**(41.8)**

The increase in the net derivative balance at 31 March 2015 is largely due to the depreciation of the AUD relative to the currencies listed in note 19(b).

(i) Derivative financial instruments in a fair value hedge

Derivative financial instruments are designated in a fair value hedge in order to mitigate the exposure to changes in fair value of certain borrowings of AusNet Services. Fair value hedges are generally designated for the terms of borrowings that fall outside of the price review periods for the regulated businesses.

(ii) Derivative financial instruments in a cash flow hedge

Derivative financial instruments are designated in a cash flow hedge in order to mitigate the variability in cash flows attributable to interest rate and/or foreign currency movements on borrowings or highly probable forecast transactions.

Note 19 Financial risk management (continued)

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

Offsetting of 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 under AASB 132 *Financial Instruments: Presentation*, if these netting arrangements were applied to the derivative portfolio as at 31 March 2015, derivative assets and liabilities would be reduced by $217.2 million respectively (2014: $125.6 million). Refer to the below table:

	Gross amounts in the financial statements	Amounts subject to master netting arrangements	Net amount
	$M	$M	$M
2015			
Derivative financial assets	664.5	(217.2)	447.3
Derivative financial liabilities	(255.7)	217.2	(38.5)
	408.8	**-**	**408.8**
2014			
Derivative financial assets	264.3	(125.6)	138.7
Derivative financial liabilities	(306.1)	125.6	(180.5)
	(41.8)	**-**	**(41.8)**

Note 19 Financial risk management (continued)

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

Movement in hedge reserve

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

	2015	2014
	$M	$M
Opening balance of cash flow hedge reserve	**(57.0)**	(116.7)
Changes in fair value of cash flow hedges	**(64.3)**	(32.9)
Amounts reclassified to interest expense for effective hedges	**50.7**	88.3
Amounts reclassified to property, plant and equipment and inventory	**-**	4.3
Closing balance of cash flow hedge reserve	**(70.6)**	(57.0)

The following table summarises the cash flows of the Stapled Group's cash flow hedges:

	2015	2014
	$M	$M
Highly probable forecast asset purchase:		
Less than 1 year	**0.4**	-
	0.4	-
Borrowings:		
Less than 1 year	**(34.2)**	(84.3)
1 - 2 years	**(78.4)**	(51.7)
2 - 5 years	**(84.4)**	(64.2)
Greater than 5 years	**(260.4)**	2.6
	(457.4)	(197.6)

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

Note 19 Financial risk management (continued)

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

Loss on accounting for hedge relationships

The following table provides details of the loss on accounting for hedge relationships recognised in finance costs:

	2015	2014
	$M	$M
(Gain)/loss on fair value hedges (i)	**(3.6)**	1.0
Gain on transactions not in a hedge relationship (ii)	**-**	(1.8)
Loss on ineffective portion of cash flow hedges	**8.1**	4.5
	4.5	3.7

(i) The remeasurement of AusNet Services' borrowings in fair value hedges resulted in a loss before tax of $305.6 million (2014: loss before tax of $293.1 million). The change in fair value of the associated derivative financial instruments resulted in a gain before tax of $309.2 million (2014: gain before tax of $292.1 million), leaving a net $3.6 million gain (2014: $1 million loss) recognised in finance costs.

(ii) In previous years a number of cash flow hedges no longer satisfied the requirements for hedge accounting and as such were de-designated. This was primarily due to the replacement of maturing Australian dollar debt with foreign currency debt. Notwithstanding that these borrowings and the related derivative financial instruments no longer satisfy the requirements for hedge accounting, they are in economic relationships that are effective in managing interest rate and currency risks, based on contractual face values and cash flows over the life of the transactions.

(d) Liquidity risk

Liquidity risk is defined as the risk of an unforeseen event which will result in AusNet Services not being able to meet its payment obligations in an orderly manner.

The Stapled Group manages 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 the Stapled Group's 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 paper must not represent more than an agreed percentage of the total debt portfolio of AusNet Services.

The liquidity management policies ensure that the Stapled Group has a well-diversified portfolio of debt, in terms of maturity and source, which significantly reduces reliance on any one source of debt in any one particular year. In addition, the investment grade credit rating of the Stapled Group ensures ready access to both domestic and offshore capital markets.

(i) Contractual cash flows

Liquidity risk is managed by AusNet Services based on net inflows and outflows from financial assets and financial liabilities. The following table summarises the contractual cash flows of the Stapled Group's 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.

Note 19 Financial risk management (continued)

(d) Liquidity risk (continued)

(i) Contractual cash flows (continued)

2015	Notes	Principal at face value $M	Carrying amount $M	Total contractual cash flows $M	Less than 1 year $M	1 - 2 years $M	2 - 5 years $M	Greater than 5 years $M
Financial assets								
Non-derivative financial assets								
Cash and cash equivalents		883.1	883.1	883.1	883.1	-	-	-
Accounts and other receivables	9	696.1	696.1	865.4	504.6	21.6	61.4	277.8
Derivative financial assets								
Interest rate swaps			135.5	160.8	49.8	31.6	61.7	17.7
Cross-currency swaps			528.5	139.9	120.8	71.3	16.0	(68.2)
Forward foreign currency contracts			0.5					
- Inflow				6.5	6.1	0.2	0.2	-
- Outflow				(6.0)	(5.6)	(0.2)	(0.2)	-
			2,243.7	**2,049.7**	**1,558.8**	**124.5**	**139.1**	**227.3**
Financial liabilities								
Non-derivative financial liabilities								
Trade and other payables	14	472.9	472.9	472.9	472.9	-	-	-
Commercial paper	15	95.0	94.6	95.0	95.0	-	-	-
Bank debt facilities *	15	511.0	508.1	514.5	514.5	-	-	-
Domestic medium term notes	15	1,314.3	1,414.2	1,789.5	75.2	75.3	819.1	819.9
Floating rate notes	15	100.0	99.7	119.5	3.7	3.4	112.4	-
USD senior notes	15	484.5	518.5	543.2	30.3	512.9	-	-
GBP senior notes	15	537.5	540.9	625.8	34.7	34.7	556.4	-
CHF senior notes	15	1,075.0	1,364.7	1,398.0	666.5	347.2	384.3	-
HKD senior notes	15	287.7	376.6	489.6	13.1	13.1	157.9	305.5
JPY senior notes	15	62.6	55.9	61.9	0.7	0.8	2.3	58.1
EUR senior notes	15	2,078.3	2,076.1	2,365.1	43.5	43.4	130.2	2,148.0
NOK senior notes	15	159.7	166.8	234.2	5.9	5.8	17.5	205.0
Derivative financial liabilities								
Interest rate swaps			238.7	279.9	107.0	63.8	39.1	70.0
Cross-currency swaps			16.9	355.2	19.9	18.1	71.6	245.6
Forward foreign currency contracts			0.1					
- Inflow				(2.0)	(1.6)	(0.2)	(0.2)	-
- Outflow				2.1	1.7	0.2	0.2	-
			7,944.7	**9,344.4**	**2,083.0**	**1,118.5**	**2,290.8**	**3,852.1**
Net cash outflow				**(7,294.7)**	**(524.2)**	**(994.0)**	**(2,151.7)**	**(3,624.8)**

Note 19 Financial risk management (continued)

(d) Liquidity risk (continued)

(i) Contractual cash flows (continued)

2014	Notes	Principal at face value $M	Carrying amount $M	Total contractual cash flows $M	Less than 1 year $M	1 - 2 years $M	2 - 5 years $M	Greater than 5 years $M
Financial assets								
Non-derivative financial assets								
Cash and cash equivalents		409.8	409.8	409.8	409.8	-	-	-
Accounts and other receivables	9	497.0	497.0	675.7	294.1	22.1	62.9	296.6
Derivative financial assets								
Interest rate swaps			78.5	105.2	13.5	15.5	33.6	42.6
Cross-currency swaps			185.7	(76.1)	(40.5)	23.2	(102.4)	43.6
Forward foreign currency contracts			0.1					
- Inflow				4.3	2.8	1.5	-	-
- Outflow				(4.2)	(2.7)	(1.5)	-	-
			1,171.1	**1,114.7**	**677.0**	**60.8**	**(5.9)**	**382.8**
Financial liabilities								
Non-derivative financial liabilities								
Trade and other payables	14	283.7	283.7	283.7	272.3	11.4	-	-
Commercial paper	15	90.0	89.5	90.0	90.0	-	-	-
Bank debt facilities *	15	553.0	548.9	547.9	547.9	-	-	-
Domestic medium term notes	15	1,185.0	1,211.1	1,662.6	76.3	76.3	495.0	1,015.0
Floating rate notes	15	100.0	99.7	133.0	4.3	4.7	17.5	106.5
USD senior notes	15	885.0	764.5	811.0	364.9	24.9	421.2	-
GBP senior notes	15	537.5	520.6	609.8	32.0	32.0	545.8	-
CHF senior notes	15	1,075.0	1,233.6	1,283.5	22.1	601.4	320.8	339.2
HKD senior notes	15	287.7	289.1	412.6	10.7	10.8	32.2	358.9
JPY senior notes	15	62.6	54.4	59.9	0.7	0.7	2.2	56.3
EUR senior notes		1,253.0	1,257.8	1,543.3	33.3	33.3	99.8	1,376.9
Derivative financial liabilities								
Interest rate swaps			133.7	144.1	72.4	46.3	9.8	15.6
Cross-currency swaps			172.3	499.1	73.3	10.2	217.4	198.2
Forward foreign currency contracts			0.1					
- Inflow				(2.6)	(2.0)	(0.2)	(0.4)	-
- Outflow				2.7	2.1	0.2	0.4	-
			6,659.0	**8,080.6**	**1,600.3**	**852.0**	**2,161.7**	**3,466.6**
Net cash outflow				**(6,965.9)**	**(923.3)**	**(791.2)**	**(2,167.6)**	**(3,083.8)**

Note 19 Financial risk management (continued)

(d) Liquidity risk (continued)

(i) Contractual cash flows (continued)

* Bank debt facility drawings are due within the next twelve months and as such have been included within "less than 1 year". However, AusNet Services has the right to roll over these facilities until they ultimately mature in up to five years from the reporting date.

(ii) Financing facilities

The Stapled Group targets a minimum net liquidity, defined as available short-term funds and committed financing facilities. As at reporting date, AusNet Services had the following committed financing facilities available:

	2015	2014
	$M	$M
Financing facilities (face value)		
Unsecured bank overdraft facility, reviewed annually and payable at call:		
- Amount used	**-**	-
- Amount unused	**2.5**	2.5
	2.5	2.5
Unsecured working capital facility, reviewed annually:		
- Amount used	**36.0**	53.0
- Amount unused	**64.0**	47.0
	100.0	100.0
Unsecured bank loan facility with various maturity dates and which may be extended by mutual agreement:		
- Amount used	**475.0**	500.0
- Amount unused	**300.0**	700.0
	775.0	1,200.0

Note 19 Financial risk management (continued)

(e) Credit risk

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

The Stapled Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults (refer to note 9). The Stapled Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate values of transactions concluded are spread amongst approved counterparties. Revenues from a single customer, AEMO, in the Stapled Group's electricity transmission segment represents 27 per cent (2014: 27 per cent) of the Stapled Group's total revenues. AusNet Services is 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 AusNet Services receives network charges from AEMO for the use of AusNet Services' transmission network to transmit electricity to participants in the market. Due to the nature of this network agreement, AusNet Services does not believe that there is any significant credit risk exposure on this customer. AusNet Services therefore considers its 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 annually by the Audit and Risk Management Committee and any changes to counterparties or their credit limits must be approved by the Chief Financial Officer and the Managing Director and must be within the parameters set by the Board as outlined in the Treasury Risk Policy.

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies. At balance date, AusNet Services had $810.9 million on term deposit and $700.4 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.

The unamortised value of the deferred credit risk adjustment for derivative financial instruments as at 31 March 2015 is $42.2 million (2014: $28.7 million).

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 the Stapled Group's 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.

	2015	2014
	$M	$M
Financial assets and other credit exposures		
Cross-currency swaps	**547.1**	186.3
USD interest rate swaps	**15.6**	18.0
AUD interest rate swaps	**137.7**	71.3

Note 19 Financial risk management (continued)

(f) Fair value of financial assets and liabilities

The fair values of financial assets and liabilities are measured in accordance with generally accepted pricing models based on discounted cash flow analysis.

The only financial instruments measured at fair value subsequent to initial recognition are derivative financial instruments. Derivative financial instruments are initially recognised at fair value in the statement of financial position and subsequently remeasured to their fair value at each reporting date. Accordingly there is no difference between the carrying value and fair value of derivative financial instruments at reporting date. Fair value is measured using valuation techniques and significant 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.

In addition, an adjustment to the fair value for all cross currency and interest rate swap contracts is applied for credit risk in accordance with AASB 13 *Fair Value Measurement*. 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.

As such, fair value measurements are deemed level two within the fair value hierarchy as per AASB 13. The Stapled Group does not have any financial instruments which would be categorised as either level one or three of the fair value hierarchy.

The Stapled Group also has a number of financial assets and liabilities which are not measured at fair value in the combined statement of financial position. With the exception of borrowings (refer to note 15), the carrying amounts of these items are considered to be a reasonable approximation of their fair value at 31 March 2015.

Note 20 Critical accounting estimates and judgements

The Stapled Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. Accounting estimates and judgements where changes in those estimates and judgements could result in a significant change to the carrying amounts of assets and liabilities within the next financial year are detailed below:

(a) Determination of CGU's and estimated recoverable amount of intangible assets with an indefinite useful life and associated tangible assets

For the purpose of impairment testing, assets have been allocated to CGUs. Each CGU represents a group of assets that generates cash inflows independent from other groups of assets.

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

	2015	2014
	$M	$M
CGU		
Electricity distribution (distribution licence)	**117.2**	117.2
Gas distribution (distribution licence)	**237.3**	237.3
Asset Solutions business (goodwill)	**11.8**	11.8
Geomatic Technologies (goodwill)	**23.7**	24.4
	390.0	390.7

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

In terms of the distribution licences, management has based its assessment of fair value less costs to sell on discounted cash flow projections over a period of 20 years together with an appropriate terminal value incorporating growth rates based on the long-term Consumer Price Index assumption of 2.6 per cent. 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 the Stapled Group's five-year forecast. Cash flows after that period are based on an extrapolation of the forecast, taking into account inflation and expected customer connection growth rates. It is considered appropriate to use cash flows after AusNet Services' five-year forecast period considering the long-term nature of the Stapled Group's activities. Cash flows are discounted using a post-tax discount rate of 5.0 per cent (2014: 6.3 to 6.5 per cent).

AusNet Services has determined that the assets under the AMI program form part of the electricity distribution CGU as the AMI 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 AMI assets are tested for impairment together with the electricity distribution regulated network assets and cash flows.

While the AMI assets are part of the electricity distribution CGU, certain AMI communication modules have been determined to be no longer of use and as such have been written off. This write-off resulted in a charge of $28.1 million being recognised in the income statement. Refer to note 4 (ii) for further details.

In terms of the Asset Solutions business CGU and the Geomatic Technologies CGU, which are part of the Select Solutions reportable segment, management has based its assessment of fair value less costs to sell on discounted cash flow projections over a period of five years together with an appropriate terminal value. Cash flows are discounted using a post-tax discount rate of 8.6 per cent (2014: 10.4 per cent) for Asset Solutions and post-tax discount rate of 12.5 per cent for Geomatic Technologies.

The rates used for each CGU reflect current market assessments of the time value of money and risks specific to the assets that are not already reflected in the cash flows.

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

Note 20 Critical accounting estimates and judgements (continued)

(b) Accrued revenue

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

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

(c) Useful lives of property, plant and equipment

Depreciation is recognised on property, plant and equipment, including freehold buildings but excluding land and easements. Depreciation is calculated on a straight-line basis so as to write off the net cost of each asset over its estimated useful life to its estimated residual value. The estimated useful lives, residual values and depreciation methods are reviewed annually. Assumptions are made regarding the useful lives and residual values based on the regulatory environment and technological developments. These assumptions are subject to risk and there is the possibility that changes in circumstances will alter expectations.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. For the year ended 31 March 2015, amendments to the useful life assumptions of certain AMI assets have been made following the finalisation of the plan to stabilise the AMI system performance in September 2014. These amendments have not had a material impact on the financial performance or financial position of the Stapled Group for the year.

(d) Income taxes

The tax expense and deferred tax balances assume certain tax outcomes and values of assets in relation to the application of tax legislation as it applies to AusNet Services Distribution and AusNet Services Transmission. These outcomes affect factors such as the quantification and utilisation of tax losses, capital allowance deductions and the taxation treatment of transactions between members of the Stapled Group.

The tax expense assumes that AusNet Services Distribution can carry forward income tax losses under relevant tax legislation and is more likely than not to utilise them in the future. If either of these assumptions is proven to be incorrect, then the deferred tax asset recognised for carry forward tax losses may need to be derecognised.

Judgements have been made regarding the application of income tax legislation, including in regard to the deductibility of the Section 163AA imposts and intellectual property which are currently in dispute with the ATO (refer note 23). The accounting treatment adopted for each of these matters reflects these current judgements and assumptions.

(i) Tax impact of corporate restructure

AusNet Services has received tax rulings in relation to the potential restructure that will result in the cancellation of $510 million of tax losses that are subject to the Same Business Test if the restructure is implemented. The tax losses continue to be recognised at 31 March 2015 and will continue to be recognised until the restructure is implemented.

Note 20 Critical accounting estimates and judgements (continued)

(e) 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*.

Derivative financial instruments are used only for risk management strategies and are not actively traded.

The fair value of derivative financial instruments is determined in accordance with generally accepted pricing models based on discounted cash flow analysis. This involves the valuation of derivative financial instruments based on prices sourced from significant observable market data as well as market corroboration based on active quotes. Appropriate transaction costs are included in the determination of net fair value.

(f) Provisions

(i) *Defined benefit plans*

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

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

Each year AusNet Services engages Mercer Investment Nominees Limited to perform actuarial reviews of the AusNet Transmission Group Pty Ltd and AusNet Electricity Services Pty Ltd defined benefit funds.

In addition, prior to the termination of the MSA on 31 March 2014, the management services charges under the MSA included any actuarial gains or losses incurred by the SPIMS defined benefit plan as well as any defined benefit plan expenses. Assumptions were made by SPIMS regarding salary increases, discount rates and rates of return on assets which impacted on the services charge to the Stapled Group. Following the transfer of SPIMS employees to AusNet Services, the defined benefit obligation and plan assets of SPIMS were transferred to the Stapled Group's two funds.

(ii) *Environmental provision*

A provision for environmental costs is made for the remediation of 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.

(g) Contingent liabilities and contingent assets

Judgements are made in relation to uncertain future events surrounding ATO disputes that may impact the Stapled Group’s present obligations. Refer note 23 for further details.

Note 21 Key management personnel

	2015	2014
	$	$
Short-term employee benefits	**5,564,031**	5,543,528
Post-employment benefits	**411,091**	383,017
Equity-based payments	**1,096,875**	1,159,339
Other long-term benefits	**162,158**	142,167
	7,234,155	7,228,051

The Remuneration Report contained in the Directors' report contains details of the remuneration paid or payable to each member of AusNet Services Distribution Group's key management personnel for the year ended 31 March 2015.

Note 22 Remuneration of auditors

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

(a) Audit and review services

	2015	2014
	$'000	$'000
Audit and review of financial statements	**1,527**	1,473
Audit of regulatory returns (i)	**632**	891
Total remuneration for audit and review services	**2,159**	2,364

(b) Other services

	2015	2014
Other assurance, taxation and advisory services	**547**	170
Total remuneration for other services	**547**	170
Total remuneration of auditors	**2,706**	2,534

(i) It is the Stapled Group's policy to employ KPMG to perform the audit of regulatory returns as these returns represent an extension of statutory audit services and need to be performed by the same audit firm to gain efficiencies and effectiveness in performing these audits.

Note 23 Contingent liabilities and contingent assets

Details of contingent liabilities and contingent assets of the Stapled Group are as follows:

(a) Section 163AA impost

During August 2011, the ATO issued amended assessments to AusNet Services in respect of the 2001 to 2006 income years, disallowing deductions claimed in respect of fees imposed under Section 163AA of the *Electricity Industry Act 1993* (Vic) in the 1999 to 2001 tax years. Under the amended assessments, the amount of primary tax payable is $54 million.

In October 2011, AusNet Services paid $30.6 million under a part-payment arrangement agreed with the ATO. A general interest charge continues to accrue in respect of unpaid tax under the payment arrangement, in addition to the total amount disclosed on the amended assessments.

AusNet Services lodged a notice of appeal and other documents in the Federal Court, appealing the ATO's amended assessments. On 7 April 2014, the Federal Court delivered judgment against AusNet Services' appeal. On the basis of this ruling, AusNet Services recognised the full amount potentially payable in the financial statements net of the amount part-paid. As at 31 March 2015 the net tax potentially payable is $59.1 million.

On 12 December 2014 AusNet Services was granted special leave to appeal the High Court of Australia in relation to the decision of the Full Federal Court. The High Court heard the appeal on 9 April 2015, and judgment is expected in the first half of 2015. AusNet Services continues to believe that the fees imposed under Section 163AA are deductible.

(b) Intellectual Property

During September 2011 and October 2011, the ATO issued amended assessments to AusNet Services in respect of the 2001 to 2010 income years, disallowing deductions claimed in respect of intellectual property in each of those income years. Under the amended assessments, the amount payable is $44 million (representing $27.4 million of primary tax, plus an interest and administrative penalty component of $16.6 million).

In November 2011, AusNet Services lodged notices of objection in relation to the amended assessments issued, with AusNet Services making a part-payment of $17.1 million. A general interest charge continues to accrue in respect of unpaid tax under the payment arrangement, in addition to the total amount disclosed on the amended assessments. As at 31 March 2015, the total amount in dispute for intellectual property deductions, including additional accrued interest on the unpaid portion of the amended assessments, is $53.4 million.

AusNet Services lodged a notice of appeal and other documents in the Federal Court. The Federal Court delivered judgment in favour of AusNet Services on 25 March 2014. The ATO subsequently lodged a notice of appeal in the Federal Court on 15 April 2014.

The ATO appeal was heard in the Full Court of the Federal Court in November 2014. On 6 May 2015, the Full Court allowed the ATO appeal in respect of the pre tax consolidation years, being 1998 to October 2005. The Federal Court's decision to remit the $2.3 million penalty imposed in respect of this period was not overturned. In relation to the post tax consolidation years (being October 2005 to 2011), the Full Court ordered that the matter be remitted back to the primary judge of the Federal Court for further hearing and determination.

In light of this judgment from the Full Court, and the significant uncertainty that has arisen, AusNet Services has recognised an $84.1 million tax charge for the year ended 31 March 2015. This represents the net exposure of the total dispute, after taking into account the deductibility of the interest component and excluding the $2.3 million of penalties.

(c) Other

AusNet Services is involved in various other legal and administrative proceedings and various claims on foot, including two smaller bushfire class actions relating to fires that occurred in February 2014. In the opinion of AusNet Services, the ultimate resolution of these matters should not have a material effect on the combined financial position, results of operations or cash flows.

Other than listed above, the Directors are not aware of any contingent liabilities as at 31 March 2015.

Note 23 Contingent liabilities and contingent assets (continued)

(d) Prior year contingent liabilities

As at 31 March 2014, the Kilmore East and Murrindindi bushfire litigation proceedings were considered to be contingent liabilities. During the year ended 31 March 2015 both matters were settled and as such are no longer contingent liabilities, with AusNet Services' share of each settlement being fully covered by insurance. Both settlements were reached without admission of liability by AusNet Services or any other party. Refer to note 14 for further details regarding the Murrindindi bushfire.

Note 24 Commitments

(a) Capital commitments

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

	2015	2014
	$M	$M
Property, plant and equipment	**352.2**	359.4

(b) Lease commitments

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

	2015	2014
	$M	$M
Payable:		
Within one year	**18.0**	17.0
Later than one year, but no later than five years	**56.1**	34.7
Later than five years	**15.8**	16.0
	89.9	67.7
Representing:		
Non-cancellable operating leases	**89.9**	67.7

Operating leases

The Stapled Group's leases relate to premises, vehicles, network land and access sites under non-cancellable operating leases expiring within one to seven years. The leases have varying terms, escalation clauses and renewal rights. On renewal, the terms of the leases are renegotiated.

Note 25 Related party transactions

(a) Parent entities

By virtue of the Stapling deed effective 21 October 2005, AusNet Services Distribution is deemed to be the parent entity of the Stapled Group. Parent entity disclosures have been presented in note 27.

Prior to 3 January 2014, the immediate parent of AusNet Services Distribution was Singapore Power International Pte Ltd (SPI) and the ultimate parent was Temasek Holdings (Private) Limited (Temasek). SPI is a wholly-owned subsidiary of Temasek. Temasek's shareholder is the Minister for Finance, a body corporate under the Minister for Finance (Incorporation) Act, Chapter 183 of Singapore. Both SPI and Temasek are incorporated in Singapore.

On 3 January 2014 State Grid Corporation of China (State Grid) acquired a 19.9 per cent securityholding in the Stapled Group from SPI. Whilst SPI continues to be the largest shareholder in AusNet Services with a stake of 31.1 per cent, they ceased to be the parent of AusNet Services from that date. Under applicable accounting standards, both SPI and Temasek and their subsidiaries continue to be a related party of AusNet Services. These entities are not considered related parties under the *Corporations Act 2001*.

On 3 January 2014 SPI also divested 60 per cent of its securityholding in Jemena Asset Management Pty Ltd (referred to as Jemena) to State Grid. Under applicable accounting standards, State Grid and its subsidiaries (including Jemena) are related parties of AusNet Services. These entities are not considered related parties under the *Corporations Act 2001*.

(i) Logo

Up until 31 March 2014, Singapore Power Limited granted AusNet Services a licence for consideration of $1 million per year to use the 'flame logo' and image in connection with its business and the use of the terms 'SP', 'SP Australia Networks' and 'SP AusNet'. The fee payable was on normal commercial terms. This arrangement ceased on 30 September 2014 when AusNet Services discontinued the use of the logo, and other 'SP' related branding.

(b) Other related parties

(i) Management Services Agreements (MSAs)

SPIMS is a wholly-owned subsidiary of related party SPI, and up until 31 March 2014 was a party to two management services agreements (MSAs) with AusNet Services Distribution and AusNet Services Transmission, and the Responsible Entity respectively. Prior to 31 March 2014, AusNet Services' senior management were employees of SPIMS. SPIMS charged AusNet Services various management service and performance fees in relation to these employees. The MSAs were terminated on 31 March 2014 and all SPIMS employees became AusNet Services employees. There were no further management service or performance fee payments under the MSA from 1 April 2014.

(ii) Long-term operational agreement

On 29 September 2008, AusNet Services entered into an agreement with the Singapore Power Group on a number of operational arrangements. AusNet Services through Select Solutions provides end-to-end metering services, technical services and vegetation management services to the electricity and gas networks owned and managed by Jemena. As part of the agreement, Jemena's contestable metering customer contracts were novated to AusNet Services who took over the responsibility for delivering contestable metering services to those customers.

To ensure continued capital investment and deliver network growth, Jemena was appointed to AusNet Services' preferred supplier panel, securing resources for the delivery of AusNet Services' capital portfolio.

Each of the above arrangements was for an initial five-year term and were renewed in August 2013 for an additional three year term. The agreements will then continue for further five year terms unless terminated by either party by giving notice to terminate at the end of the current term. The arrangements may also be terminated early by either party in certain circumstances.

Note 25 Related party transactions (continued)

(b) Other related parties (continued)

(iii) IT services agreement

On 29 September 2008, AusNet Services entered into an agreement with a wholly owned subsidiary of SPIMS, Enterprise Business Services (Australia) Pty Ltd (EBS), for it to be the exclusive provider to AusNet Services of IT services. The agreement was for an initial term of seven years, however, following the termination of the MSAs, these IT services were internalised into AusNet Services' business on 1 July 2014. EBS employees who had provided these services became AusNet Services employees from that date.

(c) Key management personnel

Disclosures relating to Directors and other key management personnel are set out in note 21.

(d) Transactions with related parties

Prior to 3 January 2014 the ultimate parent of AusNet Services was Temasek. AusNet Services engages 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. These 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.

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

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

	2015	2014
	$'000	$'000
Sales of goods and services		
Regulated revenue (i)	**9,346**	26,141
Service revenue	**53,582**	62,601
Other revenue	**366**	155
Purchases of goods and services		
Management services charge	**-**	19,558
Performance fees	**-**	22,189
Termination fee	**-**	50,000
Flame logo fee	**500**	1,000
Other expenses	**14,664**	42,224
Property, plant and equipment	**38,875**	56,949
Distributions paid		
Distributions paid (net of DRP)	**91,392**	131,065

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

Note 25 Related party transactions (continued)

(e) Outstanding balances

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

	2015	2014
	$'000	$'000
Current receivables (sale of goods and services)		
Singapore Power entities	**-**	128
Other related parties (i)	**9,255**	11,362
Other current assets (prepayments)		
Singapore Power entities	**-**	500
Current payables and other liabilities (purchase of goods)		
Singapore Power entities	**34**	46,906
Other related parties	**12,560**	12,551

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

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

Note 26 Subsidiaries

The Stapled Group's financial statements incorporate the assets, liabilities and results of the following subsidiaries of the stapled entities in accordance with the accounting policy described in note 1(b):

Name of entity	Country of incorporation	Class of shares	Equity holding 2015 %	2014 %
AusNet Services (Distribution) Ltd	**Australia**	**Ordinary**		
AusNet Services Ltd (i)	Australia	Ordinary	100	-
AusNet Services (RE) Ltd	Australia	Ordinary	100	100
AusNet Distribution Group Pty Ltd	Australia	Ordinary	100	100
AusNet LDP (No.1) Ltd	UK	n/a	100	100
AusNet LDP (No.2) Ltd	UK	n/a	100	100
AusNet Holdings General Partner Pty Ltd	Australia	Ordinary	100	100
AusNet Holdings (Partnership) Limited Partnership	Australia	n/a	100	100
AusNet Services Holdings Pty Ltd	Australia	Ordinary	100	100
AusNet Electricity Services Pty Ltd	Australia	Ordinary	100	100
AusNet Asset Services Pty Ltd	Australia	Ordinary	100	100
AusNet (No. 8) Pty Ltd	Australia	Ordinary	100	100
AusNet (No. 9) Pty Ltd	Australia	Ordinary	100	100
AusNet Gas Services Pty Ltd	Australia	Ordinary	100	100
Select Solutions Group Pty Ltd	Australia	Ordinary	100	100
AusNet Services (Transmission) Ltd *	**Australia**	**Ordinary**		
AusNet Transmission Group Pty Ltd	Australia	Ordinary	100	100
AusNet Finance Pty Ltd	Australia	Ordinary	100	100
Geomatic Holdings Pty Ltd	Australia	Ordinary	100	100
Geomatic Technologies Pty Ltd	Australia	Ordinary	100	100
AusNet Services Insurance Ltd (ii)	Guernsey	Ordinary	100	-
AusNet Services Finance Trust *	**Australia**	**Ordinary**		

(i) AusNet Services Ltd was incorporated on 11 December 2014 for the purposes of effecting the corporate restructure which is proposed to be implemented in June 2015. Under the restructure, AusNet Services Ltd will be the listed entity owned by the securityholders, with AusNet Services Distribution, AusNet Services Transmission and AusNet Services Finance Trust being subsidiaries of AusNet Services Ltd.

(ii) AusNet Services Insurance Ltd was incorporated as a subsidiary of AusNet Transmission Group Pty Ltd on 8 May 2014 for the purposes of providing insurance services to the Stapled Group.

* In accordance with AASB 3 *Business Combinations*, AusNet Services Distribution is deemed to have acquired AusNet Services Transmission and AusNet Services Finance Trust at the date of stapling. This acquisition is by contract alone and AusNet Services therefore does not have an equity holding in either entity.

Note 27 Parent entity information

(a) Statement of financial position

	2015 $M	2014 $M
Current assets	-	0.3
Non-current assets	2,331.3	2,665.0
Total assets	**2,331.3**	2,665.3
Current liabilities	1,236.3	1,204.5
Non-current liabilities	233.1	368.7
Total liabilities	**1,469.4**	1,573.2
Contributed equity	0.5	0.5
Retained profits	861.4	1,091.6
Total equity	**861.9**	1,092.1

The parent entity has a net current asset deficiency of $1,236.3 million as at 31 March 2015. The parent entity is considered to be a going concern as the deficiency arises from related party loans with AusNet Services Finance Trust. The Directors expect that following implementation of the restructuring of the Stapled Group in June 2015, the parent entity will be able to settle these obligations in a manner which will not require it to obtain further financing. In the event that the restructure is not implemented, the parent entity will need to refinance these loans.

The parent entity has access to funds through AusNet Services Holdings Pty Ltd, which is the common or central funding vehicle for AusNet Services.

(b) Statement of comprehensive income

	2015 $M	2014 $M
Loss for the year	(230.2)	(77.0)
Total comprehensive income for the year	(230.2)	(77.0)

(c) Contingent liabilities

Other than the contingent liabilities disclosed in note 23, the Directors are not aware of any other contingent liabilities of the parent entity as at 31 March 2015.

Note 28 Reconciliation of profit after income tax to net cash flows from operating activities

	2015	2014
	$M	$M
Profit for the year	**22.6**	178.3
Depreciation and amortisation of non-current assets	**379.2**	369.7
Net loss on sale of non-current assets	**7.0**	8.1
Write-off of assets	**28.1**	-
Contributed assets	**(20.1)**	(30.1)
Loss on accounting for hedge relationships	**4.5**	3.7
ATO settlement – cancellation of losses	**118.0**	-
Intellectual property tax dispute – write-off of deferred tax asset	**40.1**	-
Other non-cash items	**37.1**	14.0
Net cash from operations before changes in operating assets and liabilities	**616.5**	543.7
(Increase)/decrease in receivables	**(204.7)**	15.0
(Increase)/decrease in inventories	**(4.5)**	5.0
(Increase)/decrease in other assets	**(0.8)**	(4.9)
Increase/(decrease) in payables and other liabilities	**244.5**	64.2
Increase/(decrease) in net other financial assets and liabilities	**(2.2)**	(8.8)
Increase/(decrease) in provisions	**20.2**	21.3
Movement in tax balances	**98.6**	94.7
Net cash inflow from operating activities	**767.6**	730.2

Note 29 Events occurring after the balance sheet date

(a) Corporate restructure

On 14 November 2014, AusNet Services announced a restructure and simplification proposal whereby existing stapled entities would become wholly-owned by a new listed entity (to be called AusNet Services Ltd). The restructure is to be implemented by way of company and trust schemes of arrangement and is subject to due diligence, applicable regulatory approvals and the approval of securityholders and the court.

The restructure and simplification proposal, if implemented, is expected to have a number of financial impacts on AusNet Services' financial statements. Most notably:

- $510 million of tax losses will be cancelled which will result in an increase to deferred tax liabilities and a one-off increase to tax expense of $153 million; and
- there will be an increase in the tax base of AusNet Services' assets due to the application of the tax consolidation provisions which will result in a decrease to deferred tax liabilities and a one-off decrease to tax expense. The actual quantum of this tax base adjustment will be determined at the time that the proposal is implemented.

Note 29 Events occurring after the balance sheet date (continued)

(b) Distribution

Since the end of the financial year, the Directors have approved a final distribution for 2015 of $144.9 million (4.18 cents per stapled security) to be paid on 26 June 2015. If the restructure is implemented prior to the distribution payment date, as is currently anticipated (subject to Court and securityholder approval), the final distribution will be comprised as follows:

	Cents per security	Total distribution $M
Franked dividend payable by AusNet Services Ltd	2.508	86.9
Unfranked dividend payable by AusNet Services Ltd	1.672	58.0
	4.180	**144.9**

If the restructure is not implemented prior to the distribution payment date, the final distribution will be comprised as follows:

	Cents per security	Total distribution $M
Fully franked dividend payable by AusNet Services Transmission	2.217	76.8
Interest income payable by AusNet Services Finance Trust	1.963	68.1
	4.180	**144.9**

(c) Bushfire litigation

On 6 February 2015, AusNet Services and the other parties to the Murrindindi Class Action agreed to settle the action. The settlement is without admission of liability by AusNet Services or any other party. As at 31 March 2015, AusNet Services recognised this settlement in the financial statements as both a liability and a corresponding asset to be received from insurers. The settlement agreement is subject to the approval of the Supreme Court of Victoria.

(d) Intellectual property tax dispute

On 6 May 2015, the Full Court of the Federal Court allowed the ATO appeal in relation to the intellectual property tax dispute for the pre tax consolidation years, being 1998 to October 2005. The Federal Court's decision to remit the $2.3 million penalty imposed in respect of this period was not overturned. In relation to the post tax consolidation years (being October 2005 to 2011), the Full Court ordered that the matter be remitted back to the primary judge of the Federal Court for further hearing and determination.

(e) Other matters

Other than outlined above, there has been no matter or circumstance that has arisen since 31 March 2015 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 2015 of the Stapled Group;

(b) the results of those operations; or

(c) the state of affairs, in financial years subsequent to 31 March 2015, of the Stapled Group.

Directors' declaration

In the opinion of the Directors of AusNet Services (Distribution) Ltd (the Company):

(a) the financial statements and notes set out on pages 44 to 110, and the remuneration disclosures that are contained in the *Remuneration report* set out on pages 27 to 40 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 combined entity's financial position as at 31 March 2015 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 note 1(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.

Ng Kee Choe
Chairman

Nino Ficca
Managing Director

Melbourne
13 May 2015

KPMG

Independent auditor's report to the members of AusNet Services (Distribution) Ltd, AusNet Services (Transmission) Ltd and AusNet Services Finance Trust

Report on the financial report

We have audited the accompanying financial report of AusNet Services (Distribution) (the Company), which comprises the combined statement of financial position as at 31 March 2015, and combined income statement and combined statement of comprehensive income, combined statement of changes in equity and combined statement of cash flows for the year ended on that date, notes 1 to 29 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration. The financial report includes the financial statements of the combined entity, being AusNet Services (Distribution) Ltd and the entities it controlled at the year's end or from time to time during the financial year, AusNet Services (Transmission) Ltd and the entities it controlled at the year's end or from time to time during the financial year, and AusNet Services Finance Trust ("the Combined Entity").

Directors' responsibility for the financial report

The directors of the Company, AusNet Services (Transmission) Ltd and the directors of the responsible entity of AusNet Services Finance Trust, AusNet Services (RE) Ltd, are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement whether due to fraud or error. In note 1(a), the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements of the Combined Entity comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Combined Entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Combined Entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards, a true and fair view which is consistent with our understanding of the Combined Entity's financial position and of its performance.

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

KPMG

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Auditor's opinion

In our opinion:

(a) the financial report of the Combined Entity is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Combined Entity's financial position as at 31 March 2015 and of its performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.

(b) the financial report also complies with International Financial Reporting Standards as disclosed in note 1(a).

Report on the remuneration report

We have audited the Remuneration Report included in pages 25 to 38 of the directors' report for the year ended 31 March 2015. The directors of the Company and of AusNet Services (Transmission) Ltd, and the directors of the responsible entity of AusNet Services Finance Trust, AusNet Services (RE) Ltd, are responsible for the preparation and presentation of the remuneration report in accordance with Section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with auditing standards.

Auditor's opinion

In our opinion, the remuneration report of AusNet Services (Distribution) Ltd for the year ended 31 March 2015, complies with Section 300A of the *Corporations Act 2001*.

KPMG

KPMG

Michael Bray
Partner

Melbourne

13 May 2015